Derby City Council–AuditPlan 2017-18

Audit & Accounts Committee:22nd March 2017

Our Vision

Through continuous improvement, the central midlands audit partnership will strive to provide cost effective, high quality internal audit services that meet the needs and expectations of all its partners.

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Contents   Page

CMAP central midlands audit partnership

Providing Excellent Audit Services in the Public Sector

Derby City Council – Audit Plan 2017-18

Introduction

Reasons for an Audit Plan

The Public Sector Internal Audit Standards (PSIAS) state that annually the Chief Audit Executive(i.e. Head of the Audit Partnership) is responsible for developing a risk-based plan.

A fundamental role of Internal Audit is to provide members and seniormanagement with independent assurance on the organisation's overall control environment, comprising the systems of governance, risk management, and internal control and to highlight control weaknesses together with recommendations for improvement. The annual Audit Plan sets out proposals on how this will be achieved in the year ahead.

The Audit Plan must incorporate sufficient work to enable the Chief Audit Executiveto give an opinion on the adequacy of the organisation's overall control environment. Internal Audit must therefore have sufficient resources to deliver the Audit Plan.

The audit work planned for 2017/18 will inform the Chief Audit Executive's opinion on the internal control environment that exists within the organisation. The Chief Audit Executivereports his overall opinion to the organisation's Board (i.e. the body carrying out the role of the organisation's Audit Committee) on an annual basis.

This report provides the Board with an opportunity to challenge and approve the planned work of the Internal Audit service. As well as satisfying themselves that the methodology and arrangements for preparing the annual Audit Plan are robust.

Approach to Audit Planning

The Audit Manager is responsible for delivering the audit service. To ensure that this can be achieved there are appropriate

arrangements for audit planning and ensuring that the plan is adequately resourced with the necessary level of skilled and experienced staff.

The Chief Audit Executivetakes into account the organisation's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. If a framework does not exist, the Chief Audit Executiveuses his own judgment of risks after consideration of input from senior management and the board. The Chief Audit Executivemust review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.

Derby City Council – Audit Plan 2017-18

As such, the service will be delivered on the principle of a risk based audit plan compiled by the Audit Management Team in consultation with the organisation'sManagement, using a risk assessment model which allocates a risk factor of high, medium or low to all the areas for audit review to be undertaken.

We will also consider the organisation'srisk management arrangements to inform our risk assessment. We will endeavour to meet with relevant managers to further understand the risk areas where internal audit assurance will be appropriate. The audit plan sets out the number of days required for Internal Audit to adequately review the areas involved and indicates the priority level for each planned audit assignment. The overriding objective of this approach is to ensure that the Chief Audit Executive is able topresent an annual opinion on the organisation's overall control environment by directing adequate resources based on the relative risks of operations, resources and services involved.

The audit plan balances the following requirements:

- The need to ensure the plan is completed in line with the agreed performance targets.

- The need to ensure the core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control.

- The need to appropriately review both strategic risk and operational risk areas.

- The need to have a sufficient contingency element to deal with unplanned issues and investigations that arise during the year.

- To enable positive, timely input to assist corporate and service developments.

- To complement, where possible, the work of the organisation's external auditors.

Progress in completing the audit plan, as well as any agreed performance targets will be submitted to the Board as part of regular Internal Audit Progress reports.

Aims of Audit Coverage

The objectives of Internal Audit's planned coverage are as follows:

- Provide an assurance on the organisation's internal control system, and hence there is need to audit areas of financial and non-financial risk as this will encompass some of the key governance systems.

- Audit the main financial systems and other systems related to possible material mis-statements, regardless of comparative risk.

- Deliver risk based assurance on those controls that manage significant risks.

- Undertake an effective internal audit to evaluate the effectiveness of the organisation's risk management, control and governance processes, as required by the Accounts and Audit Regulations 2015.

- Fully conforms to the Public Sector Internal Audit Standards (PSIAS) which wererevised in March 2016.

