



## South Derbyshire District Council – Audit Plan 2015-16

Audit Sub Committee: 1<sup>st</sup> April 2015



## 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.

## Contacts

Richard Boneham  
Head of the Audit Partnership  
c/o Derby City Council  
Council House  
Corporation Street  
Derby  
DE1 2FS  
Tel. 01332 643280  
richard.boneham@derby.gov.uk

Adrian Manifold  
Audit Manager  
c/o Derby City Council  
Council House  
Corporation Street  
Derby  
DE1 2FS  
Tel. 01332 643281  
adrian.manifold@centralmidlands  
audit.gov.uk

## Contents

## Page

Introduction	3
Content of the Audit Plan	5
Overview Charts of Planned Coverage	8
Detailed Audit Plan Proposal	9

## Introduction

### Reasons for an Audit Plan

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

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

The audit work planned for 2015/16 will inform the Head of Audit's opinion on the internal control environment that exists within South Derbyshire District Council. The Head of Audit reports his overall opinion to the Audit Sub-Committee on an annual basis.

This report provides Committee 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 Head of Audit takes 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 Head of Audit uses his own judgment of risks after consideration of input from senior management and the Audit Sub Committee. The Head of Audit must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.



As such, the service will be delivered on the principle of a risk based audit plan compiled by the Audit Manager in consultation with South Derbyshire District Council's Management, 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.

## South Derbyshire District Council – Audit Plan 2015-16

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We will also consider South Derbyshire District 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, 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 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 conforms to the Public Sector Internal Audit Standards (PSIAS) which came into force on 1<sup>st</sup> April 2013.
- 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.
- 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 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

It is anticipated that the Central Midlands Audit Partnership will provide South Derbyshire District 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 South Derbyshire District 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 approach will result in more efficient ways of undertaking, documenting and managing the audit services. This will lead to 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 in previous years.

South Derbyshire District 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 South Derbyshire District Council
- **Advice** - On an ad-hoc basis, Audit is called upon to provide risk and control advice on issues throughout South Derbyshire District 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 South Derbyshire District 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 cannot easily be predicted, but given the level of coverage in recent years we would normally 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

## South Derbyshire District Council – Audit Plan 2015-16

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** - A number of incomplete audits from the 2014/15 Plan will need to be concluded in 2015/16. It has been assumed that brought forward and carry forward figures will remain fairly consistent from year to year. As such, related days will no longer be included in the Plan.

### Types of Audit Work

**Key Financial Systems Audit** - The main area for internal audit work is the reviews of South Derbyshire District Council's fundamental financial systems, which are the key to the running of the organisation. 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 South Derbyshire District Council's annual accounts. The Plan covers the key financial systems including the Main Accounting System, Budgetary Control, Reconciliations, Asset Management, Creditors, Debtors and Payroll. 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 Company's private network is protected from internet attacks, unauthorised or inappropriate access via local or remote attacks, and also ensure South Derbyshire District Council has 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). 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 South

# South Derbyshire District Council – Audit Plan 2015-16

Derbyshire District 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 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 South Derbyshire District Council's governance framework by looking at corporate systems such as Risk Management, Health & Safety, Data Quality, Anti –Fraud etc.

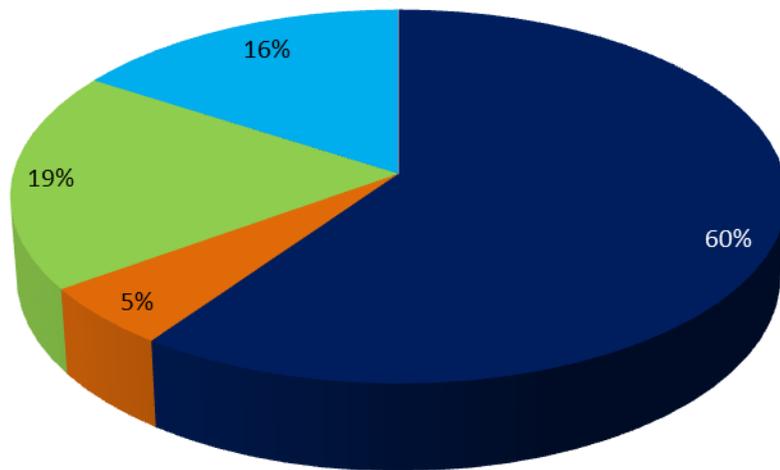
**Procurement/Contract Audit** - Procurement involves the process of acquisition from such third parties, and spans the whole life cycle from the initial concept (determining the need), through buying and delivery, to the end of a service contract. The audit approach to procurement should primarily concern South Derbyshire District Council'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).



## Overview Charts of Planned Coverage

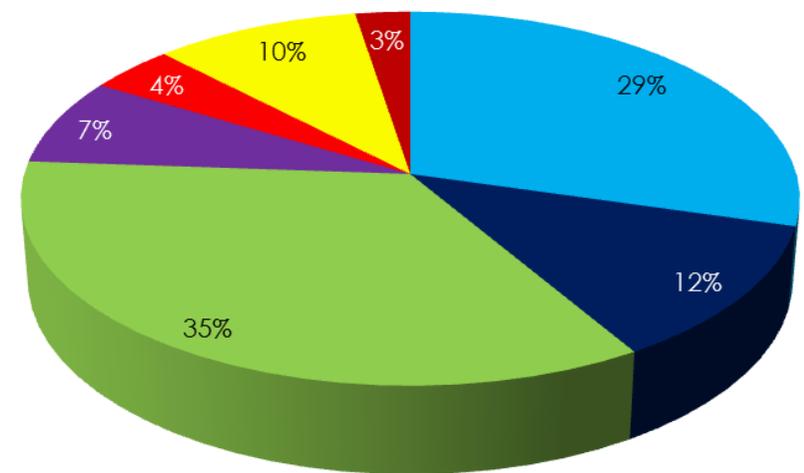
### Audit Plan 2015-16 Time Allocated to Each Department

