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Our ref: DT/CL

Your ref:

Date: 10<sup>th</sup> December 2013

Dear Councillor,

### **Audit-Sub Committee**

A Meeting of the **Audit-Sub Committee** will be held in the **Committee Room**, on **Wednesday, 18 December 2013 at 16:00**. You are requested to attend.

Yours faithfully,

Chief Executive

To:- **Conservative Group**  
Councillor Harrison (Chairman), Councillor Ford (Vice-Chairman) and  
Councillor Mrs. Hood.

**Labour Group**  
Councillors Dunn and Shepherd.



## AGENDA

### Open to Public and Press

- 1 Apologies
- 2 To confirm the Open Minutes of the Committee Meeting held on 25th September 2013
- 3 To note any declarations of interest arising from any items on the Agenda
- 4 To receive any questions by members of the public pursuant to Council Procedure Rule No.10.
- 5 To receive any questions by Members of the Council pursuant to Council procedure Rule No. 11.
- 6 Internal Audit - Quarterly Progress Report **3 - 22**
- 7 Public Sector Internal Audit Standards - Proposed Audit Charter **23 - 35**
- 8 Public Sector Internal Audit Standards - Quality Assurance & Improvement Programme **36 - 54**
- 9 Local Code of Corporate Governance – Review of Work Plan 2013/14 **55 - 59**

### Exclusion of the Public and Press:

- 10 The Chairman may therefore move:-  
That in accordance with Section 100 (A) of the Local Government Act 1972 the press and public be excluded from the remainder of the Meeting as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that there would be disclosed exempt information as defined in the paragraph of Part I of the Schedule 12A of the Act indicated in the header to each report on the Agenda.
- 11 To receive any Exempt questions by Members of the Council pursuant to Council procedure Rule No. 11.  
Details

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<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 6</b>
<b>DATE OF MEETING:</b>	<b>18th DECEMBER 2013</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE and CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:kevin.stackhouse@south-derbys.gov.uk">kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/internal audit/quarterly reports/cover
<b>SUBJECT:</b>	<b>INTERNAL AUDIT - QUARTERLY PROGRESS REPORT</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 02</b>

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## **1.0 Recommendations**

1.1 That the report of the Audit Manager is considered and any issues identified are referred to the Finance and Management Committee or subject to a follow-up report as appropriate.

## **2.0 Purpose of Report**

2.1 To provide an update on progress against the approved Internal Audit Plan. This details the performance and activity of Internal Audit between 1<sup>st</sup> September 2013 and 30th November 2013.

## **3.0 Detail**

3.1 The detailed report is attached.

## **4.0 Financial Implications**

4.1 None directly.

## **5.0 Corporate Implications**

5.1 None directly.

## **6.0 Community Implications**

6.1 None directly.

## **7.0 Background Papers**

7.1 None

# South Derbyshire District Council – Internal Audit Progress Report

Audit Sub-Committee: 18<sup>th</sup> December 2013



## 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

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## Contents

## Page

Summary	3
Audit Coverage	4
Audit Performance	11
Recommendation Tracking	14



# South Derbyshire District Council – Internal Audit Progress Report

## Summary

### Role of Internal Audit

The Internal Audit Service for South Derbyshire District Council is now provided by the Central Midlands Audit Partnership (CMAP). The Partnership operates in accordance with standards of best practice applicable to Internal Audit (in particular, the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006). CMAP also adheres to the Internal Audit Terms of Reference.

The role of internal audit is to provide independent assurance that the organisation's risk management, governance and internal control processes are operating effectively.

### Recommendation Ranking

To help management schedule their efforts to implement our recommendations or their alternative solutions, we have risk assessed each control weakness identified in our audits. For each recommendation a judgment was made on the likelihood of the risk occurring and the potential impact if the risk was to occur. From that risk assessment each recommendation has been given one of the following ratings:

- Critical risk.
- Significant risk.
- Moderate risk
- Low risk.

These ratings provide managers with an indication of the importance of recommendations as perceived by Audit; they do not form part of the risk management process; nor do they reflect the timeframe within which these recommendations can be addressed. These matters are still for management to determine.

### Control Assurance Definitions

Summaries of all audit reports are to be reported to Audit Sub Committee together with the management responses as part of Internal Audit's reports to Committee on progress made against the Audit Plan. All audit reviews will contain an overall opinion based on the adequacy of the level of internal control in existence at the time of the audit. This will be graded as either:

- **None** - We are not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks were not being well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
- **Limited** - We are able to offer limited assurance in relation to the areas reviewed and the controls found to be in place. Some key risks were not well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
- **Reasonable** - We are able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks were well managed, but some systems required the introduction or improvement of internal controls to ensure the achievement of objectives.
- **Comprehensive** - We are able to offer comprehensive assurance as the areas reviewed were found to be adequately controlled. Internal controls were in place and operating effectively and risks against the achievement of objectives were well managed.

This report rating will be determined by the number of control weaknesses identified in relation to those examined, weighted by the significance of the risks. Any audits that receive a None or Limited assurance assessment will be highlighted to the Audit Sub-Committee in Audit's progress reports.

