



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS
COMMITTEE
6 APRIL 2006**

Report of the Head of Audit and
Risk Management

ITEM 6

INTERNAL AUDIT PLAN 2006/7

RECOMMENDATION

- 1.1 To approve the 2006/7 internal audit plan.

SUPPORTING INFORMATION

Background

- 2.1 Planning the audit coverage in 2006/7 has taken into account several key developments which will influence not only the nature of audit reviews, but the way the Section operates. The following key issues have influenced the 2006/7 Plan ...
- The CIPFA Code of Practice for Internal Audit for Local Government in the UK was published in September 2003 and has set 10 Standards that all internal audit sections need to achieve.
 - The 2006/7 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, the importance of local and national initiatives on information technology, and the need to review developments as part of e-Government.
 - The need to avoid duplication with the reviews to be undertaken by external audit or other external inspection bodies.
- 2.2 The corporate re-structure and the need to update risk registers to reflect this mean that the internal audit plan for 2006/7 may require reviewing. The majority of the work planned in the plan should not be affected by the re-structure. What does need to be taken into account is any changes that may affect the audit risk assessment rating and the identification of any new risks that the Council faces.
- 2.3 The Head of Audit and Risk Management has undergone a thorough consultation process with each Corporate Director to identify any significant changes to their respective risk environments. This information has been built into the audit risk assessment and certain risks identified as part of this process have been included in the draft audit plan. Information contained in the Consultation on Revenue Budget 2006/07 to 2008/09 report has been analysed and incorporated into the audit risk assessment.

The 2006/7 Draft Plan

- 2.4 The Draft Internal Audit Plan for 2006/7 is shown at Appendix 2. The total planned allocation of productive time is 1,893 audit days. This is an increase of 128 days over 2005/6.
- 2.5 Prioritisation of audit work is based on a 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. These judgements have been fully documented. In addition, the Council's External Auditors, Price Waterhouse Coopers (PwC), are given the opportunity to comment upon the interpretation of risks.
- 2.6 The 2006/7 Plan incorporates those areas of the Council's activities where the overall risk assessment exercise has indicated a higher level of risk. Audits have been categorised according to reporting lines. All planned work is shown within each department's total allocated days as far as possible.

Departmental Audit Work

- 2.7 One of the key themes in the 2006/7 Plan is the review of Governance arrangements in each department following the Council's restructuring. The two main areas for audit work are the schemes of delegation in each department and the control of staffing establishments.
- 2.8 The Resources Department 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. Under the Managed Audit concept, 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 General Ledger, 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.

This financial year will see the start of the replacement programme for the main financial systems. Internal Audit has a role to play in providing assurance that the new financial systems are being implemented properly.

The Council has recently introduced systems for e-Procurement and e-Tendering. The controls in these systems will be reviewed to ascertain whether or not they are adequate.

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. Following consultation with the Corporate Director - Resources, Internal Audit will provide a health-check of security in relation to remote working. An audit was planned in the 2005/6 plan to look at Wireless technology which brings with it a whole new

layer of security risks. Failure to appropriately secure wireless technology could result in all of the Council's networks becoming compromised, not just the wireless portions. Another audit postponed in 2005/6 that is included in the 2006/7 plan is a review of the configuration of the firewall.

Within Customer Services the audits of the key financial systems will provide assurance to the Corporate Director – Resources on the recovery action on debts, review of the performance framework in Business Rates and review of the controls around the granting of Single Person Discounts. Included in the Plan, is one area that has not been reviewed by internal audit before, that of the controls that the bailiffs have in place for the collection of Council income. Time has also been planned for a review of the controls over eligibility for concessionary travel.

Within Housing and Advice, the Plan includes time for following up progress on delivery of the action plan following the Supporting People review by Audit Commission in December 2004. There will also be a high level review of procedures and controls at the Housing Option Centre, in particular the financial management controls around bed and breakfast.

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.

- 2.9 The main areas for audit review in Corporate and Adult Social Services are the Asset Register, Members Services and Assessment and Care Management in Adult Social Services. There will also be visits made to some of the Homes for Older People. The Members Services and the Social Services audits were originally planned for 2005/6. These audits will review the operation of internal controls in these areas. The Asset Register has yet to be reviewed by internal audit. This is an important system as it is used to determine the assets that are included in the balance sheet and used to calculate the asset rentals to be charged to revenue.
- 2.10 The main area of audit coverage for Children and Young People's Services will remain as the schools audits. The focus will be on financial management in schools using the new schools audit programme.