- Corporate Services
- Community & Planning Services
- Housing & Environmental Services
- Contingencies



### Audit Plan 2015-16 Time Allocation per Type of Audit

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



# South Derbyshire District Council – Audit Plan 2015-16

## Detailed Audit Plan Proposal

Plan 2012-13	Plan 2013-14	Plan 2014-15	South Derbyshire District Council – Audit Plan 2015-16	Risk Score	Risk Rating	Plan Days	Type of Audit
<b>Corporate Services</b>							
<b>Financial Services</b>							
✓	✓	✓	Main Accounting System / Budgetary Control / Bank Reconciliation	59	High	20	Key Financial System
✓	✓	✓	Treasury Management / Insurance	58	High	15	Key Financial System
	✓		Capital Programme	49	Medium		
			Grant Certification	35	Medium		
	✓		Banking Services / VAT	54	Medium	15	Systems/Risk Audit
<b>Client Services</b>							
✓	✓	✓	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)	53	Medium		
✓	✓	✓	People Management	52	Medium	13	Systems/Risk Audit
✓		✓	PCI Compliance	50	Medium		
✓	✓	✓	IT Applications	67	High	17	IT Audit
✓	✓	✓	IT Infrastructure	73	High	20	IT Audit
	✓		Client Monitoring - Corporate Services Contract	56	High		
<b>Corporate Services Admin</b>							
	✓		Data Protection & Freedom of Information	50	Medium		
	✓		Records Management	50	Medium		
		✓	Partnership Governance	48	Medium		
✓		✓	Risk Management	61	High		
	✓		Corporate Governance	51	Medium	13	Governance Review
			Declarations of Interest	41	Medium	13	Governance Review
			Petty Cash & Inventories	38	Medium	13	Systems/Risk Audit
✓	✓	✓	Data Quality & Performance Management	55	High	20	Governance Review
	✓		Business Continuity & Emergency Planning	50	Medium		
✓			Anti-Fraud & Corruption	45	Medium		

# South Derbyshire District Council – Audit Plan 2015-16

✓	✓	Safeguarding	55	High		
		Corporate Assets				
✓	✓	Fixed Assets	52	Medium	15	Key Financial System
		Commercial Rents	38	Medium	13	Systems/Risk Audit
		Land Sales	41	Medium	13	Systems/Risk Audit
		Legal & Democratic Services				
		Council House Sales	45	Medium		
	✓	Electoral Services	44	Medium		
		Members' Allowances	38	Medium	13	Systems/Risk Audit
		Land Charges	29	Low		
<b>Corporate Services Total Days</b>					<b>293</b>	
<b>Community &amp; Planning Services</b>						
		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	44	Medium		
	✓	Section 106 Agreements	47	Medium		
		Development Control	48	Medium	13	Systems/Risk Audit
		Sport & Health Development				
	✓	Leisure Centres	49	Medium		
		Rosliston Forestry Centre	45	Medium	13	Systems/Risk Audit
<b>Community &amp; Planning Services Total Days</b>					<b>26</b>	
<b>Housing &amp; Environmental Services</b>						
		Repairs & Improvements				
✓	✓	Housing Repairs (Planned & Responsive Maintenance)	55	High		
	✓	Service Contracts	56	High		
		Cleaning Services	34	Low		
		Performance & Business				
		Rechargeable Repairs	38	Medium	13	Systems/Risk Audit
	✓	Rent Accounting	55	High	15	Systems/Risk Audit

## South Derbyshire District Council – Audit Plan 2015-16

✓		Tenants Arrears	49	Medium		
		Housing Operations				
✓	✓	Allocations & Homelessness	48	Medium		
		Income & Tenancy Management	41	Medium	13	Systems/Risk Audit
		Sheltered Housing	38	Medium	13	Systems/Risk Audit
		Direct Services				
		Parks & Open Spaces	37	Medium		
		Grounds Maintenance	43	Medium	13	Systems/Risk Audit
✓	✓	Waste Management (Collection, Trade, Recycling)	55	High		
	✓	Fleet Management	47	Medium		
		Street Cleansing	39	Medium	13	Systems/Risk Audit
		Gypsy Sites	37	Medium		
		Strategic Housing				
	✓	Improvement Grants (Energy, Disabled Facilities etc.)	46	Medium		
		Environmental Health Enforcement				
	✓	Pollution Control	47	Medium		
	✓	Food Safety	47	Medium		
	✓	Licensing	46	Medium		
		Pest Control	37	Medium		
✓		Warden Controlled Services	38	Medium	13	Systems/Risk Audit
✓	✓	Health & Safety	47	Medium		

### Housing & Environmental Services Total Days

93

### Contingencies

#### Other Audit Work

Partnership Re-allocation	16	Advice/Emerging Issues
Investigations	20	Investigation
Advice & Emerging Issues	21	Advice/Emerging Issues
Audit Sub Committee	10	Advice/Emerging Issues
Follow-ups	14	Follow-up

### Contingencies Total Days

81

### South Derbyshire District Council Total Days

493