## South Derbyshire District Council – Internal Audit Progress Report

### Audit Coverage

#### Progress on Audit Assignments

The following table provide Audit Sub-Committee with information on how audit assignments were progressing as at 30<sup>th</sup> November 2013.

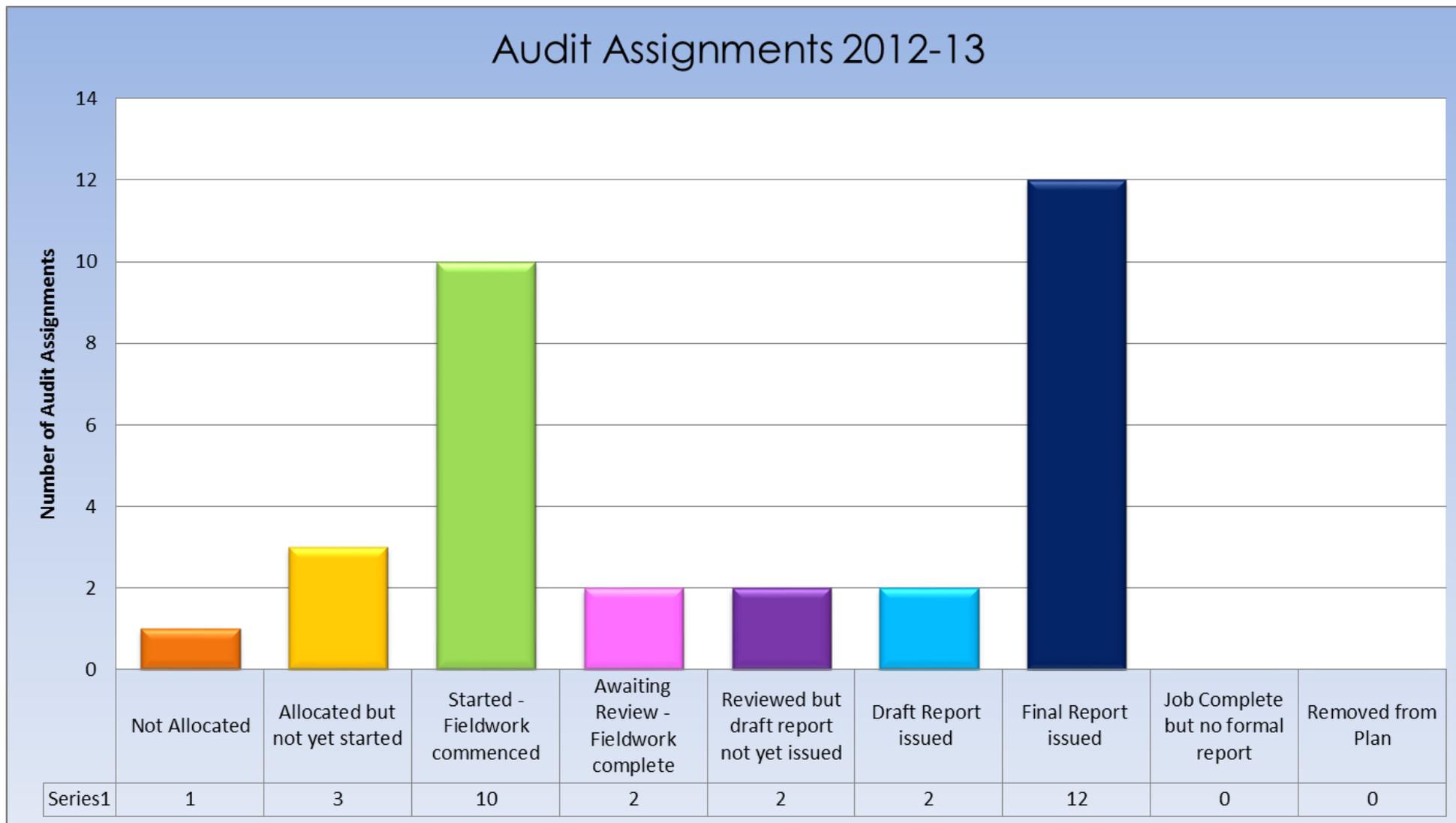
2013-14 Audit Plan Assignments	Type of Audit	Current Status	% Complete
Main Accounting System 2013-14	Key Financial System	In Progress	20%
Treasury Management 2013-14	Key Financial System	Not Allocated	0%
Capital Programme	Systems/Risk Audit	Awaiting Review	80%
VAT	Systems/Risk Audit	Final Report	100%
Council Tax / NNDR / Cashiering 2013-14	Key Financial System	In Progress	50%
Housing & Council Tax Benefit 2013-14	Key Financial System	In Progress	15%
Payroll / Officers Expenses & Allowances 2013-14	Key Financial System	Awaiting Review	80%
Creditors / Debtors 2013-14	Key Financial System	In Progress	30%
Procurement (Contracts Register)	Procurement/Contract Audit	Final Report	100%
People Management	Systems/Risk Audit	Final Report	100%
Corporate Governance	Governance Review	Final Report	100%
Virtualisation Management	IT Audit	In Progress	75%
Orchard IT Security	IT Audit	Allocated	5%
Client Monitoring - Corporate Services Contract	Systems/Risk Audit	Draft Report	95%
Data Protection & Freedom of Information	Governance Review	Allocated	5%
Records Management	Governance Review	Reviewed	90%
Data Quality 2013-14	Governance Review	In Progress	70%
Business Continuity & Emergency Planning	Governance Review	Allocated	0%
Fixed Assets 2013-14	Key Financial System	In Progress	75%
Leisure Centres	Systems/Risk Audit	Final Report	100%
Rent Accounting 2013-14	Systems/Risk Audit	In Progress	75%
Tenants Arrears	Systems/Risk Audit	In Progress	75%
Housing Allocations 2013-14	Systems/Risk Audit	Final Report	100%
Tender Receipt & Opening	Investigation	Final Report	100%
B/Fwd - Treasury Management / Insurance 2012-13	Key Financial System	Draft Report	95%
B/Fwd - Payroll 2012-13	Key Financial System	Final Report	100%
B/Fwd - Post Implementation Review - Agresso Upgrade	IT Audit	Final Report	100%
B/Fwd - Email & Internet Services Health-check	IT Audit	In Progress	70%
B/Fwd - Service Contracts	Procurement/Contract Audit	Reviewed	90%

