

# South Derbyshire District Council – Internal Audit Plan 2018-19 & Audit Charter

Audit Sub-Committee: 21<sup>st</sup> March 2018



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## 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@centralmidlandsaudit.co.uk

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



## Introduction

### Purpose of Report

**The purpose of this report is for the Audit Sub-Committee to approve the Internal Audit Charter and Annual Internal Audit Plan for 2018-19.**

### Role of Internal Audit

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015.

The Council's Internal Audit service is provided by Central Midlands Audit Partnership (CMAP) The Partnership was formed as a Joint Board under section 101 of the Local Government Act 1972. It currently serves 6 public sector organisations and Derby City Council is the host authority. The legal agreement between the Partners runs for 5 years from 2016 until January 2021.

Internal Audit provides the Audit Sub-Committee and senior management with objective assurance on the organisation's overall control environment, comprising the systems of governance, risk management, and internal control and highlights control weaknesses together with recommendations for improvement. This helps senior management demonstrate that they are managing the Council effectively. Internal Audit's work significantly contributes to the Council's statutory Annual Governance Statement (AGS).

Internal Audit is part of the organisation's governance framework which can be summarised in the three lines of defence model shown below.

### The Three Lines of Defense Model



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

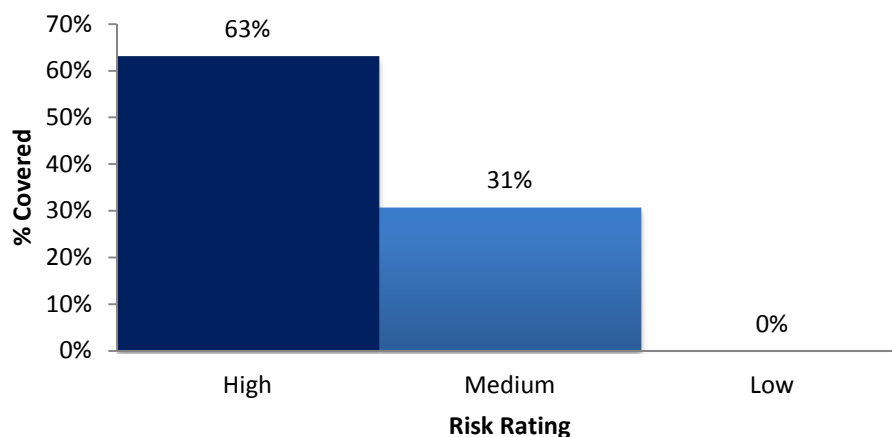
## Internal Audit Plan

The Public Sector Internal Audit Standards (PSIAS) state that annually the Chief Audit Executive is responsible for developing a risk-based plan. In this instance, the Chief Audit Executive is the Audit Manager.

The annual Audit Plan sets out proposals on how this will be achieved in the year ahead. It is a flexible Plan that allows Internal Audit to respond to emerging and changing risks during the year.

The Audit Plan must incorporate sufficient work to enable the Audit Manager to give an opinion on the adequacy of the organisation's overall control environment. Equally Internal Audit must be adequately resourced with the necessary level of skilled and experienced staff to deliver the Audit Plan.

### 2018-19 Coverage of Auditable Areas by Risk Rating Category



Progress in completing the audit plan, will be submitted to the Audit Sub-Committee as part of regular Internal Audit Progress reports.

## Internal Audit Charter

An Internal Audit Charter is a formal document that defines internal audit's purpose, authority, responsibility and position within an organisation. The Internal Audit Charter describes how internal audit will provide value to the organisation, the nature of the services it will provide and the specific focus or emphasis required of internal audit to help the organisation achieve its objectives.

Having an Internal Audit Charter also establishes the internal audit activity's position within the organisation, including reporting lines, authorising access to records, personnel, and physical properties relevant to the performance of engagements; also defining the scope of internal audit activities. A copy of the current Internal Audit Charter is attached at [Appendix B](#). It is the role of the Audit Sub-Committee to review and approve the 'Internal Audit Charter' on an Annual basis.

## Approach to Audit Planning

Internal 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, Internal Audit must determine its own judgment of risks following a thorough consultation process. We endeavour to consult with relevant managers to further understand the risk areas where internal audit assurance will be appropriate.

