



## Derby City Council– AuditPlan 2013-14

Audit & Accounts Committee:27<sup>th</sup>March 2013



## 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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# Derby City Council – Audit Plan 2013-14

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## 1 Introduction

### Reasons for an Audit Plan

The CIPFA Code of Practice for Internal Audit in Local Government recommends that Internal Audit operate to an Audit Plan.

A fundamental role of Internal Audit is to provide members and senior management with independent assurance on the Council'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 Head of Audit to give an opinion on the adequacy of the Council's overall control environment. Internal Audit must therefore have sufficient resources to deliver the Audit Plan.

The audit work planned for 2012/13 will inform the Head of Audit's opinion on the internal control environment that exists within the Council. The Head of Audit reports his overall opinion to the Audit & Accounts Committee on an annual basis.

This report provides members 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

Senior management are responsible for risk management and the development of the assurance framework. If the risk maturity of the Council is sufficiently developed, Internal Audit would be able to rely on management's assessment of risks as the basis for identifying areas for audit coverage. At the moment, the risk management process at Derby City Council is not yet considered to be sufficiently developed to allow Internal Audit to solely use the organisation's risk registers to identify the required audit coverage. Our planned coverage of Risk Management should determine the current risk maturity of the authority and identify the required improvements in order that future Audit plans can be closely aligned with the issues identified in the Council's risk registers. Organisations will vary in their approach to maturity, from risk enabled to risk naïve. See the diagram on Page 4 on risk maturity from It's A Risky Business: A Practical Guide to Risk Based Auditing (Fully Revised 2<sup>nd</sup> Edition) (CIPFA, 2005).

As such, the service will be delivered on the basis of a risk based audit plan compiled by the Audit Manager in consultation with the Strategic Directors, 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 Council's risk 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 Head of the Audit Partnership is able to present an annual opinion on the organisation's overall control environment by directing adequate resources based on the relative risks of operations,

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the necessary level of skilled and experienced staff.

resources and services involved.

## 1 Introduction (Cont.)

### Approach to Audit Planning (Cont.)

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 meet the requirements of the managed audit arrangements with the Council's external auditors to ensure that they can comply with the International Auditing Standard, including system documentation and evaluation for all business critical systems and validation of performance indicator outturns.

Progress in completing the audit plan, as well as achieving its performance targets will be submitted to the Audit & Accounts Committee as part of regular Internal Audit Progress reports.

Extract from It's a Risky Business (CIPFA, 2005)

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Organisations Risk Maturity	Approach to Risk Management	Internal Audit Strategic Response	Internal Audit Work Covers
<b>Risk Enabled LEVEL 5</b>	Risk management and controls assurance policy embedded into organisational culture and operations	Use management assessment of risk for audit planning as appropriate	Review risk management processes to confirm continued reliance can be placed upon them
<b>Risk Managed LEVEL 4</b>	Organisation wide approach to risk management communicated and implemented	Use management assessment of risk for audit planning as appropriate	Review risk management processes to confirm reliance can be placed upon them
<b>Risk Defined LEVEL 3</b>	Strategy, policies, and risk appetite defined	Incorporate management risk assessment into audit plan but use audit assessment of risk to check comprehensive	Liaise with risk management function/facilitate risk assessments. Review approach for adequacy and completeness
<b>Risk Aware LEVEL 2</b>	Some areas risk aware, probably due to culture, history or staff in post	Rely on audit assessment of risk	Promote organisation-wide approach to risk management. Process map to identify key risks and gain management approval of audit risk assessment
<b>Risk Naïve LEVEL 1</b>	No formal approach developed	Rely on audit assessment of risk	Promote organisation-wide approach to risk management. Process map to identify key risks and gain management approval of audit risk assessment

## 1 Introduction (Cont.)

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## 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.
- Fully comply with best practice as defined by CIPFA in the Code of Practice 2006.
- Better integrate the outcomes and other information gathered as part, of the internal audit process, with the Council's risk management process.
- Maintain on-going effective relationships with the Council's External Auditors and deliver complementary plans of work so as to deliver an efficient audit service collectively.
- Ensure that appropriate resources, suitably experienced, and with skills to deliver the whole plan of work are maintained within Internal Audit.
- 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 Council's processes.
- Contribute to the development and maintenance of an effective counter fraud culture within the Council.