Three assignments (not shown above) were finalised and reported upon at the June and September 2013 Audit Sub-Committee meetings.

# South Derbyshire District Council – Internal Audit Progress Report

## Audit Coverage

Progress on Audit Assignments Chart



# South Derbyshire District Council – Internal Audit Progress Report

## Audit Coverage

### Completed Audit Assignments

Between 1<sup>st</sup> September 2013 and 30<sup>th</sup> November 2013, the following audit assignments have been finalised since the last Progress Report was presented to this Committee:

- VAT.
- Procurement (Contracts Register).
- People Management 2013-14.
- Corporate Governance.
- Leisure Centres.
- Housing Allocations.
- Tender Receipt & Opening.
- Payroll 2012-13.
- Post Implementation Review – Agresso Upgrade.

The following paragraphs summarise the internal audit work completed in the period.

#### VAT

Overall Control Assurance Rating: **Comprehensive**

This audit focused on Governance and Risk issues in relation to VAT and the processes involved to complete and submit the monthly VAT and CIS Returns. We also examined the method used by the Council to monitor and report on Partial Exemption.

From the 29 key controls evaluated in this audit review, 25 were considered to provide adequate control and 4 contained weaknesses. The report contained 4 recommendations, all 4 of which were considered a low risk. The following issues were considered to be the key control weaknesses:

- The Finance Office retained just one user ID, password and PIN to access the HMRC online registry system to submit VAT returns. The

user ID, password and log on information was held in a file on a shelf in the main finance office. (Low Risk)

- Four key access credentials required to submit an online VAT return were insecurely held together against written instructions from the Government Gateway in a file marked 'VAT' held on an open shelf in the main finance office. (Low Risk)
- The working papers supporting the CIS return were not being signed and dated by the officer responsible for preparing them. (Low Risk)
- The completion of the CIS return was performed by just one officer without it being subject to review by another officer. To compound this weakness, the payment to the HMRC was also being raised by this same officer, which was being approved for payment without the supporting information being examined. (Low Risk)

All 4 recommendations were accepted and 3 of these have already been implemented at the time of issuing the audit report with the fourth planned for implementation on 1st October 2013.

#### Procurement (Contracts Register)

Overall Control Assurance Rating: **Reasonable**

This audit focused on reviewing the Contracts Register maintained by Procurement to provide assurance that systems were operating effectively and providing an acceptable level of control in order to satisfy the requirements of the Audit Sub-Committee and External Audit.

From the 25 key controls evaluated in this audit review, 9 were considered to provide adequate control and 16 contained weaknesses. The report contained 8 recommendations, 5 were considered a low risk and 3 a moderate risk. The following issues were considered to be the key control weaknesses:

- Procurement did not have a formal Contracts Register, while certain records in place record the level of detail required for such a

## South Derbyshire District Council – Internal Audit Progress Report

register, these were considerably out-of-date and did not completely fulfil the purpose of a Contracts Register. (Moderate Risk)

- Systems and procedures were not in place for managing the Contracts Register. (Low Risk)
- Exemption Procedures from Version 1.1 of the Contract Procedure Rules had been removed from Version 1.2, in the January 2013 update. (Low Risk)
- Systems and procedures were not in place for monitoring Procurement activity against the Contracts Register. (Low Risk)
- Only 2 out of 11 forms used in Procurement processes contained issue dates and version control. (Low Risk)
- Procurement were undertaking tender exercises without a duly authorised Pre Procurement Analysis form giving the go ahead from the Council for the procurement exercise to commence. (Moderate Risk)
- Procurement Checklists were not being completed to ensure that the required procurement processes were being undertaken. (Moderate Risk)
- Sections of the Permission to Set up a New Supplier form and the New Supplier Request form were being regularly missed by officers completing these forms and it was found that they added no real value to the process. (Low Risk)

All 8 control issues raised within this report were accepted and positive action was agreed to be taken to address all issues. Positive action in respect of 2 recommendations was due to be taken by 1<sup>st</sup> October 2013 with a further recommendation due to be addressed by 1<sup>st</sup> November 2013. Another 2 recommendations were due to be implemented by 1<sup>st</sup> December 2013 with the remaining 3 recommendations due to be addressed by 1<sup>st</sup> March 2014.