A risk based audit plan has been compiled in consultation with the organisation's Management, using the organisations risk registers and CMAP's bespoke risk assessment model which considers the following 8 measures of risk

|                   |                         |  |
|-------------------|-------------------------|--|
| <b>Impact</b>     | <b>Materiality</b>      | Potentially, how much money could the organisation lose if this area is not properly controlled? |
|                   | <b>Criticality</b>      | How critical is this function to the effective running of the organisation's core activities?    |
|                   | <b>Sensitivity</b>      | How important is this area in the opinion of senior management and the Board?                    |
|                   | <b>Strategic Effect</b> | How does this function affect the organisation's long term aims and objectives?                  |
| <b>Likelihood</b> | <b>Changes</b>          | What changes (staffing, procedural, IT, legislative) has this area been subject to?              |
|                   | <b>Complexity</b>       | How complex is the area under review?  |
|                   | <b>Review Process</b>   | How often is this area reviewed by audit and other agencies?                                     |
|                   | <b>Inherent Risks</b>   | How susceptible is this area to fraud and irregularity?  |

Once the scores for each of the 73 auditable areas identified have been input to the risk model, along with the date when the area was last audited, the risk model will automatically generate a plan of suggested audit coverage. Senior management are consulted on the proposed plan and their views are taken account of before producing the final, ranked list of areas to audit. This year's risk assessment identified 19 High risk areas, 52 Medium risk areas and 2 Low risk areas.

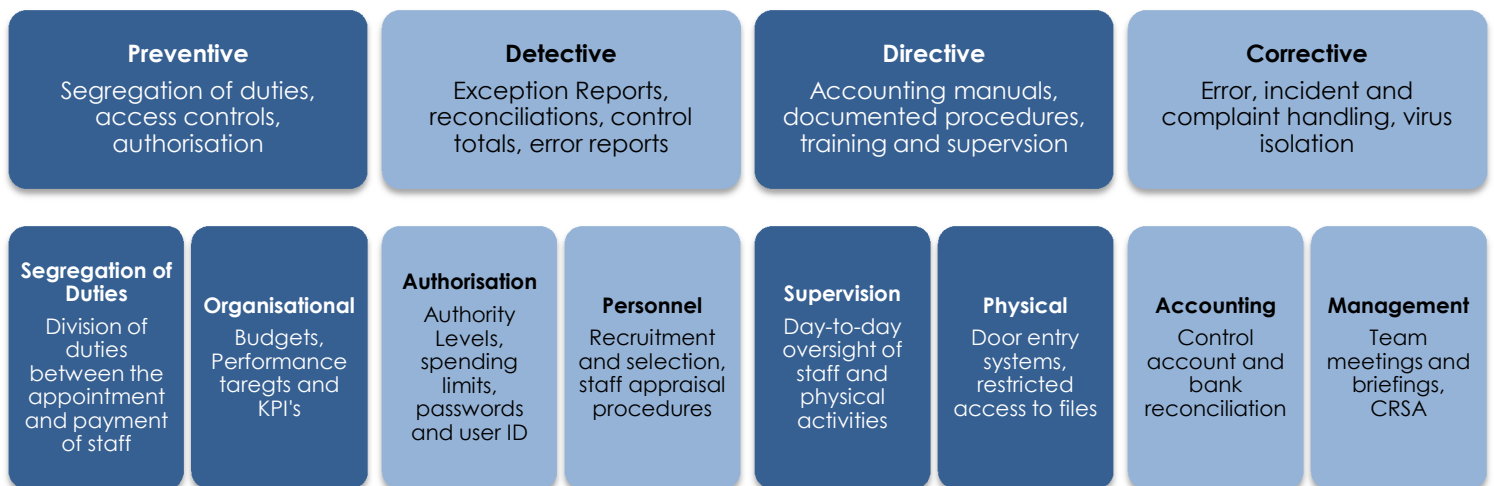
Discussions are also undertaken with the organisation's External Auditors to ensure that the proposed coverage, where possible, complements their work.

## 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 also review the work on the key financial systems to assist them when determining their opinion on organisation's annual accounts.

**Systems / Risk Based Audits** - The auditor's prime role is to review the internal control systems developed by management to mitigate operational risks and report upon the adequacy of those controls (see below for control examples). 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.

### Control categories with examples



Source: Chartered Institute of Internal Auditors – Resources – **Control**

**IT Audit** – Typically our IT auditing coverage focuses on the following:

- **Infrastructure** - Infrastructure audits cover perimeter defences, authentication, management and monitoring, and devices. 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 (**C**onfidentiality, **I**ntegrity, **A**vailability and **A**ccountability risks) to ensure attackers cannot exploit vulnerabilities to gain unauthorised access to sensitive corporate data.