- Better integrate the outcomes and other information gathered as part, of the internal audit process, with the organisation's risk management process.

- Maintain on-going effective relationships with the External Auditors and deliver complementary plans of work so as to deliver an efficient audit service collectively. As such, we have considered the concerns raised by Ernst Young from their interim audit of the Council's financial statements and we will regularly liaise with them throughout the year.

- Ensure that appropriate resources, suitably experienced, and with skills to deliver the whole plan of work are maintained within Internal Audit.

Derby City Council – Audit Plan 2017-18

- Improve the efficiency and effectiveness of operations of the service.

- Promote good corporate governance and control practices and contribute to a good governance culture.

- Work in a positive manner alongside clients, supporting them in the effective management of risk and service delivery.

- Contribute to embedding risk management throughout the organisation's processes.

- Contribute to the development and maintenance of an effective counter fraud culture within the organisation.

Content of the Audit Plan

Audit Resources

In 2016,Derby City Council's management made a commitment to increase the amount of Internal Audit coverage to bolster its internal governance arrangements. It was also decided that in the 2016-17 Audit Plan would have a greater focus placed on Anti-Fraud and Probity work. This focus will continue in the 2017-18 Audit Plan and we will continue to explore the opportunitiesfor developing a holistic Corporate Fraud service within the City Council that may also provide services to other Partner organisations.

It is anticipated that the Central Midlands Audit Partnership will provide the organisationwith a sustainable service, with comprehensive coverage and an enhanced quality of service. It is envisaged that as the Partnership grows, greater efficiencies may be achieved which could result in further cost reductions to Partner organisations over time.

The Partnership uses a modern risk-based approach to internal audit, which focuses audit reviews on the key risks faced bythe organisation. We will utilise our bespoke database systems and automated working papers package that greatly assist with the conduct of audits and the audit management process. These systems cover audit working papers and reports, job control and progress tracking, time recording, recommendation tracking and automated follow-ups, together with performance monitoring and management reporting.

This approach provides a more efficient ways of undertaking, documenting and managing the audit services. This will provide greater efficiencies in the delivery of the required assurances to management, as more audit work will be achieved within a given resource allocation than would have been the case using outdated working practices.

The greater resilience brought about by Partnership growth, should ensure the planned audit coverage of each Partner organisation does not experience reductions or additional costs through long-term absences or vacancies, etc. Each organisation will continue to benefit from the specialist audit skills and experience already contained within the Partnership (e.g. computer auditing) which is typically only available at a premium to other organisations.

The general management and administrative overheads associated with the internal audit service will not be detailed in this report as they relate to the Partnership as a whole and are typically not directly attributable to any single organisation. This report will only detail the resource allocations to 'productive' audit work which can be attributed to this organisation.

Plan Contingencies

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.

To ensure changes to the Plan are minimised, 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 organisation.

- Consultancy / Advice - On an ad-hoc basis, Audit is called upon to provide risk and control advice on issues throughout the organisation. This consultancy work is a very important service and requests for Audit input are considered to be a

Derby City Council – Audit Plan 2017-18

good measure of the quality of the Audit service and of the satisfaction of our customers.

- **Anti-Fraud/Probity/Investigations-** Internal audit has an important role to play in ensuring that management has effective systems in place to detect and prevent corrupt practices within the Council. Internal audit's role includes promoting anti-fraud and anti-bribery best practice, testing and monitoring systems through probity work and advising on change where it is needed. Internal Audit also 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 organisation). Under the 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 cannot easily be predicted, but we would normally set the contingency of days to between 5%-10% of days available.

- **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 developed a recommendation tracking database, which allows us to monitor, follow-up and report upon the status of all management's actions in respect of agreed audit recommendations.

- **Brought Forward Jobs**–It is impractical to complete all planned audit assignments by 31st March each year. Inevitably a number of audit assignments will continue to be delivered in the subsequent plan year. We monitor and report on these assignments to Committee in our Progress reports and highlight them as Brought Forward jobs. We do not account for the days associated with these Brought Forward jobs in the current Plan year, as the number of days cannot be determined until the year-end. We aim to maintain the number of Brought Forward days at

a consistent level from year to year, so as not to impact on the number of audit days delivered to the organisation.