### People Management 2013-14

Overall Control Assurance Rating: **Reasonable**

This audit focused on the operation of the Attendance Management Procedure and the application of the Trade Union Facilities agreement.

From the 18 key controls evaluated in this audit review, 10 were considered to provide adequate control and 5 contained weaknesses. The report contained 5 recommendations, 4 were considered a low risk and 1 a moderate risk. The following issues were considered to be the key control weaknesses:

- The most commonly used category for recording absence in the MyView system was 'other'. (Low Risk)
- Whilst trigger points were available, there was no mechanism to confirm their use by managers as part of the absence management procedure. Reports of the numbers of trigger points being reached were not available to senior managers. (Low Risk)
- There was no consistency in how management was applying the absence monitoring policy. (Moderate Risk)
- There was no monitoring of the facilities granted to trade union representatives and thus no assurance that the agreed levels were being adhered to. (Low Risk)
- The Council had not addressed the areas for savings detailed in the DCLG document 'Taxpayer funding of Trade Unions'. (Low Risk)

All 5 of the control issues raised within this report were accepted and positive action was agreed to be taken to address 1 issue by 31<sup>st</sup> January 2014, 3 of the issues by 31<sup>st</sup> March 2014 with the remaining issue to be addressed by 31<sup>st</sup> August 2014.

### Corporate Governance

Overall Control Assurance Rating: **Comprehensive**

This audit focused on ensuring that the Council's governance arrangements were in line with the amended Local Code of Governance and were being reviewed regularly by Management.

## South Derbyshire District Council – Internal Audit Progress Report

From the 34 key controls evaluated in this audit review, 29 were considered to provide adequate control and 5 contained weaknesses. The report contained 4 recommendations, all 4 of which were considered a low risk. The following issues were considered to be the key control weaknesses:

- Key policy and procedural guidance documentation did not have version control included. (Low Risk)
- The Member and Officer Relations protocol document did not include the responsibility of officers to provide training and development to Members and to respond in a timely manner to queries raised by Members. The document had not been reviewed since 2003. (Low Risk)
- The record of gifts and hospitality area of the Members' pages on the Council's website was unpopulated. (Low Risk)
- The Council's Anti-Fraud and Corruption Policy made reference to Criminal Records Bureau (CRB) checks, which have recently been replaced. (Low Risk)

All 4 of the issues raised were accepted and actions were agreed to address 2 control weaknesses by 1<sup>st</sup> December 2013, another by 1<sup>st</sup> January 2014 and the remaining action was to be taken by 1<sup>st</sup> February 2014.

### Leisure Centres

Overall Control Assurance Rating: **Reasonable**

This audit focused on reviewing the performance of the Leisure Centres, the information that was reported to South Derbyshire District Council and the Joint Management Committee and the management sum that was paid to Active Nation. We reviewed the delivery of the service in the context of the Leisure Management Contract.

From the 19 key controls evaluated in this audit review, 7 were considered to provide adequate control and 12 contained weaknesses. The report contained 10 recommendations, 8 were considered a low risk and 2 a moderate risk. The following issues were considered to be the key control weaknesses:

- The Leisure Management Contract was in draft form, despite Active Nation being in the third year of service delivery. (Moderate Risk)
- A number of issues were identified with the performance measures and indicators and as a result, performance was not being monitored in line with the contract. (Low Risk)
- Reports to the Council had not been provided in line with contractual requirements. The monthly Impact Reports contained too much details and it was not clear which data referred to the contractual performance measures. (Low Risk)
- Some data within the Impact Report for April 2012 was found to be inaccurate. Active Nation had not documented the methodology for calculating the performance figures or the source of data. There was a lack of internal checks at Active Nation on the reported figures and methods of calculation. Where data was incorrect, it had not been amended in the following periods. (Low Risk)
- There had been some reporting to the Council and the Joint Management Committee regarding the performance of Active Nation. The reporting was not in line with the contract, although for the JMC this was because the committee had failed to meet frequently for the last two financial years. (Low Risk)
- The Annual Performance Review had only been held for year 2 of the contract and had not been held in line with the timelines set out in the contract. (Low Risk)
- The contract set out variables which could affect the management sum payment. However, these variables had not been appropriately monitored and the payments had not been adjusted. (Moderate Risk)
- Management Sum payments had not been made to Active Nation in line with contractual requirements. (Low Risk)
- Payments made in respect of the management sum in Year 2 and Year 3 to date were not mathematically accurate and inflation had not been applied to the management sum in line with the contractual requirements. (Low Risk)

## South Derbyshire District Council – Internal Audit Progress Report

- Only the utility cost reconciliation had been provided to the Council. On review, the reconciliation did not agree to source documentation. (Low Risk)

All 10 control issues raised in this report were accepted and action was taken to address 2 of the recommendations by the time of issuing the final report, 1 recommendation was to be addressed by 25<sup>th</sup> October 2013, 3 recommendations were to be addressed by 31<sup>st</sup> October 2013 and 4 recommendations by 30<sup>th</sup> November 2013.