## 2 Content of the Audit Plan

### Audit Resources

It is anticipated that the Central Midlands Audit Partnership will provide the Council with 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 by the Council. 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 new approach will result in more efficient ways of undertaking, documenting and managing the audit services. This will lead to a reduction in the number of days required for audit reviews to deliver the required assurances to management, as more audit work will be achieved within a given resource allocation than would have been the case in previous years.

The Council's planned audit coverage should not experience reductions or additional costs through long-term absences or vacancies, etc. and will benefit from the specialist audit skills and experience already contained within the Partnership (e.g. computer auditing) which was previously only available at a premium.

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 Council. This contingency has been increased to address the anticipated increase in requests to evaluate proposed new processes deriving from the Council's transformation agenda.
- **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 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 set the contingency of days to approx. 5% of days available.

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### 2 Content of the Audit Plan (Cont.)

#### Plan Contingencies (Cont.)



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- **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** - The section has a number of incomplete audits from the 2011/12 Plan to conclude in the 2012/13 Plan. Accordingly, the Plan contains an estimate of time necessary to complete each unfinished audit from the previous year.

### Types of Audit Work

**Key Financial Systems Audit** - The main area for internal audit work is the Corporate Services 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.

**Systems / Risk Based Audits** - The auditor's prime role is to review the internal control system and report upon the adequacy of controls. 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 out reviews 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 Councils private network is protected from internet attacks, unauthorised or inappropriate access via local or remote attacks, and also ensure the Council has the necessary monitoring and incident analysis to maintain and analyse the Network.

## 2 Content of the Audit Plan (Cont.)

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## Types of Audit Work (Cont.)

- **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). 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 Reviews** - The governance framework comprises the systems and processes, and culture and values, by which the Council is 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 can not 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 Council's governance framework by looking at corporate systems such as Risk Management, Health & Safety, Data Quality, Anti –Fraud etc.

**Procurement/Contract Audit** - Local authorities collectively spend around £40 billion a year on purchasing goods, works and services from external parties. 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 authority's corporate procurement strategy and associated management structures and processes, including contract procedure rules and detailed procurement guidance. Internal Audit should focus

resources on those areas perceived on an annual basis to 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).

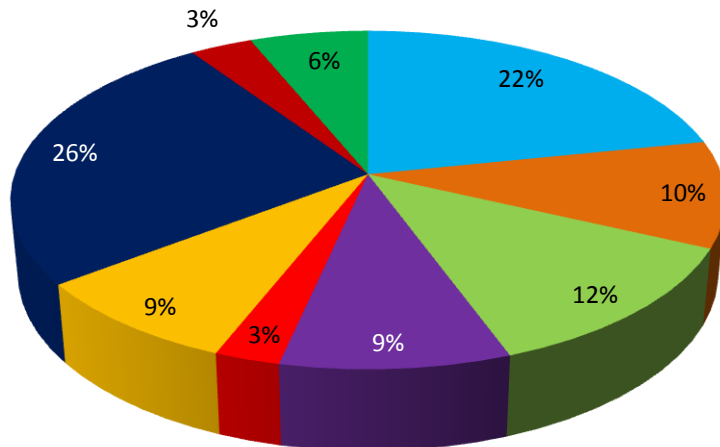


## 3 Overview Charts of Planned Coverage

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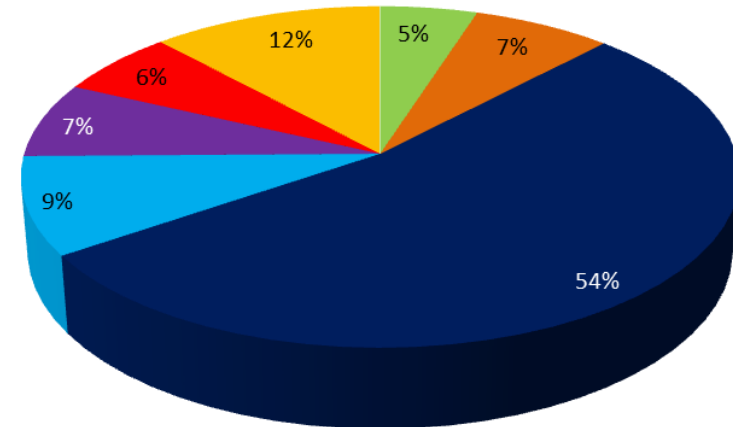
## Audit Plan 2013-14 Time Allocation per Type of Audit

