AUDIT AND ACCOUNTS COMMITTEE
24 JUNE 2010

ITEM 9

Report of the Head of Audit and Risk Management

INTERNAL AUDIT PLAN 2010/11

RECOMMENDATION

1.1   To approve the 2010/11 internal audit plan.

SUPPORTING INFORMATION

Background

2.1   Planning the audit coverage each year requires that several key factors are taken into account which will influence not only the nature of audit reviews, but the way the Section operates. The following key issues will influence the 2009/10 Plan:

- The CIPFA Code of Practice for Internal Audit for Local Government in the UK was published in 2006 and has set 11 Standards that all internal audit sections need to achieve.

- The 2010/11 Plan needs to consider the risks to the Council achieving its objectives and to ensure that controls are in place to mitigate them. The national focus of internal audit work is moving towards more risk-based approaches within a wider corporate governance role.

- The plan needs to reflect the extent to which the Council's key systems are computerised and the importance of local and national initiatives on information technology.

- The need to avoid duplication with the reviews to be undertaken by external audit or other external inspection bodies.

2.2   Preliminary discussions have taken place with the Council's External Auditor on the coverage of the Audit Plan, as well as a number of key officers in each of the departments. The overall draft audit plan has been discussed with the Corporate Director – Resources, in his role as the Council's s151 Officer.

The 2010/11 Plan

2.3   The Internal Audit Plan for 2010/11 is shown at Appendix 2.The total planned allocation of productive time is 2,123 audit days. The Plan for 2009/10 was for 1,932 days.

2.4   The audit plan is a flexible document and it is inevitably subject to some changes during the year as a result of emerging issues deemed as a high risk, the need to

divert audit resources to investigation work and changes in staffing resources available for audit work. One deferral was made from the 2009/10 Plan to the 2010/11 Plan and this postponed audit has been included in this year's plan.

2.5   Prioritisation of new audit work is based on our Risk Assessment. This enables Internal Audit management to evaluate the vulnerability of a particular system / auditable area in order that audit resources may be targeted at areas of greatest risk to the Council. It is in part based on subjective judgment, but modelling techniques are also used to ensure that the approach is systematic.

2.6   An increasing emphasis on achieving value for money has led a number of authorities to consider forming Internal Audit partnerships or shared services with neighbouring authorities to achieve economies of scale while at the same time maintaining service levels. Within Derbyshire initial discussions have taken place between Derby City Council and Amber Valley Borough Council and Derby City Council and South Derbyshire District Council with a view to entering into a joint service provision.

2.7   Initially in 2010-11, Derby City Council has agreed to provide a set proportion of the Internal Audit coverage at both Amber Valley Borough Council and South Derbyshire District Council on a contractual basis.

Resources Department

2.8   The main area for internal audit work is the Resources Department which has responsibility for the Council's fundamental financial systems, which are the key to the running of the Council. Hence the majority of audits planned in the department are reviews of the central control elements and associated risks of the fundamental financial systems. External Audit will review the work on the fundamental financial systems to assist them when determining their opinion on the Council's annual accounts. The Plan covers the Council's key financial systems including the Main Accounting System, Fixed Assets, Creditors, Debtors, Payroll, Treasury Management, NNDR, Council Tax, Housing Benefit and Cash Receipting. The consequences of these system processes going wrong could lead to service failure and wasted resources.

2.9   Petty Cash Accounts and Cash Floats – Weaknesses in the Council's systems for controlling and monitoring petty cash were identified during last year's Cashiers audit. We also had concerns that unofficial cash floats may have been created in certain areas. Accordingly, we have planned to identify all the petty cash accounts and cash floats in operation and determine whether or not they are necessary and approved and moreover that they are used appropriately.

2.10   Code of Conduct - Declarations of Interest – The Council has recently drafted a revised Code of Conduct for Officers. This document has called for tighter controls on the acceptance of gifts & hospitality as well as providing more stringent guidance on declarations of Interest. This audit aims to check how these revised procedures are being implemented throughout the Council and check departmental registers for compliance.

2.11   Employee Assistance Programme - Care First – Our risk assessment of the Council's long-term and high value contracts, identified this 5 year contact (£2m) as an area that was worthy of audit scrutiny having never previously been examined.

2.12   Derwent New Deal – At the request of the Strategic Director – Resources, time has been included in the Audit Plan to scrutinise the controls and governance processes at Derwent Community Team which ensure that expenditure has been spent appropriately.