**Governance & Ethics Reviews** - The governance framework comprises the systems and processes, and culture and values, by which the organisation is directed and controlled. Internal Audit reviews corporate systems such as Risk Management, Health & Safety, Data Quality, Anti –Fraud and should consider organisational ethics, values and culture.



## South Derbyshire District Council – Audit Plan 2018-19

**Procurement/Contract Audit** - Procurement involves the process of acquisition from 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.

### Client Support Work

To support the organisation, a number of days have also been set aside for the following:

**Audit Management** – There are certain management tasks that are specific to each Partner organisation, such as, reporting to Audit Committee, Audit Risk Assessment & Planning etc. These require a contingency of days to be planned.

**Advice & Emerging Issues** - 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 clients.

**Anti-Fraud/Probity/Investigations** - Internal audit has an important role to play in ensuring that management has effective systems in place to detect and prevent corrupt practices within the Council. Internal audit's role includes promoting anti-fraud best practice, testing and monitoring systems through probity work and advising on change where it is needed. Internal Audit also 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).

**Follow-up Audits** - Internal Audit is committed towards ensuring that control improvements are achieved and all agreed actions are acted upon. 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 2017-18 Audit Plan will need to be concluded in 2018-19.



## Appendix A - Audit Plan Detail

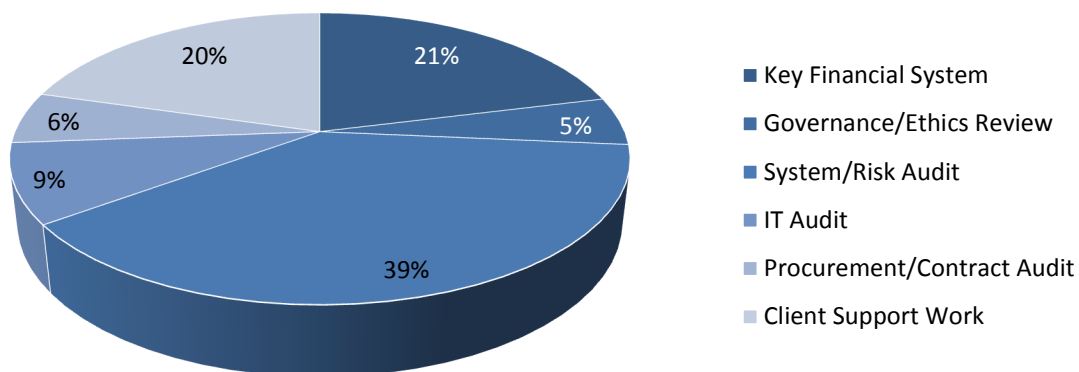
Our risk assessment of the organisation activities, in consultation with senior management, has concluded that the following audits will be undertaken in 2018-19:

| Audit Plan Assignments                             | Risk Rating | Indicative Quarter |
|--|-------------|--------------------|
| <b>Key Financial Systems Reviews</b>               |             |                    |
| Treasury Management                                | High        | Q4                 |
| Insurance  | Medium      | Q1                 |
| Payroll  | High        | Q3/Q4              |
| Creditors  | High        | Q3/Q4              |
| Council Tax  | High        | Q4                 |
| NDR  | High        | Q4                 |
| Housing Benefit & Council Tax Support              | High        | Q3                 |
| <b>Governance/Ethics Reviews</b>                   |             |                    |
| Data Protection & Freedom of Information           | Medium      | Q2                 |
| Corporate Governance                               | Medium      | Q3/Q4              |
| <b>System/Risk Reviews</b>                         |             |                    |
| Records Management                                 | Medium      | Q2                 |
| Waste Management                                   | High        | Q1                 |
| Fleet Management                                   | Medium      | Q4                 |
| Street Cleansing                                   | Medium      | Q1/Q2              |
| Section 106 Agreements                             | Medium      | Q1                 |
| Development Control                                | Medium      | Q3                 |
| Pollution Control                                  | Medium      | Q1                 |
| Food Safety  | Medium      | Q4                 |
| Sport & Health Funding                             | Medium      | Q4                 |
| Rosliston Forestry Centre                          | High        | Q3                 |
| Gas/Electric/Asbestos/Legionella/Fire Inspections  | High        | Q1/Q2              |
| Allocations & Homelessness                         | Medium      | Q2                 |
| Sheltered Housing / Careline                       | Medium      | Q2                 |
| Community Safety Partnership                       | Medium      | Q1                 |
| <b>IT Audit Reviews</b>                            |             |                    |
| PCI Compliance                                     | Medium      | Q2/Q3              |
| IT Applications                                    | High        | Q3                 |
| IT Infrastructure                                  | High        | Q3                 |
| <b>Procurement/Contract Reviews</b>                |             |                    |
| Capital Programme                                  | Medium      | Q3                 |
| Housing Repairs (Planned & Responsive Maintenance) | High        | Q2/Q3              |

The detailed scopes of each audit assignment will be agreed with the relevant managers nearer the commencement of the audit.