Types of Audit Work

Key Financial Systems Audit - Much of internal audit'sassurance work comes from the review ofthe risks and controls associated with the organisation's financial systems. External Audit will also review the work on the key financial systems to assist them when determining their opinion on organisation'sannual accounts. Our Audit Plan covers the key financial systems including the Main Accounting Systems, Treasury Management, Fixed Assets, Revenue Systems, Creditors, Debtors and, Payroll. The consequences of these system processes going wrong could lead to service failure, fraud and wasted resources.

Systems / Risk Based Audits - The auditor's prime role is to review the internal control system and report upon the adequacy of controls (see below for examples).

Derby City Council – Audit Plan 2017-18

Control categories with examples

Category	Examples	Control type
Segregation of duties Division of duties between the appointment and payment of staff **Organisational** Budgets, performance targets and KPIs	**Preventive** Segregation of duties, access controls, authorisation	
Authorisation Authority levels, spending limits, passwords and user ID **Personnel** Recruitment and selection, staff appraisal procedures	**Detective** Exception reports, reconciliations, control totals, error reports	
Supervision Day-to-day oversight of staff and physical activities **Physical** Door entry systems, restricted access to files	**Directive** Accounting manuals, documented procedures, training and supervision	
Accounting Control account and bank reconciliation **Management** Team meetings and briefings, CRSA	**Corrective** Error, incident and complaint handling, Virus isolation	

An organisation's overall internal control system is the product of all of those systems and processes that the organisation has created to deliver its business objectives, both financial and non-financial. It follows that one of the main ways that auditors will form a view on the overall control system is by carrying outreviews of the component systems and processes. These are commonly known as systems-based audits. They enable auditors to:

- Assess how internal controls are operating in a system to manage risk, thereby forming a view on whether reliance can be placed upon the system.

- Provide management with assurances that systems are adequately meeting the purposes for which they were designed.

- Provide constructive and practical recommendations to strengthen systems and address identified risks.

- Use findings to feed into an overall opinion on the control framework.

- Provide evidence for external audit and other review agencies.

IT Audit – Typically our IT auditing coverage focuses on the following:

- Infrastructure - Infrastructure audits cover perimeter defences, authentication, management and monitoring, and devices. Broken down further, IT Infrastructure Audits typically address Anti-Virus, Intrusion Detection Systems, Firewalls, Routers, Switches, Operating Systems, Directory Services (Active Directory), Group Policy, Virtual Private Networks, Database Platforms, Web Server Platforms, Application Server Platforms, Network Management, Network Design, Networking Hardware, Centralised Storage, Virtualization, Telecommunications and IT Telephony, Remote Access Solutions(Citrix) amongst others. Infrastructure audits help provide assurance that the Company's private network is protected from internet attacks, unauthorised or inappropriate access via local or remote attacks, and also ensure the organisationhas the necessary monitoring and incident analysis to maintain and analyse the Network.

- Applications: Application audits cover thin and fat client applications, and both internal (Intranet) or external (Web) applications. Applications audits typically focus on CIAA (confidentiality, integrity, availability and accountability risks).

Derby City Council – Audit Plan 2017-18

This can be broken down to look at application deployment and use, to ensure the applications and hosting servers are protected, and design and configuration ensure attackers cannot exploit vulnerabilities to gain unauthorised access to sensitive corporate data.

Governance & Ethics Reviews - The governance framework comprises the systems and processes, and culture and values, by whichthe organisationis directed and controlled, and by which it accounts to, engages with and leads the community. It includes arrangements to monitor the achievement of its strategic objectives and to consider whether this has led to the delivery of appropriate, cost-effective services. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, and not absolute, assurance of effectiveness. Internal Audit undertakes reviews of key aspects of the organisation'sgovernance framework by looking at corporate systems such as Risk Management, Health & Safety, Data Quality, Anti –Fraud etc. The International Standards for Internal Audit considerthat organisational ethics, values and culture should be examined by internal audit as an important part of improving an organisation's governance process.