### Housing Allocations

Overall Control Assurance Rating: **Comprehensive**

This audit focused on the housing allocation process, to ensure that procedures are aligned to policies, procedures are being followed in practice and to identify any areas for improvement.

From the 23 key controls evaluated in this audit review, 20 were considered to provide adequate control and 3 contained weaknesses. The report contained 4 recommendations, all 4 of which were considered a low risk. The following issues were considered to be the key control weaknesses:

- The Homefinders guidance informed applicants who disagreed with the banding allocated to them, that there was a Right to a Review leaflet, but no such document existed. (Low Risk)
- A lack of control over tenancy bid documentation meant that a bid could accidentally, or even deliberately not be input to the system. (Low Risk)
- Unsuccessful applicants are not notified of the reason why their bids for tenancies have failed. Without knowing why they have been unsuccessful, applicants may continue to bid for inappropriate properties. (Low Risk)
- Information published on the Council's website showed data relating to property lettings which was six months out-of-date. (Low Risk)

All 4 of the control issues raised within this report were accepted and positive action had already been taken to address 1 of the

recommendations by the time of issuing the final report, 1 was to be addressed by 1<sup>st</sup> November 2013, and the remaining two were to be addressed by 1<sup>st</sup> February 2014.

### Tender Receipt & Opening

Overall Control Assurance Rating: **N/A**

We were asked to examine the tender receipt and opening process which failed to evaluate 3 tenders that should have been considered.

We concluded that the error occurred through a combination of procedural weaknesses and employee error. The following issues were considered to be the key control weaknesses:

- There were no working instructions for the tender receipt and opening process. (Moderate Risk)
- The officer managing the receipt of tenders had not left instructions with any other officer(s) as to the required protocol for dealing with tender envelopes, despite being out of the office (working from home) the final day the tenders were due to be returned. (Moderate Risk)
- Officers were not formally recording the date and time of receipt on tender envelopes. (Moderate Risk)
- Democratic Services were recording the time they took possession of tender envelopes on the List of Tenders Received form and not the time they had actually been received by the Council. Furthermore, details of the information recorded on this form were not being relayed to the officers at the tender opening. (Low Risk)
- Reception had not been informed that tenders were due to be received by the Council and/or given a contact name. Furthermore, records did not identify who collected the tender envelopes from reception. (Low Risk)
- Tender envelopes were not being securely stored with access restricted to designated officers. (Low Risk)

All 6 control issues raised in this report were accepted and action was to be taken to address all 6 control weaknesses by 31<sup>st</sup> January 2014 when a new e-tendering system is implemented.

## South Derbyshire District Council – Internal Audit Progress Report

### Payroll 2012-13

Overall Control Assurance Rating: **Comprehensive**

This audit focused on the processes related to the claiming and payment of officer expenses & overtime.

From the 10 key controls evaluated in this audit review, 8 were considered to provide adequate control and 2 contained weaknesses. The report contained 2 recommendations, both of which were considered a low risk. The following issues were considered to be the key control weaknesses:

- Overtime claims were not being subjected to rigorous checks by management and payroll, prior to payment. (Low Risk)
- Mileage claims were not being subjected to rigorous checks by management and payroll, prior to payment. (Low Risk)

Both of the control issues raised within this report were accepted and positive action was agreed to be taken to address the issues by 31<sup>st</sup> October 2013.

### Post Implementation Review – Agresso Upgrade

Overall Control Assurance Rating: **Reasonable**

This audit focused on evaluating the adequacy of the systems administration and IT security configuration of the Agresso system. Specifically, we reviewed how well protected the sensitive data was from unauthorised access and disclosure.

From the 43 key controls evaluated in this audit review, 30 were considered to provide adequate control and 13 contained weaknesses. The report contained 8 recommendations, 4 were considered a low risk, 3 a moderate risk and 1 a significant risk. The following issues were considered to be the key control weaknesses:

- We found that the roles and responsibilities for the Agresso support team had not been defined or documented. (Low Risk)

- New user and reset passwords were not created completely randomly. The reset password was often set to whatever the system administrator thought of first. (Low Risk)
- Complex account passwords and a minimum length for passwords were not enforced. Password complexity and password history parameters are vital in decreasing the successfulness of attacks on accounts, denying access to malicious users. (Moderate Risk)
- We found that the password history setting had been disabled meaning that users could use previous passwords when they are forced by the systems to change their current password. (Moderate Risk)
- We found that the Agresso system allowed users to have passwords that were the same as the account's username. (Moderate Risk)
- We found that the three servers that support Agresso, AgrBus, AgrDB and AgrWeb were missing a total of 218 security patches. This opens the servers to an array of attacks and risks. (Significant Risk)
- We found there was no archiving policy in place surrounding the retention of system documents and audit logs. (Low Risk)
- We found that insufficient audit logs were being captured. Also those audit logs that were being captured were not being reviewed on a regular basis. (Low Risk)