Early Years has been included in the plan because it is an area where considerable grant monies are received. The review will assess the robustness of the financial management in this area. Audit commenced a review of the individual Surestart schemes in 2005/6. The review will cover an assessment of the internal controls in place. The Osmaston/Allenton project was audited in 2005/6. It is planned to cover further projects in 2006/7. The Pupil Referral Unit, which is currently in special measures, has been included to provide assurance to the Corporate Director for Children and Young People that there is adequate financial management in place in the Unit.

A review of the control of capital schemes within the department will be carried out. The aim of this review is to report on the soundness of the systems in operation. Initial estimates of costs are often lower than the tender prices submitted but costs tend to increase during the programme.

Internal control and risk issues within Child Protection have not been reviewed recently. We therefore need to assess the controls in place to mitigate the risks to

service provision and to budgets. Assessment and Care Management has also not been reviewed recently and therefore we need to assess the adequacy of the controls within the systems and procedures, particularly around eligibility. Both of these audit reviews were planned for coverage in 2005/6, but were postponed due to the upgrade of the Swift system. The audit visits to Children and Family Centres that were scheduled for 2005/6, will also be carried out in 2006/7.

There are new areas within the department, for example, extended schools and the Disabled Children's service, that will require audit review, but as yet this is too premature. This is also the case for audit reviews around pooling and alignment of budgets as well as the integration of management arrangements and inter-agency working.

- 2.11 The main area of audit activity in Regeneration and Community will be the governance arrangements around the Derby City Partnership. The other major issue is the inclusion of Decriminalised Parking Income in this year's plan. The aim is to review the arrangements in place for the collection of income and to provide advice with regard to the systems and controls that will be required to be put into place in respect of decriminalised parking enforcement in the City. It is also proposed to review the control environment associated with the Building Control service. This audit was originally scheduled for review in 2005/6. A current contract audit of the construction of the new Mickleover Library is also planned.
- 2.12 The Corporate Director of Environmental Services has indicated that there will be a large degree of change through the Department following the corporate re-structure. The Housing Repairs and Maintenance contract was the main focus for audit coverage within Commercial Services in 2005/6 as it is a core activity for the department and is a large value contract. The review was postponed as the contract with Derby Homes was due for tender. Following consultation with the Corporate Director of Environmental Services risks were identified through the introduction of new systems and procedures or changes to existing systems and these have been incorporated into the plan. Such reviews will include controls over the collection of income at the golf courses, and those elements of the new system for decriminalised parking that fall under Environmental Services' responsibility.
- 2.13 Some of the planned audits do not fall under the responsibility of one department. These audits have been included under the heading of corporate audits. As in previous years, time has been set aside to review the robustness of the systems that produce the information required for the performance indicators. The planned time for the Local Area Agreement is to provide assurance for the Head of Audit and Risk Management to enable him to provide an opinion as to whether the amounts in each Statement of Grant Usage are fairly presented. The ODPM requires that any significant financial control issues raised by Internal Audit are communicated to the Government Office.
- 2.14 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. The contingency included in the plan is expected to grow during the year, but it is considered appropriate at this stage to reflect planned work on the control environment rather than increase the contingency for investigations.
- 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 follow-up audit reports issued in the previous 6 – 12 months to establish the extent of management's implementation of agreed actions.
- Brought Forward Jobs - The section has a number of incomplete audits from the 2005/6 Plan to conclude in 2006/7. Accordingly, the Plan contains an estimate of time necessary to complete each unfinished audit from the previous year.

- 2.15 Internal Audit has a key role to play in governance. The Section is responsible for providing guidance corporately on risk management issues. Risk management is integral to a well managed Council. It is crucial that the aims and objectives of the Council can be clearly linked with the risks involved. Internal Audit's role is much broader than focusing only on internal control and now needs to be risk focused. It needs to be responsive to changes within the Council. From change arises risk, and as the key risk and control advisors in the Council, Internal Audit needs to be offering advice on managing and controlling project risks and other risks brought about by programmes of change. Risk Management work will be driven by a Risk Management Development Plan that is currently being produced by the Head of Audit and Risk Management in conjunction with the Council's Strategic Risk Group. The Development Plan will be brought to this Committee.
- 2.16 Regulation 4 of the Accounts and Audit Regulations (2003) requires audited bodies to conduct a review, at least once a year, of the effectiveness of its system of internal control and publish a Statement on Internal Control each year with the authority's financial statements. The Head of Audit and Risk Management is the lead officer for the production of the SIC.
- 2.17 The audit work planned for 2006/7 will inform the Head of Audit and Risk Management's opinion on the internal control environment that exists within the Council. It will also contribute to the compilation of the SIC in the Council's annual accounts.