2.13   Payments Card Industry (PCI) Compliance – At the request of the Strategic Director – Resources, time has been included in the Audit Plan to provide assurance that some assurance that the control systems we have in place in throughout the Council House to collect income using payment cards are consistent with the PCI scheme and provide value for money.

2.14   The Council uses a wide range of information technology for an increasingly diverse and complex range of business needs. The Audit Plan includes time for reviewing key risks in relation to ICT. The aim for 2010/11 is to cover:

- Cisco ASA Firewall Policy – A new Corporate Firewall (Cisco ASA) is being implemented into the Network and it is vital to ensure that it is correctly configured and that there are procedures and policies in place to ensure that it remains fully effective. We intend to review the Firewall rules to ensure they provide sufficient security for the network and review the Firewall management procedures and policies in place.

- Network Printer Security – Networked Printers are becoming a direct target for attack in an age where access to sensitive data is often the goal for people with malicious intent. Some basic testing has identified some potential weaknesses which would give an internal attacker access to sensitive data. This audit will check the security posture of Print Servers as well as the devices themselves.

- IDS Management & Configuration - There are two Intrusion Detection Systems (IDS's) in place in the Authority, Cisco MARS in the Government Connect zone, Realsecure IDS in the Corporate DMZ. Like firewalls, IDS are vital to the security of the network. We have identified that the IDS's in place have not had previous audit coverage. Accordingly, we intend to look into the configuration and maintenance of the IDS's to ensure that they are providing the required amount of security to the network

- Citrix Infrastructure – The Council has approximately 900 officers that are Citrix users. A variety of applications are operating on 26 separate Citrix servers throughout the organisation. Due the availability requirement, and sensitivity of applications accessed via the presentation servers and externally though secure access gateways, an internal audit review is necessary to ensure this is a secure setup and working environment.

- Email Security - Email is used extensively in the Authority, often to communicate private and confidential issues. A poorly configured MS Exchange environment may allow users to access sensitive emails from other people's accounts. There are some well know security vulnerabilities with Outlook Web Access that could potentially give access to sensitive corporate emails. We intend to review of all the configurations of the Microsoft Exchange Servers used within the Council and Outlook Web Access.

- Derby Direct – CRM System – This system was identified as vital in terms of meeting the Council's objectives and outcomes and came out as a medium risk

in our IT Applications Risk Assessment. This was due in part to the sensitivity level of the data held in the system, and that it had not been reviewed recently. We will focus on the various layers of the System, i.e. the application and database servers. We will cover both technical and Systems Administration, and include areas such as account management and audit and accountability on all tiers of the System.

- Network Security Password Audit – Previous Audits have identified problems with weak passwords associated with SQL Server Database accounts that store highly sensitive data, and also weak local passwords on Windows Servers that run business critical systems. Audit reviews to date have only addressed individual Systems as opposed to an across the board Network level password audit. We intend to check for weak passwords (i.e. vendor defaults, dictionary words, those outside corporate policy etc) used on all Windows Servers including Domain Controllers and all SQL Server Instances.

2.15   Internal Audit has actively participated in the Council's proactive anti-fraud and corruption work for a number of years. In 2010/11 we intend to continue to enhance the anti-fraud work undertaken on the prevention, detection and deterrence of fraud in the following audit work:

- Internal Data Matching / Continuous Auditing – Work is continuing on developing automated data capture, analysis, testing, matching and storage processes for the Council's key systems. It is intended that this will provide assurance that the key financial controls are operating effectively and it will seek to identify irregular data which could potentially identify incidences of fraud or error.

- Anti-Fraud & Corruption Database – Internal Audit is working in conjunction with the National Anti-Fraud Network (NAFN) to develop a best practice system and procedure for recording and processing fraud referrals.

- National Fraud Initiative (NFI) – Internal Audit will continue to co-ordinate and support this work on behalf of the Council.

- Internal Groups – Members of the Audit team attend various internal groups to provide advice on existing and proposed systems of internal control. These groups preside over many different Council functions at either a strategic or tactical level (e.g. Corporate Fraud Group, ICT Strategy Group, Control Review Group, Carbon Reduction Group etc.)

2.16   There will also be an audit of the controls surrounding the use of external payroll providers in respect of the annual Teacher's Pension Return. This is work that the Council's External Auditor needs to place reliance on, in order to certify the return.