Procurement/Contract Audit - Procurement involves the process of acquisition from such third parties, and spans the whole life cycle from the initial concept (determining the need), through buying and delivery, to the end of a service contract.The audit approach to procurement should primarily concern the organisation's corporate procurement strategy and associated management structures and processes, including contract procedure rules and detailed procurement guidance. Internal Audit should focusresources on those areas perceived on an annual basisto be of highest risk. To identify such areas, it will be necessary to have information regarding the current spending on procurement by each area

within the authority, together with its plans for the future (including any major service contracts that are due for re-letting).

Audit Plan Developments

During 2017-18, Derby City Council will be undertaking an Assurance Mapping exercise. It is envisaged that this exercise will help identify where Internal Audit resources should be directed in the future. As such, a number of consultancy days have been planned to provide advice to the Council on this development.

Audit Committee members should note that, once produced, this Assurance Map may generate a number of changes to this Audit Plan to align with the risks identified and to provide the independent assurances the Council requires from Internal Audit. Any such changes to this Plan will be reported to this Committee as a matter of course.

Derby City Council – Audit Plan 2017-18

Audit Plan

- Key Financial Systems
- Systems/Risk Based Audits
- Governance & Ethics Reviews
- IT Audits
- Procurement/Contract Audits
- Grant Certification Work
- Anti-Fraud/Probity/Investigations
- Consultancy/Advice/Emerging Issues
- Follow ups

Audit Plan Allocations by Type of Audit 2017-18

- Grant Certification
- Key Financial System
- Governance & Ethics Review
- Systems/Risk Audit
- IT Audit
- Procurement/Contract Audit
- Anti-Fraud/Probity/Investigation
- Consultancy/Advice/Emerging Issues
- Follow-up
- Schools
- DCC Audit Management
- DCC Non-Audit

Pie chart values: 2%, 7%, 2%, 20%, 8%, 4%, 21%, 6%, 2%, 5%, 13%, 10%
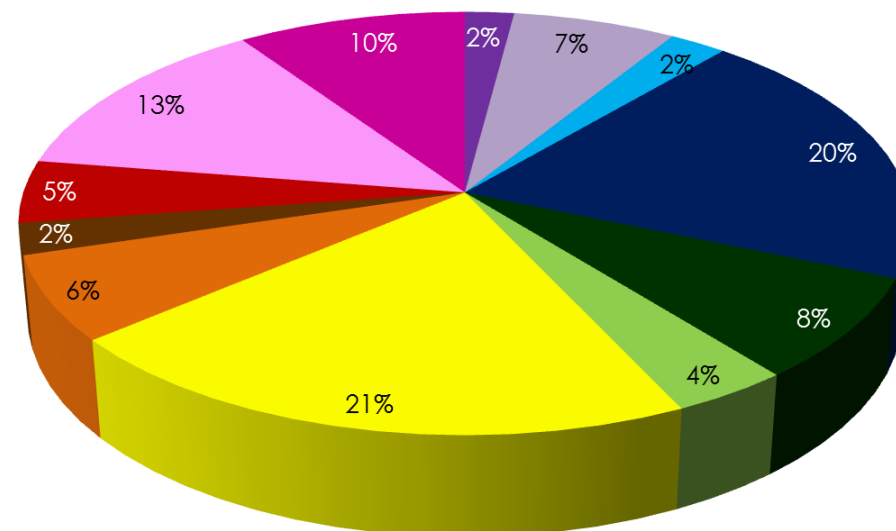
Derby City Council – Audit Plan 2017-18