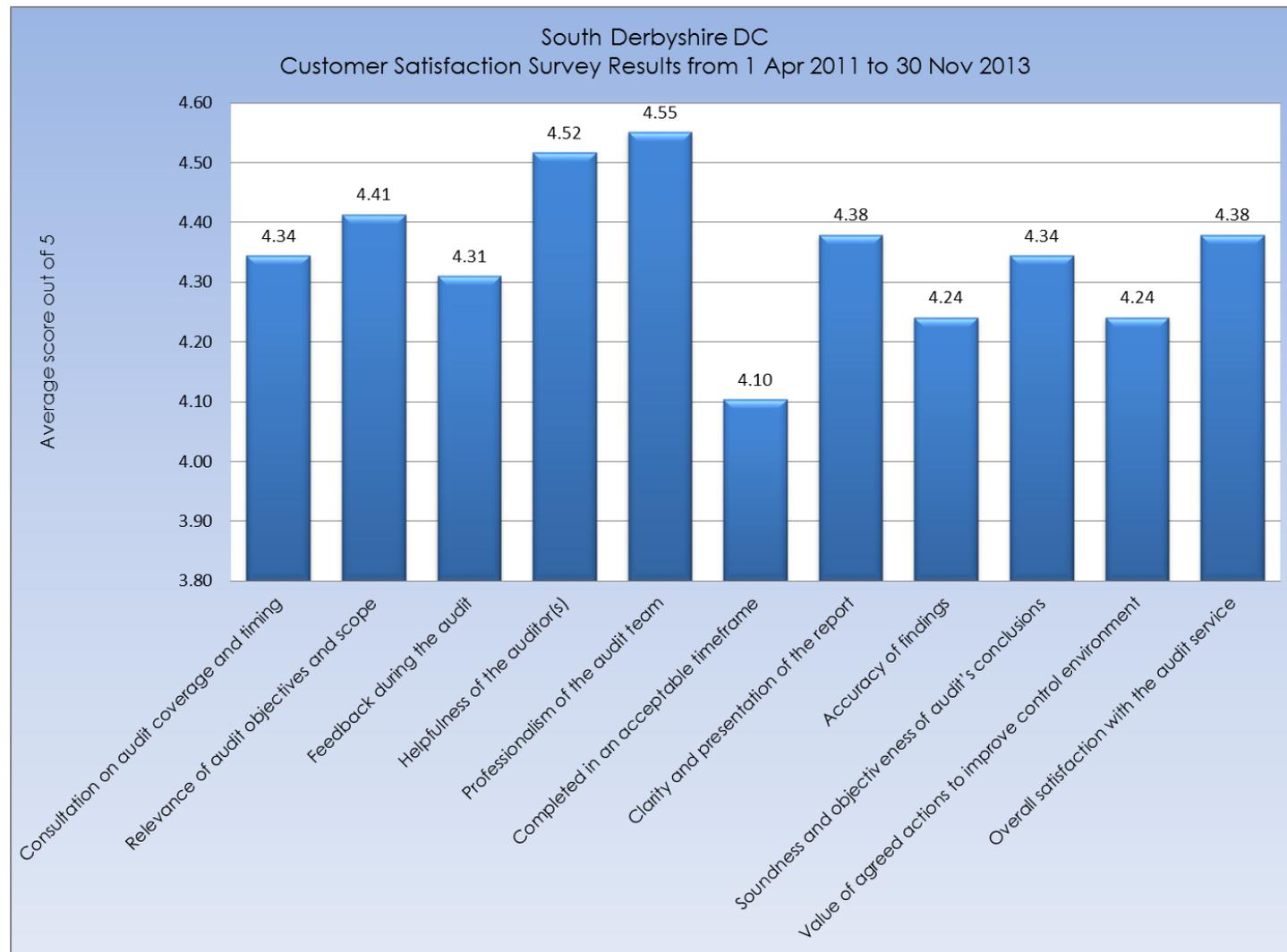
All 8 control issues raised within this report were accepted and positive action had already been taken to address 4 issues. Positive action in respect of the 4 remaining recommendations was due to be taken by 30<sup>th</sup> November 2013.

# South Derbyshire District Council – Internal Audit Progress Report

## Audit Performance

### Customer Satisfaction

The Audit Section sends out a customer satisfaction survey with the final audit report to obtain feedback on the performance of the auditor and on how the audit was received. The survey consists of 11 questions which require grading from 1 to 5, where 1 is very poor and 5 is excellent. The chart across summarises the average score for each question from the 28 responses received between 1<sup>st</sup> April 2011 and 30<sup>th</sup> November 2013. The overall average score from the surveys was 47.8 out of 55. The lowest score received from a survey was 41, whilst the highest was 55 which was achieved on 2 occasions.