Chief Executive's Office

2.17   The Audit Commission's Key Lines of Enquiry (KLOE) for Data Quality require Council's to have in place effective arrangements for the monitoring and review of data quality. As in previous years, Internal Audit reviews the accuracy and completeness of performance information as part of these arrangements. Our risk assessment of all the Council's key indicators has highlighted a number of national indicators that require an audit review. The time planned for theses audits is included in each department's time allocation.

2.18   One Derby One Council - Transformation Process – It was resolved by the Strategic
        Director – Resources and the Audit & Accounts Committee in March 2010 that, to
        provide the level of assurance needed on this process, Internal Audit should attend
        the Transformation Board, and should also review any risk/issue logs. The Chief
        Executive has requested that Internal Audit is involved in reviewing the proposed
        system changes brought about by the transformation process at the "to be" stage.

2.19   Carbon Reduction Commitment – Certification – The Chief Officer Group is to act as
        project board for this scheme. The Council must set targets to reduce carbon and
        report on these. Penalties are imposable for poor performance. There is also a
        requirement to purchase automatic meter readers which could cost around £300k.

2.20   Single Programme Grant Certification – Single Programme funding is used to create
        and support businesses, create and safeguard jobs, improve skills in the workforce
        and provide infrastructure for businesses to thrive. In 2009/10 projects in Derby
        claimed over £3m in funding from the East Midland Development Agency (EMDA).
        Derby City Partnership (Funding Co-ordination) is responsible for managing the
        process from receiving and approving applications from projects and making
        payments to projects. EMDA are responsible for reviewing funding claims and
        instructing DCP to raise these payments. All records, however, are maintained by
        DCP. It is a requirement to provide EMDA's auditors, the National Audit Office, with
        sufficient audit evidence an annual audit statement based on these records.

Children and Young People

2.21   The Financial Management Standard in Schools (FMSiS) requires that all DCC
        schools are assessed over a 3 year time period. In the 2010/11 Audit Plan we are
        required to re-assess those primary, nursery and special schools which were initially
        assessed in 2007/8. We will also examine our current assessment process with a
        view to further developing and enhancing our service to schools.

2.22   Safeguarding Children – We intend to supplement the work that was undertaken in
        this area in the 2008-9 Audit Plan. Our original coverage of this subject matter
        focused on the Council's strategic approach to safeguarding children. This year we
        intend to focus on Child Protection training, CRB checks as well as reviewing the
        system for reporting and following up any child protection referrals.

2.23   Extended Schools – This subject has also recently been audited at a strategic level
        and it is intended that our coverage in 2010-11 will broaden to test how schools are
        applying the Council's guidance on site. The income generated by Extended
        Schools has not been audited previously.

2.24   Soft-Box - IT System Security - This system came out as a medium risk in our IT
        Applications Risk Assessment. This was due in part to the fraud risk as carers
        personal information is held in the system such as names, address and bank details.
        Highly personal and sensitive data relating to vulnerable children is also held in the
        system, and there is also a high business dependence on the System as the section
        make payments on average to 280 carers each week. We will focus on the various
        layers of the System, i.e. the application and database servers. We will aim identify
        any vulnerabilities at Database or Application tiers that could give rise to
        unauthorised or inappropriate access to the System.

Neighbourhoods

2.25 Street Lighting PFI – Connect Roads - Our risk assessment of the Council's long-term and high value contracts, identified this 25 year contact (£145m) as an area that was worthy of audit scrutiny.

2.26 Chipside - IT System Security - This system is responsible for the administration of Penalty Charge Notices (PCN's), Permits and associated payments and came out as a medium risk in our IT Applications Risk Assessment. This was due in part to the sensitivity level of the personal data held about drivers, and that it had not been reviewed recently. We will focus on the various layers of the System, i.e. the application and database servers. We will cover both technical and Systems Administration, and include areas such as account management and audit and accountability on all tiers of the System.

2.27 An audit postponed from last year included in this year's plan is:

- Vehicles and Plant – From audit work in relation to the Council's Fixed Asset Register, we have concerns over the quality of information in relation to Council owned vehicles and plant. Accordingly, we have planned to examine the system of controls which ensure that the Department's asset records are complete and accurate.

