



central midlands audit partnership

South Derbyshire District Council – Internal Audit Plan 2012-13

Audit Sub-Committee: 4th April 2012



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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central midlands audit partnership

Providing Excellent Audit Services in the Public Sector

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 Sub-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 the necessary level of skilled and experienced staff.

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 South Derbyshire District 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 across on risk maturity from It's A Risky Business: A Practical Guide to Risk Based Auditing (Fully Revised 2nd Edition) (CIPFA, 2005).

| Organisations Risk Maturity | Approach to Risk Management | Internal Audit Strategic Response | Internal Audit Work Covers |
|-----------------------------|---|--|--|
| Risk Enabled LEVEL 5 | 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 |
| Risk Managed LEVEL 4 | 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 |
| Risk Defined LEVEL 3 | 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 |
| Risk Aware LEVEL 2 | 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 |
| Risk Naïve LEVEL 1 | 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.)

Approach to Audit Planning (Cont.)

As such, the service will be delivered on the basis of a risk based audit plan compiled by the Audit Manager, 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'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, 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 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 Sub-Committee 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.
- 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 ongoing 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

As the Council's Internal Audit Service is now provided by the Central Midlands Audit Partnership, it is anticipated that the Council will benefit from a more sustainable service, with comprehensive coverage and an enhanced quality of service, brought about by having the combined Audit resources of the Partner organisations. It is envisaged that as the Partnership grows, greater efficiencies may be achieved which could result in further cost reductions 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 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 not directly attributable to any single organisation. This report will only detail the resource allocations to 'productive' audit work.

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.
- **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.

2 Content of the Audit Plan (Cont.)

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 Council's 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 analyze 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). 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.

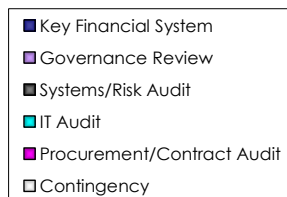
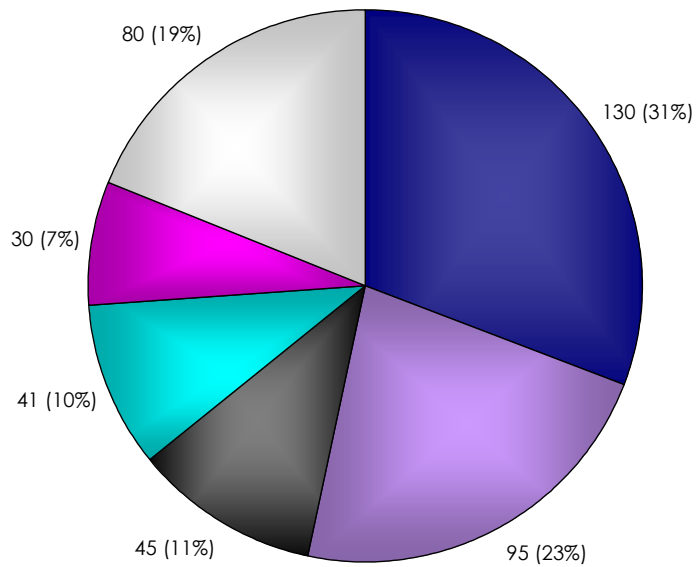
Governance Reviews - The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled, and by which it accounts to, engages with and leads the community. It includes arrangements to monitor the achievement of its strategic objectives 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).

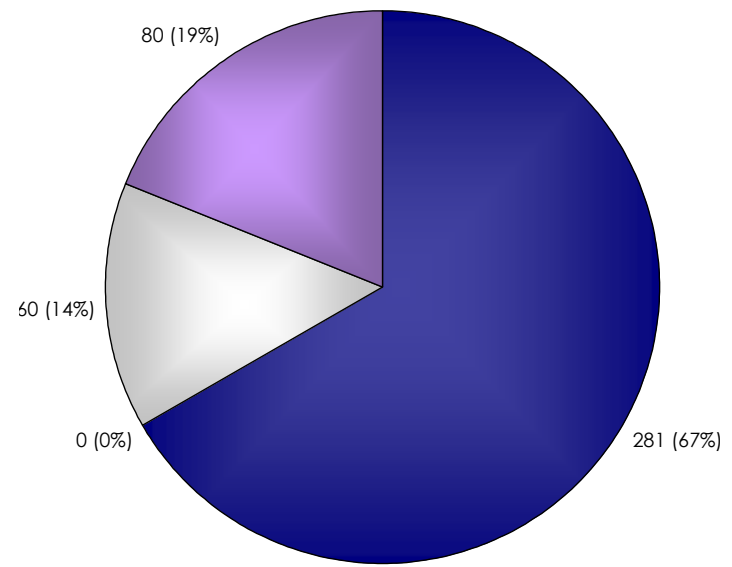
South Derbyshire District Council – Internal Audit Plan 2012-13

3 Overview Charts of Planned Coverage

South Derbyshire District Council
Internal Audit Plan 2012-13
Day Allocation per type of Audit



South Derbyshire District Council
Internal Audit Plan 2012-13
Days Allocated to each
Department