# South Derbyshire District Council – Internal Audit Progress Report

## Audit Performance

### Customer Satisfaction

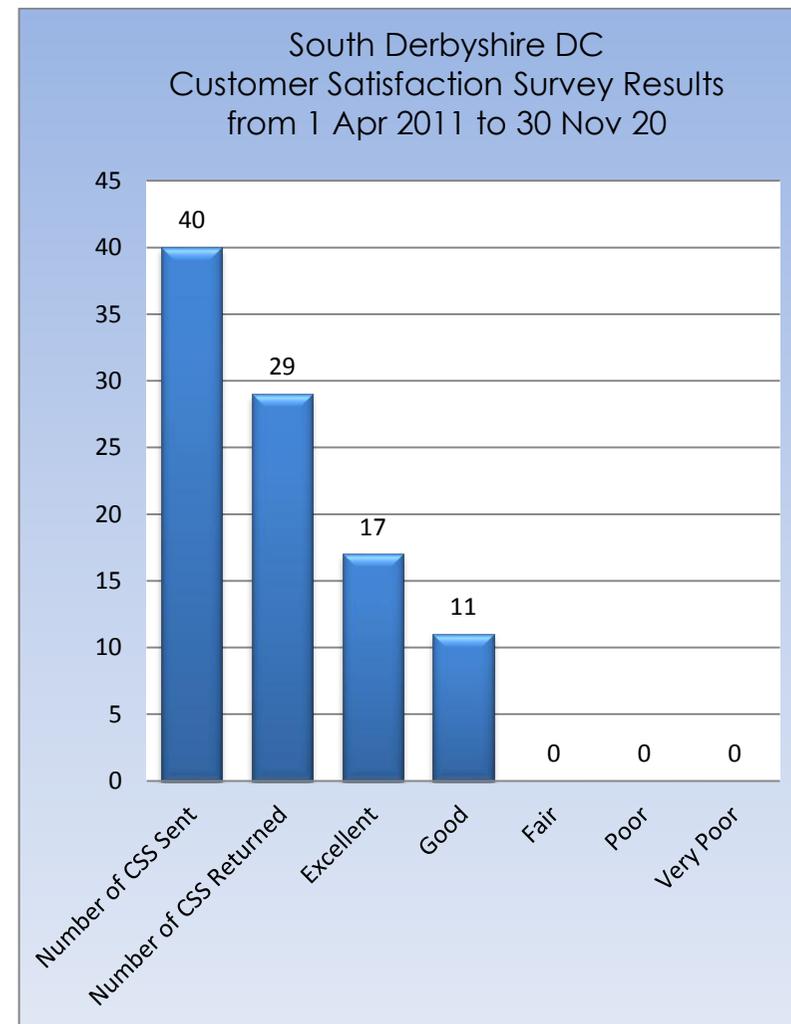
Since 1<sup>st</sup> April 2011, we have sent 39 Customer Satisfaction Surveys (CSS) to the recipients of audit services. Of the 39 sent we have received 28 responses. The following Customer Satisfaction Surveys have yet to be returned:

Job Name	CSS Sent	Officer
Client Monitoring - Corporate Services Contract	02-Dec-13	Director of Finance & Corporate Services
Post Implementation Review - Agresso Upgrade	01-Nov-13	Financial Services Manager
Investigation - Tender Receipt & Opening	22-Oct-13	Director of Finance & Corporate Services
VAT	24-Sep-13	Financial Services Manager
Creditors/Debtors	22-Mar-13	Financial Services Manager
Accounting Systems	28-Feb-13	Financial Services Manager
Fixed Assets	15-Feb-13	Director of Finance & Corporate Services
Waste Management	18-Jan-13	Business & Recycling Manager
Health & Safety	09-Aug-12	Director of Operations
Planning Services	20-Jul-12	Development & Building Control Manager
Creditors & Debtors 2011-12	18-Jul-12	Financial Services Manager

The overall responses are graded as either:

- Excellent (scores 47 to 55)
- Good (scores 38 to 46)
- Fair (scores 29 to 37)
- Poor (scores 20 to 28)
- Very poor (scores 11 to 19)

Overall 17 of 28 responses categorised the audit service they received as excellent, another 11 responses categorised the audit as good. There were no overall responses that fell into the fair, poor or very poor categories.