2.28 6C Derby Housing Market Area Growth Fund – Certification - Funding ends in 2010/11and Internal Audit is required to scrutinise expenditure incurred since April 2010, when the first audit was undertaken. Our initial audit covered just 10 of the 32 projects across Derby City, Amber Valley and South Derbyshire. This audit will be the final one to cover all the remaining payments.

Adults, Health & Housing

2.29 Co-location Fund Grant work – This project is managed by the English Churches Housing Group who are turning properties into housing for looked after children so they can make the transition into adult life (i.e. support with training and getting work). Funding is to be received in two parts. One payment will be received in 2009/10 and one in 2010/11 and it is a requirement to perform certification work at the end of each financial year.

2.30 Abacus - IT System Security – This system is used to manage the authority's Supporting People contracts with service providers across the city and came out as a medium risk in our IT Applications Risk Assessment. The system contains sensitive and personal information about vulnerable people, and also contains financial information related to housing providers and contract values. We will focus on identifying any vulnerabilities at Database or Application tiers that could give rise to unauthorised or inappropriate access to the System.

2.31 Personalisation –. From April 2010 payments will be made directly to clients to buy their own care packages. Personalisation presents some risks to service users, particularly the use of direct payments where take up is likely to increase. Greater choice and control will result in more service users employing staff directly; managing a budget; buying from agencies with whom the Council does not contract; buying non-traditional services; working with existing contracted providers in an outcome focused way where services are not specified so clearly.

2.32 Housing Allocations (with Derby Homes) – This is an area that has been highlighted by both Central government and the Audit Commission as a high risk area. The main concerns are people submitting false housing applications; tenancy succession fraud, where the property is no longer occupied by the original tenant; and the illegal sub-letting of a property for profit. The City Council has received a £30k grant from the DCLG towards specific work to combat tenancy fraud. This audit work will form part of joint audit being carried out at Derby Homes.

2.33 New Build (with Derby Homes) - Derby City Council's Housing Strategy 2009-2014 sets the way forward for housing-led services and provision throughout the City. The Strategy is developed around four priority themes, which Derby Homes will contribute towards. In respect of the second theme (Affordable and accessible housing with appropriate and timely housing advice) Derby Homes will contribute through "building new homes as an ALMO and together with the Council". This review will focus on the financial transactions associated with the new build project. As with the allocations audit, this review will be part of joint audit being carried out at Derby Homes.

2.34 Mental Health Service – Governance Arrangements – At the request of the Strategic Director – Adults, Health and Housing, Internal Audit will review the governance arrangements that are in place between the City Council and the Derbyshire Mental Health Trust. The review will focus on the robustness of formal agreements that are in place and ensure that they are complete. The audit will consider the section 75 agreement (NHS Act 2006) and all other contractual agreements that should be in place.

Other Audit Activity

2.35 Within the Plan there are a number of days set aside as "contingencies". These are split as follows:

- Emerging Issues - Not all audit work can be planned one year in advance. Accordingly, a contingency of days has been built into the Plan to address issues that occur during the year which Audit need to be aware of and assess the risk implications for the Council.

- Advice - On an ad-hoc basis, Audit is called upon to provide risk and control advice on issues throughout the Council. This consultancy work is a very important service and requests for Audit input are considered to be a good measure of the quality of the Audit service and of the satisfaction of our customers.

- Investigations - Internal Audit may be involved in the investigation of suspected internal fraud, theft or major irregularity (where there is some form of alleged financial irregularity, which may have resulted in financial loss to the Council). Under the new Code of Practice this is deemed a non-assurance function, and therefore such work will only be undertaken if the availability of resources allows it. The level of investigation work can not easily be predicted, but given the level of coverage in recent years we have decreased the contingency of days from 15% of days available to approx. 12%.

- Follow-up Audits - Internal Audit is committed towards ensuring that control improvements are achieved and all agreed actions are acted upon. To this end,

audit time has been allocated to develop our system for ensuring that agreed actions to audit recommendations are implemented. We have planned to develop a recommendation tracking database, which will allow us monitor, follow-up and report upon the status of all management's actions in respect of agreed audit recommendations.

- Brought Forward Jobs - The section has a number of incomplete audits from the 2009/10 Plan to conclude in the 2010/11 Plan. Accordingly, the Plan contains an estimate of time necessary to complete each unfinished audit from the previous year.

2.36 The audit work planned for 2010/11 will inform the Head of Audit and Risk Management's opinion on the internal control environment that exists within the Council. The Head of Audit and Risk Management reports his overall opinion to the Audit and Accounts Committee on an annual basis.