- Key Financial System
- Systems/Risk Audit
- Procurement/Contract Audit
- Advice/Emerging Issues
- Schools
- Governance Review
- IT Audit
- Investigation
- Follow-up



## Audit Plan 2013-14 Time Allocated to Each Department

- Chief Executives
- Resources
- Adults, Health & Housing
- DCC Corporate Management
- Children and Young People's
- Neighbourhoods
- Schools



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## 4 Detailed Audit Plan Proposal

Derby City Council – Audit Plan 2013-14		Risk Score	Risk Rating	Plan Days	Type of Audit
<b>Chief Executives</b>					
PI Self Assessment		41	Medium	25	Governance Review
Investigations		-	-	20	Investigation
Advice / Emerging Issues		-	-	10	Advice/Emerging Issues
Follow-ups		-	-	3	Follow-up
<b>Chief Executives Total Days</b>				<b>58</b>	
<b>Children &amp; Young People</b>					
Children in Care		56	High	25	Systems/Risk Audit
Commissioning		55	High	25	Systems/Risk Audit
Investigations		-	-	20	Investigation
Advice / Emerging Issues		-	-	10	Advice/Emerging Issues
Follow-ups		-	-	3	Follow-up
<b>Children &amp; Young People Total Days</b>				<b>83</b>	
<b>Schools</b>					
School Self Assessments		-	-	20	Schools
26 School SFVS Reviews		-	-	52	Schools
<b>Schools Total Days</b>				<b>72</b>	
<b>Resources</b>					
Payroll		57	High	20	Key Financial System
Fixed Assets		56	High	20	Key Financial System
Treasury Management		61	High	15	Key Financial System
Main Accounting System		63	High	30	Key Financial System
Teachers Pension Return TR17		33	Low	20	Key Financial System
Grant Certification audits		40	Medium	23	Key Financial System
Risk Management		61	High	20	Governance Review

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HR Payroll Project	57	High	25	Governance Review
Audit Risk Assessment & Planning	-	-	30	Advice/Emerging Issues
Audit and Accounts Committee - Reports	-	-	20	Advice/Emerging Issues
Managed Audit Issues	-	-	3	Advice/Emerging Issues
Data Matching	-	-	40	Governance Review
National Fraud Initiative	-	-	8	Governance Review
Internal Groups	-	-	20	Advice/Emerging Issues
Creditors	44	Medium	20	Key Financial System
Debtors	55	High	20	Key Financial System
Council Tax	57	High	20	Key Financial System
NNDR	56	High	20	Key Financial System
Cashiers	49	Medium	20	Key Financial System
Housing & Council Tax Benefits	59	High	25	Key Financial System
IT Infrastructure & Application Audits	55	High	105	IT Audit
Investigations	-	-	20	Investigation
Advice / Emerging Issues	-	-	50	Advice/Emerging Issues
Follow-ups	-	-	26	Follow-up
<b>Resources Total Days</b>			<b>620</b>	
<b>Neighbourhoods</b>				
Markets	54	Medium	25	Systems/Risk Audit
Trading Standards	54	Medium	20	Systems/Risk Audit
Sports Arena Contract	63	High	30	Procurement/Contract Audit
Investigations	-	-	20	Investigation
Advice / Emerging Issues	-	-	10	Advice/Emerging Issues
Follow-ups	-	-	3	Follow-up
<b>Neighbourhoods Total Days</b>			<b>108</b>	
<b>Adults, Health &amp; Housing</b>				
Public Health	62	High	25	Systems/Risk Audit
Nursing Care	54	Medium	25	Systems/Risk Audit
Investigations	-	-	20	Investigation

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Advice / Emerging Issues	-	-	10	Advice/Emerging Issues
Follow-ups	-	-	3	Follow-up
<b>Adults, Health &amp; Housing Total Days</b>			<b>83</b>	
DCC Corporate Management				
Job Evaluation	-	-	42	Advice/Emerging Issues
New Ways of Working/IT Downtime etc.	-	-	55	Advice/Emerging Issues
Requirements of the Host etc.	-	-	41	Advice/Emerging Issues
<b>DCC Corporate Management Total Days</b>			<b>138</b>	
<b>Derby City Council Total Days</b>			<b>1162</b>	