central midlands audit partnership

South Derbyshire District Council – Audit Plan 2016-17

Audit Sub-Committee: 30th March 2016

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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CMAP central midlands audit partnership

Providing Excellent Audit Services in the Public Sector

South Derbyshire District Council – Audit Plan 2016-17

Introduction

Reasons for an Audit Plan

The Public Sector Internal Audit Standards (PSIAS) state that annually the Chief Audit Executive 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 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 Executive to 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 2016/17 will inform the Chief Audit Executive's opinion on the internal control environment that exists within the organisation. The Chief Audit Executive reports his overall opinion to the organisations 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 Executive 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 Chief Audit Executive uses his own judgment of risks after consideration of input from senior management and the board. The Chief Audit Executive 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 the organisation'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.

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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 Chief Audit Executive 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 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.
- Fully conforms to the Public Sector Internal Audit Standards (PSIAS) which came into force on 1st 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.

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Content of the Audit Plan

Audit Resources

It is anticipated that the Central Midlands Audit Partnership will provide the organisation 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 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. Resilience

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.

- 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 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 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 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

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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 - A number of incomplete audits from the 2015/16 Plan will need to be concluded in 2016/17. 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 - Much of internal audit's assurance work comes from the review of the risks and controls associated with the organisation's financial systems. External Audit will review the work on the key financial systems to assist them when determining their opinion on organisation's annual accounts. The 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 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 the organisation 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 the organisation is directed and controlled, and by which it accounts to, engages with and leads the community. It includes arrangements to

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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'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 the organisation'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).

Audit Plan

- Key Financial Systems
- Systems/Risk Based Audits
- Governance Reviews
- IT Audits
- Procurement/Contract Audits
- Grant Certification Work
- Investigations
- Advice/Emerging Issues
- Follow ups

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Overview Charts of Planned Coverage

Audit Plan 2016-17
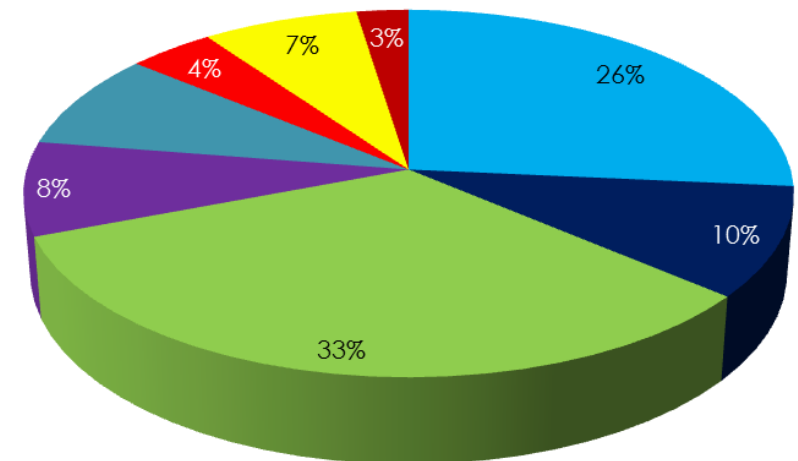Time Allocated to Each Department

- Corporate Services
- Community & Planning Services
- Housing & Environmental Services
- Contingencies
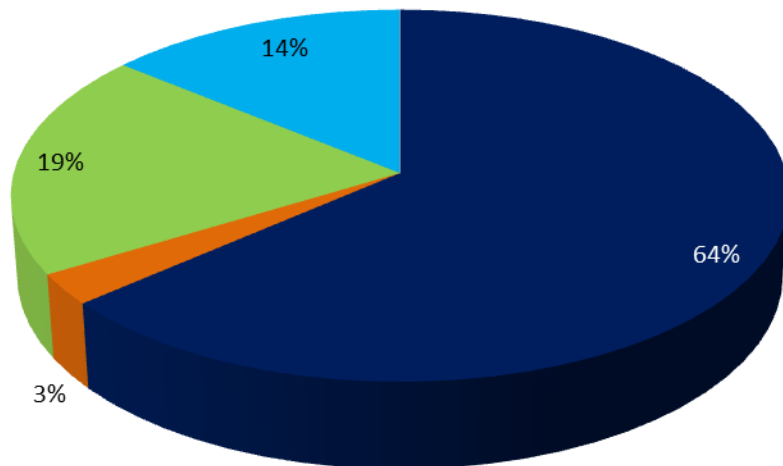
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Time Allocation per Type of Audit

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

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Detailed Audit Plan Proposal