### Audit Plan 2018-19 per Type of Audit



## Appendix B - Audit Charter

### Purpose & Mission

The purpose of the Council's internal audit service is to provide independent, objective assurance and consulting services designed to add value and improve the Council's operations. The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. The internal audit service helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

### Standards for the Professional Practice of Internal Auditing

The internal audit service will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Audit Manager will report periodically to **senior management**<sup>1</sup> and the **Board**<sup>2</sup> regarding the internal audit service's conformance to the Code of Ethics and the Standards.

### Authority

The Audit Manager will report functionally to the Audit Sub-Committee and administratively (i.e., day-to-day operations) to the Strategic Director (Corporate Resources). To establish, maintain, and assure that the Council's internal audit service has sufficient authority to fulfil its duties, the Audit Sub-Committee will:

- Approve the internal audit service's charter.
- Approve the risk-based internal audit plan.
- Approve the internal audit service's budget and resource plan.
- Receive communications from the Audit Manager on the internal audit service's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the Audit Manager to determine whether there is inappropriate scope or resource limitations.
- The Audit Manager will have unrestricted access to, and communicate and interact directly with, the Audit Sub-Committee, including in private meetings without management present.

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<sup>1</sup> The PSIAS defines **senior management** as "Those responsible for the leadership and direction of the Council" which in this instance is the Council's **Senior Management Team**.

<sup>2</sup> The Standards require that Internal Audit report to the **Board**. CIPFA have via the Public Sector Internal Audit Standards (PSIAS) Guidelines, determined that 'Board' may refer to an audit committee to which the governing body has delegated certain functions. In this instance this would be the **Audit Sub-Committee**.

The Audit Sub-Committee authorises the internal audit service to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of the Council, as well as other specialised services from within or outside the Council, in order to complete the engagement.

## Independence & Objectivity

The Audit Manager will ensure that the internal audit service remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Audit Manager determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for the Council or its affiliates.
- Initiating or approving transactions external to the internal audit service.
- Directing the activities of any Council employee not employed by the internal audit service, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Audit Manager has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.

- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Audit Manager will confirm to the Audit Sub-Committee, at least annually, the organisational independence of the internal audit service.

The Audit Manager will disclose to the Audit Sub-Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

## Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Sub-Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the Council. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of the Council's strategic objectives are appropriately identified and managed.
- The actions of the Council's officers, directors, employees, and contractors are in compliance with the Council's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Council.
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Audit Manager will report periodically to senior management and the Audit Sub-Committee regarding:

- The internal audit service's purpose, authority, and responsibility.
- The internal audit service's plan and performance relative to its plan.
- The internal audit service's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Sub-Committee.
- Results of audit engagements or other activities.
- Resource requirements.

- Any response to risk by management that may be unacceptable to the Council.

The Audit Manager also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit service may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit service does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

## Responsibility

The Audit Manager has the responsibility to:

- Submit, at least annually, to senior management and the Audit Sub-Committee a risk-based internal audit plan for review and approval.
- Communicate to senior management and the Audit Sub-Committee the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in the Council's business, risks, operations, programmes, systems, and controls.
- Communicate to senior management and the Audit Sub-Committee any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit Sub-Committee any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit service collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact the Council are considered and communicated to senior management and the Audit Sub-Committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit service.

- Ensure adherence to the Council's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit Sub-Committee.
- Ensure conformance of the internal audit service with the Standards, with the following qualifications:
  - If the internal audit service is prohibited by law or regulation from conformance with certain parts of the Standards, the Audit Manager will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
  - When the Standards are used in conjunction with requirements issued by CIPFA, the Audit Manager will ensure that the internal audit service conforms with the Standards, even if the internal audit service also conforms with the more restrictive requirements of CIPFA.

## Quality Assurance & Improvement Programme (QAIP)

The internal audit service will maintain a quality assurance and improvement programme that covers all aspects of the internal audit service. The program will include an evaluation of the internal audit service's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit service and identify opportunities for improvement.

The Audit Manager will communicate to senior management and the Audit Sub-Committee on the internal audit service's quality assurance and improvement programme, including results of internal assessments (both on-going and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Council.



Central Midlands  
Audit Partnership