Detailed Audit Plan Proposal

Derby City Council – Audit Plan 2017-18	Risk Score	Risk Rating	Plan Days	Type of Audit
ORGANISATION & GOVERNANCE				
Use of Social Media *	48	Medium	15	IT Audit
People Management	53	Medium	15	Systems/Risk Audit
Document Management & Network Printing	55	High	20	IT Audit
Grant Certification Work	42	Medium	30	Grant Certification
Schools SFVS	57	High	70	Schools
Main Accounting Reconciliations	56	High	15	Key Financial System
Key Financial Systems - High Level Controls	59	High	50	Key Financial System
Fixed Assets	63	High	15	Key Financial System
Procurement Monitoring	65	High	20	Procurement/Contract Audit
Revenues Write-offs	60	High	20	Key Financial System
Payroll	65	High	20	Key Financial System
Council House Sales / Land Sales	46	Medium	15	Systems/Risk Audit
Election Services & Land Charges	46	Medium	10	Systems/Risk Audit
Organisational Culture & Ethics *	57	High	20	Governance & Ethics Review
Assurance Mapping Consultancy	64	High	50	Consultancy/Advice/Emerging Issues
ICT Audits (i.e. Back-up & Recovery, User Access Management, Change Management, Records Management, Childrens' Management System, Social Care Rostering System)	64	High	80	IT Audit
Organisation & Governance Total Days			**465**	
COMMUNITIES & PLACE				
Bus Station Recharges/Income *	50	Medium	5	Systems/Risk Audit
Waste Disposal & Processing	58	High	20	Systems/Risk Audit
Licensing	55	High	10	Systems/Risk Audit
Markets	53	Medium	15	Systems/Risk Audit
Connect Derby – Rents *	51	Medium	15	Systems/Risk Audit

Derby City Council – Audit Plan 2017-18

Strategic Housing	54	**Medium**	15	Systems/Risk Audit
Asset Management & Property Rationalisation	60	**High**	20	Systems/Risk Audit
Communities & Place Total Days			**100**	

PEOPLE

Direct Payments	56	**High**	20	Systems/Risk Audit
Personal Budgets (RAS)	56	**High**	20	Systems/Risk Audit
Adults Commissioning - Contract Management	57	**High**	20	Procurement/Contract Audit
Looking After Residents Funds	45	**Medium**	15	Systems/Risk Audit
Statement of Educational Needs & Disability (SEND) School Payments	46	**Medium**	15	Systems/Risk Audit
Leaving Care Payments	48	**Medium**	15	Systems/Risk Audit
Safeguarding - MASH	55	**High**	20	Systems/Risk Audit
Payment of Adoption Allowances	45	**Medium**	15	Systems/Risk Audit
Out of Area Placements	46	**Medium**	15	Systems/Risk Audit
Childrens' Commissioning - Contract Monitoring	51	**Medium**	15	Procurement/Contract Audit
Public Health - Performance & Data Quality	47	**Medium**	15	Systems/Risk Audit
People Total Days			**185**	

DCC Corporate Management

CMAP Partnership Reallocation		30	DCC Audit Management
DCC Internal Audit Management			
Audit Planning	40		DCC Audit Management
Audit Committee - Training & Reports	30		DCC Audit Management
Assurance Framework Meeting	15		DCC Audit Management
External Review of Internal Audit / Transformation Project	75	160	DCC Audit Management
Anti-Fraud & Corruption/Probity/Investigations			
Investigation Contingencies	90		Anti-Fraud/Probity/Investigation
Data Matching & NFI	55		Anti-Fraud/Probity/Investigation
IT Forensics	20		Anti-Fraud/Probity/Investigation
Probity Audits	120		Anti-Fraud/Probity/Investigation
Corporate Fraud Support	20	305	Anti-Fraud/Probity/Investigation
Consultancy/Advice & Emerging Issues		45	Consultancy/Advice/Emerging Issues

Derby City Council – Audit Plan 2017-18

Follow-ups		35	Follow-up
DCC Non-Audit			
IT Downtime	60		DCC Non-Audit
Requirements of the Host	80	140	DCC Non-Audit
DCC Corporate Management Total Days		**715**	
Derby City Council Total Days		**1465**	

*New plan area