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Background papers:	Internal Audit Risk Assessment
List of appendices:	Appendix 1 - Implications
	Appendix 2 – Draft Internal Audit Plan 2010/11

IMPLICATIONS

Financial

1.   None arising directly.

Legal

2.   Under the Accounts and Audit Regulations 2003, the Council is required to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices.

Personnel

3.   None directly arising.

Equalities impact

4.   None directly arising.

Corporate objectives and priorities for change

5.   Internal Audit contributes through its review work on the major corporate risks to the Council achieving corporate objectives and priorities. This is achieved by the audit of key systems and corporate governance issues and the associated risks. The work of Internal Audit is also relevant to the priority of 'value for money'.

Internal Audit – Tactical Plan 2010/11

Internal Audit Activity	Annual Plan Days
Chief Executives	
One Derby One Council - Transformation Process	60.00
Carbon Reduction Commitment - Certification	10.00
Single Programme Grant Certification	5.00
PI Self Assessment 2010/11	15.00
CEx B/Fwd Audits	10.00
CEx Proactive Fraud / Investigations	51.00
CEx Advice / Emerging Issues	16.00
CEx Follow-up	6.00
Sub Total	**173.00**
Children and Young People's	
FMSiS Development & Maintenance	20.00
FMSiS Assessments	110.00
Safeguarding Children	30.00
Extended Schools	30.00
NI 085 - Post 16 participation in physical sciences	5.00
NI 086 - Secondary schools standards of behaviour	5.00
NI 088 - % of schools providing extended services	5.00
Soft-Box - IT System Security	15.00
CYP B/Fwd Audits	34.00
CYP Investigations	51.00
CYP Advice / Emerging Issues	16.00
CYP Follow-up	6.00
Sub Total	**327.00**
Resources	
Fixed Assets	20.00
Treasury Management	15.00
Main Accounting System	30.00
Teachers Pension Return TR17 2009-10	20.00
PCI Compliance	20.00
Petty Cash Accounts and Cash Floats	30.00
Creditors	25.00
Debtors	25.00
Council Tax	20.00
NNDR	20.00
Cashiers	15.00
Council Tax & Housing Benefits	40.00
Code of Conduct - Declarations of Interest	25.00
Payroll	30.00
Employee Assistance Programme - Care 1st	20.00
Derwent New Deal	35.00
Cisco ASA Firewall Policy	25.00
Network Printer Security	25.00
IDS Management & Configuration	25.00
Citrix Infrastructure	25.00
Email Security	25.00
Derby Direct – CRM System	15.00
Network Security - Password Audit	20.00
Data matching	58.00

Anti-Fraud & Corruption Work	30.00
NFI 2010/11	20.00
Internal Groups	33.00
RES B/Fwd Audits	94.00
RES Investigations	51.00
RES Advice / Emerging Issues	16.00
RES Follow-up	6.00
Sub Total	**858.00**

Neighbourhoods

Vehicles & Plant	25.00
6C Derby Housing Market Area Growth Fund	5.00
Chipside - IT System Security	15.00
Street Lighting PFI	30.00
NBH B/Fwd Audits	15.00
NBH Investigations	51.00
NBH Advice / Emerging Issues	16.00
NBH Follow-up	6.00
Sub Total	**163.00**

Adults, Health & Housing

Co-location Fund Grant	10.00
Personalisation	30.00
Abacus - IT System Security	15.00
NI 131 - Delayed transfers of care from hospitals	5.00
NI 142 - Vulnerable people supported for independent living	5.00
NI 187 - Tackling fuel poverty	5.00
Allocations with Derby Homes	15.00
New Build with Derby Homes	15.00
Mental Health Service – Governance Arrangements	25.00
AHH B/Fwd Audits	0.00
AHH Investigations	51.00
AAH Advice / Emerging Issues	16.00
AAH Follow-up	6.00
Sub Total	**198.00**

Other External Bodies

Derby Homes	100.00
Derbyshire Fire & Rescue Service	60.00
Amber Valley BC	160.00
South Derbyshire DC	79.00
Other External Bodies	5.00
Sub Total	**404.00**

SUMMARY

Chief Executives	173.00
Children and Young People's	327.00
Resources	858.00
Neighbourhoods	163.00
Adults, Health & Housing	198.00
Other External Bodies	404.00
Planned Days	**2123.00**