South Derbyshire District Council – Internal Audit Plan 2012-13

4 Detailed Audit Plan Proposal

| South Derbyshire District Council - Audit Plan 2012-13 | Risk Score | Risk Rating | Plan Days | Type of Audit |
|--|------------|-------------|-----------|----------------------------|
| Corporate Services | | | | |
| Financial Services | | | | |
| Main Accounting System / Budgetary Control / Bank Reconciliation | 59 | High | 20 | Key Financial System |
| Treasury Management / Insurance | 58 | High | 15 | Key Financial System |
| Capital Programme | 46 | Medium | - | |
| Grant Certification | 35 | Medium | - | |
| Banking Services / VAT | 50 | Medium | - | |
| Client Services | | | | |
| Council Tax / NNDR / Cashiering | 55 | High | 25 | Key Financial System |
| Housing & Council Tax Benefit | 60 | High | 20 | Key Financial System |
| Payroll / Officers Expenses & Allowances | 64 | High | 15 | Key Financial System |
| Creditors / Debtors | 56 | High | 20 | Key Financial System |
| Procurement (Contracts Register) | 58 | High | 15 | Procurement/Contract Audit |
| People Management (Policies, Recruitment, Equalities, Training, Disciplinary etc.) | 55 | High | 15 | Systems/Risk Audit |
| PCI Compliance | 53 | Medium | 11 | IT Audit |
| IT Applications | 68 | High | 15 | IT Audit |
| IT Infrastructure | 74 | High | 15 | IT Audit |
| Corporate Services Admin | | | | |
| Data Protection & Freedom of Information | 50 | Medium | - | |
| Records Management | 50 | Medium | - | |
| Partnership Governance | 48 | Medium | - | |
| Risk Management | 61 | High | 20 | Governance Review |
| Corporate Governance | 47 | Medium | - | |
| Declarations of Interest | 41 | Medium | - | |
| Petty Cash & Inventories | 37 | Medium | - | |
| Data Quality & Performance Management | 55 | High | 20 | Governance Review |
| Business Continuity & Emergency Planning | 50 | Medium | - | |
| Anti-Fraud & Corruption (incl. NFI, Data Matching, Anti Fraud Policies) | 62 | High | 25 | Governance Review |
| Safeguarding | 53 | Medium | 15 | Governance Review |

South Derbyshire District Council – Internal Audit Plan 2012-13

| | | | | |
|---|----|--------|------------|-----------------------------------|
| Corporate Assets | | | | |
| Fixed Assets | 52 | Medium | 15 | <i>Key Financial System</i> |
| Commercial Rents | 38 | Medium | - | |
| Land Sales | 41 | Medium | - | |
| Legal & Democratic Services | | | | |
| Council House Sales | 40 | Medium | - | |
| Electoral Services | 44 | Medium | - | |
| Members' Allowances | 38 | Medium | - | |
| Land Charges | 29 | Low | - | |
| Corporate Services Total Days | | | 281 | |
| Community & Planning Services | | | | |
| Culture & Safer Communities | | | | |
| Bereavement Services | 45 | Medium | - | |
| Community Safety Partnership | 48 | Medium | - | |
| Economic Development | | | | |
| Economic Development | 48 | Medium | - | |
| Planning, Development & Building Control | | | | |
| Planning & Building Control Fees | 39 | Medium | - | |
| Section 106 Agreements | 43 | Medium | - | |
| Development Control | 50 | Medium | - | |
| Sport & Health Development | | | | |
| Leisure Centres | 48 | Medium | - | |
| Rosliston Forestry Centre | 40 | Medium | - | |
| Community & Planning Services Total Days | | | - | |
| Housing & Environmental Services | | | | |
| Repairs & Improvements | | | | |
| Housing Repairs (Planned & Responsive Maintenance) | 55 | High | 15 | <i>Systems/Risk Audit</i> |
| Service Contracts | 56 | High | 15 | <i>Procurement/Contract Audit</i> |
| Cleaning Services | 34 | Low | - | |
| Performance & Business | | | | |
| Rechargeable Repairs | 38 | Medium | - | |
| Rent Accounting | 41 | Medium | - | |

South Derbyshire District Council – Internal Audit Plan 2012-13

| | | | | |
|--|----|--------|------------|--------------------|
| Former Tenants Arrears | 44 | Medium | - | |
| Housing Operations | | | | |
| Allocations & Homelessness | 45 | Medium | - | |
| Income & Tenancy Management | 42 | Medium | - | |
| Sheltered Housing | 38 | Medium | - | |
| Direct Services | | | | |
| Parks & Open Spaces | 36 | Medium | - | |
| Grounds Maintenance | 41 | Medium | - | |
| Waste Management (Collection, Trade, Recycling) | 55 | High | 15 | Systems/Risk Audit |
| Fleet Management | 47 | Medium | - | |
| Street Cleansing | 38 | Medium | - | |
| Gypsy Sites | 36 | Medium | - | |
| Strategic Housing | | | | |
| Improvement Grants (Energy, Disabled Facilities etc.) | 46 | Medium | - | |
| Environmental Health Enforcement | | | | |
| Pollution Control | 50 | Medium | - | |
| Food Safety | 48 | Medium | - | |
| Licensing | 46 | Medium | - | |
| Pest Control | 34 | Low | - | |
| Warden Controlled Services | 38 | Medium | - | |
| Health & Safety | 59 | High | 15 | Governance Review |
| Housing & Environmental Services Total Days | | | 60 | |
| Contingencies | | | | |
| Other Audit Work | | | | |
| Brought Forward Jobs | | | 20 | Contingency |
| Investigations | | | 20 | Contingency |
| Advice & Emerging Issues | | | 20 | Contingency |
| Audit Sub Committee | | | 10 | Contingency |
| Follow-ups | | | 10 | Contingency |
| Contingencies Total Days | | | 80 | |
| South Derbyshire District Council Total Days | | | 421 | |