For more information contact:	Richard Boneham, Head of Audit and Risk Management, 01332 255688 richard.boneham@derby.gov.uk
Background papers:	Internal Audit Risk Assessment 2006/7
List of appendices:	Appendix 1 - Implications Appendix 2 – Draft Internal Audit Plan 2006/7

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 2006/7

Audit Area		Annual Plan Days	Audit Risk Score
Resources			
Corporate Finance			
	Accounting Systems	20	52
	Treasury Management	10	50
	Grant Claims	10	
	TR17 Teachers Pension Return	15	
Financial Services			
	HR / Payroll / Costing	20	53
	Creditors	20	56
	Debtors	20	44
	FMS Project Assurance	10	
	E-Procurement	30	56
	e-Tendering	30	52
Customer Services			
	Cashiers	20	56
	Housing Benefits	40	61
	Council Tax	30	61
	NNDR	20	56
	Bailiffs	20	47
	Concessionary Travel	10	48
ICT and Performance			
	Remote Working	30	
	Wireless Network	30	
	Firewall Configuration	30	
Housing and Advice Services			
	Supporting People	20	46
	Housing Options Centre	20	41
Other Audit Work			
	Governance – Fraud, Risk Management, Money Laundering	30	
	Governance – Scheme of Delegation	15	
	Governance – Control of Staffing Establishments	15	
	NFI – Co-ordination	20	
	Investigations	20	
	Advice	20	
	Emerging Issues	10	
	Brought Forward Audits	26	
	Follow-up Audits	40	
SUB-TOTAL DAYS		651	

Audit Area		Annual Plan Days	Audit Risk Score
Corporate & Adult Social Services			
Property Services			
	Asset Register	20	42
Democratic Services			
	Members Services	20	39
Community Care			
	Assessment and Care Management	30	57
	Establishments - Visits	15	41
Other Audit Work			
	Governance – Scheme of Delegation	15	
	Governance – Control of Staffing Establishments	15	
	Governance – Contract Procedure Rules	20	
	Investigations	15	
	Advice	10	
	Emerging Issues	10	
	Brought Forward Audits	2	
	Follow-up Audits	20	
SUB-TOTAL DAYS		192	
Children & Young People's Services			
Schools			
	Establishments - Visits	180	
School Improvement & Inclusion			
	Sure Start	20	44
	Early Years	20	48
	Pupil Referral Unit	20	
Commissioning & Support			
	Control of capital schemes	25	
Integrated Services/Specialist Services			
	Child Protection	25	58
	Assessment and Care Management	30	55
	Establishments - Visits	15	41
Other Audit Work			
	Governance – Scheme of Delegation	15	
	Governance – Control of Staffing Establishments	15	
	Investigations	15	
	Advice	10	
	Emerging Issues	10	
	Brought Forward Audits	24	
	Follow-up Audits	30	
SUB-TOTAL DAYS		454	

Audit Area	Annual Plan Days	Audit Risk Score
Regeneration and Community		
Regeneration		
Building Control	15	41
Highways and Traffic Management		
Decriminalised Parking Income	20	46
Cultural		
Mickleover Library Tendering Process	10	
Derby City Partnership		
Governance Arrangements	40	55
Other Audit Work		
Governance – Scheme of Delegation	15	
Governance – Control of Staffing Establishments	15	
Investigations	15	
Advice	10	
Emerging Issues	10	
Brought Forward Audits	12	
Follow-up Audits	20	
SUB-TOTAL DAYS	182	
Environmental Services		
Catering		
Catering Supplies Contracts	30	
Facilities Management		
Housing Repairs and Maintenance Contract	25	55
Sinfin/Allestree Golf Course Income	25	46
Environmental Health & Trading Standards		
Parking Enforcement – Excess Charges	20	46
Other Audit Work		
Governance – Scheme of Delegation	15	
Governance – Control of Staffing Establishments	15	
Investigations	15	
Advice	10	
Emerging Issues	10	
Brought Forward Audits	4	
Follow-up Audits	10	
SUB-TOTAL DAYS	179	
Corporate Audits		
Performance Indicators/ LPSA 2	30	
LAA	30	
SUB-TOTAL DAYS	60	

Audit Area	Annual Plan Days	Audit Risk Score
External Bodies		
CLASP	5	
East Midlands Centre of Excellence	5	
Derby CityScape	5	
Derby Homes	100	
Derbyshire Fire Authority	60	
SUB-TOTAL DAYS	175	
AUDIT PLAN - TOTAL DAYS	1893	
Governance Work		
Risk Management	71	
Head of Audit & Risk Management Specific Projects (inc SIC)	22	
SUB-TOTAL DAYS	93	
AUDIT & RISK MANAGEMENT SECTION - TOTAL DAYS	1986	