Plan 2013-14	Plan 2014-15	Plan 2015-16	South Derbyshire District Council – Audit Plan 2016-17	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	58	High	15	Key Financial System
		✓	Insurance	49	Medium		
✓			Capital Programme	49	Medium	13	Procurement/Contract Audit
			Grant Certification	35	Medium		
			Banking Services	54	Medium	13	Systems/Risk Audit
✓			Taxation	50	Medium	13	Systems/Risk Audit
			Client Services				
✓	✓	✓	Council Tax	59	High	15	Key Financial System
✓	✓	✓	NDR	61	High	15	Key Financial System
✓	✓	✓	Cashering	47	Medium		
✓	✓	✓	Housing Benefit & Council Tax Support	60	High	20	Key Financial System
✓	✓	✓	Payroll	64	High	15	Key Financial System
		✓	Officers Expenses & Allowances	54	Medium		
✓	✓	✓	Creditors	56	High	15	Key Financial System
✓	✓	✓	Debtors	44	Medium	13	Key Financial System
✓	✓		Procurement (Contracts Register)	53	Medium	13	Procurement/Contract Audit
✓	✓	✓	People Management	52	Medium		
		✓	PCI Compliance	50	Medium		
✓	✓	✓	IT Applications	67	High	20	IT Audit
✓	✓	✓	IT Infrastructure	73	High	20	IT Audit
✓		✓	Client Monitoring - Corporate Services Contract	56	High		
			Corporate Services Admin				
✓		✓	Data Protection & Freedom of Information	50	Medium		
✓			Records Management	49	Medium	13	Governance Review
	✓		Partnership Governance	47	Medium		
	✓		Risk Management	61	High		

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✓		✓	Corporate Governance	51	Medium		
		✓	Declarations of Interest	40	Medium		
		✓	Petty Cash & Inventories	38	Medium		
✓	✓		Data Quality & Performance Management	55	High	20	*Governance Review*
✓		✓	Business Continuity & Emergency Planning	48	Medium		
			Anti-Fraud & Corruption	45	Medium	12	*Governance Review*
	✓		Safeguarding	55	High	15	*Governance Review*
			Corporate Assets				
✓	✓	✓	Fixed Assets	52	Medium	15	*Key Financial System*
		✓	Commercial Rents	38	Medium		
		✓	Land Sales	41	Medium		
			Legal & Democratic Services				
			Council House Sales	44	Medium		
	✓		Electoral Services	43	Medium		
		✓	Members' Allowances	41	Medium		
			Land Charges	39	Medium	13	*Systems/Risk Audit*
			Corporate Services Total Days		**308**		

Community & Planning Services

			Culture & Safer Communities				
	✓		Bereavement Services	43	Medium		
	✓		Community Safety Partnership	46	Medium		
			Economic Development				
	✓		Economic Development	46	Medium		
			Planning, Development & Building Control				
	✓		Planning & Building Control Fees	43	Medium		
	✓		Section 106 Agreements	46	Medium		
		✓	Development Control	48	Medium		
			Sport & Health Development				
✓			Leisure Centres	49	Medium	13	*Systems/Risk Audit*
		✓	Rosliston Forestry Centre	45	Medium		
			Community & Planning Services Total Days		**13**		

Housing & Environmental Services

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			Repairs & Improvements				
	✓		Housing Repairs (Planned & Responsive Maintenance)	55	High	15	*Systems/Risk Audit*
✓			Service Contracts	56	High	15	*Systems/Risk Audit*
			Cleaning Services	39	Medium	13	*Systems/Risk Audit*
			Performance & Business				
	✓		Rechargeable Repairs	37	Medium		
✓	✓		Rent Accounting	55	High		
✓			Tenants Arrears	47	Medium		
			Housing Operations				
✓			Allocations & Homelessness	47	Medium	13	*Systems/Risk Audit*
	✓		Income & Tenancy Management	40	Medium		
	✓		Sheltered Housing	37	Medium		
			Direct Services				
			Parks & Open Spaces	39	Medium	13	*Systems/Risk Audit*
	✓		Grounds Maintenance	43	Medium		
✓			Waste Management (Collection, Trade, Recycling)	55	High		
✓			Fleet Management	46	Medium		
	✓		Street Cleansing	39	Medium		
			Gypsy Sites	39	Medium	13	*Systems/Risk Audit*
			Strategic Housing				
✓			Improvement Grants (Energy, Disabled Facilities etc.)	46	Medium		
			Environmental Health Enforcement				
✓			Pollution Control	46	Medium		
✓			Food Safety	46	Medium		
✓			Licensing	45	Medium		
			Pest Control	39	Medium	13	*Systems/Risk Audit*
	✓		Warden Controlled Services	37	Medium		
✓			Health & Safety	47	Medium		

Housing & Environmental Services Total Days   **95**

Contingencies

Other Audit Work			
Partnership Re-allocation		14	*Advice/Emerging Issues*
Investigations		20	*Investigation*

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Advice & Emerging Issues	10	*Advice/Emerging Issues*
Audit Sub Committee	12	*Advice/Emerging Issues*
Follow-ups	12	*Follow-up*
Contingencies Total Days	**68**	
South Derbyshire District Council Total Days	**484**	