# South Derbyshire District Council – Internal Audit Progress Report

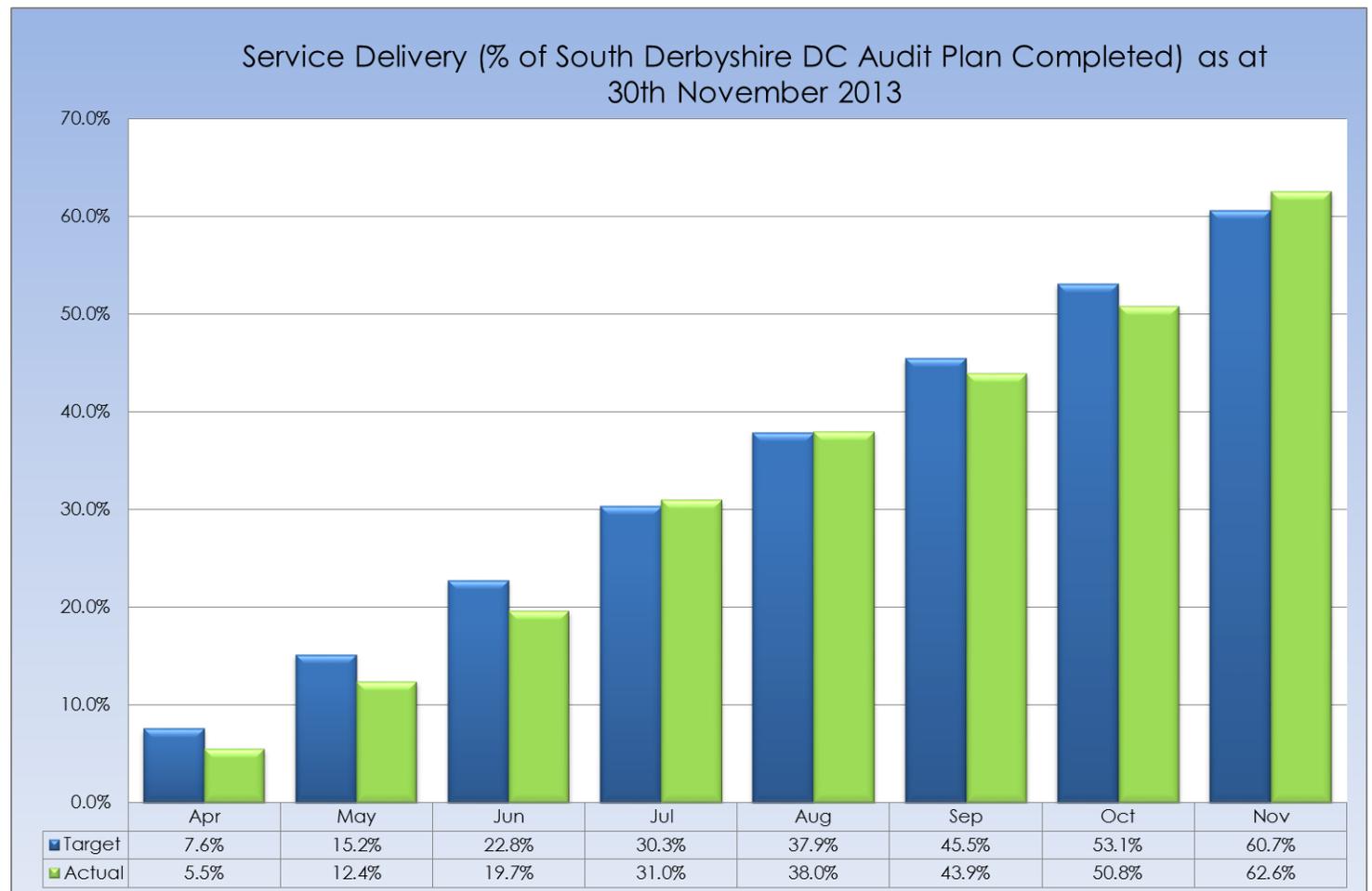
## Audit Performance

### Service Delivery (% of Audit Plan Completed)

At the end of each month, Audit staff provide the Audit Manager with an estimated percentage complete figure for each audit assignment they have been allocated. These figures are used to calculate how much of each Partner organisation's Audit Plans have been completed to date and how much of the Partnership's overall Audit Plan has been completed.

Shown across is the estimated percentage complete for South Derbyshire's 2013-14 Audit Plan (including incomplete jobs brought forward) after 2 months of the Audit Plan year.

The monthly target percentages are derived from equal monthly divisions of an annual target of 91% and do not take into account any variances in the productive days available each month.



# South Derbyshire District Council – Internal Audit Progress Report

## Recommendation Tracking

### Follow-up Process

Internal Audit sends emails, automatically generated by our recommendations database, to officers responsible for action where their recommendations' action dates have been exceeded. We request an update on each recommendation's implementation status, which is fed back into the database, along with any revised implementation dates.

Prior to the Audit Sub-Committee meeting we will provide the relevant Senior Managers with details of each of the recommendations made to their divisions which have yet to be implemented. This is intended to give them an opportunity to provide Audit with an update position.

Each recommendation made by Internal Audit will be assigned one of the following "Action Status" categories as a result of our attempts to follow-up management's progress in the implementation of agreed actions. The following explanations are provided in respect of each "Action Status" category:

- **Blank** = Audit have been unable to ascertain any progress information from the responsible officer or it has yet to reach its agreed implementation date.
- **Implemented** = Audit has received assurances that the agreed actions have been implemented.
- **Superseded** = Audit has received information about changes to the system or processes that means that the original weaknesses no longer exist.
- **Risk Accepted** = Management has decided to accept the risk that Audit has identified and take no mitigating action.
- **Being Implemented** = Management is still committed to undertaking the agreed actions, but they have yet to be completed. (This category should result in a revised action date).

### Implementation Status Details

The table below is intended to provide members with an overview of the current implementation status of all agreed actions to address the control weaknesses highlighted by audit recommendations that have passed their agreed implementation dates.

	Implemented	Being implemented	Risk Accepted	Superseded	Due, but unable to obtain progress information	Hasn't reached agreed implementation dates	Total
Low Risk	130	15	3	0	0	14	<b>162</b>
Moderate Risk	32	3	0	0	0	4	<b>39</b>
Significant Risk	8	0	1	0	0	0	<b>9</b>
Critical Risk	0	0	0	0	0	0	<b>0</b>
	<b>170</b>	<b>18</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>18</b>	<b>210</b>

The table below shows those recommendations not yet implemented by Dept.

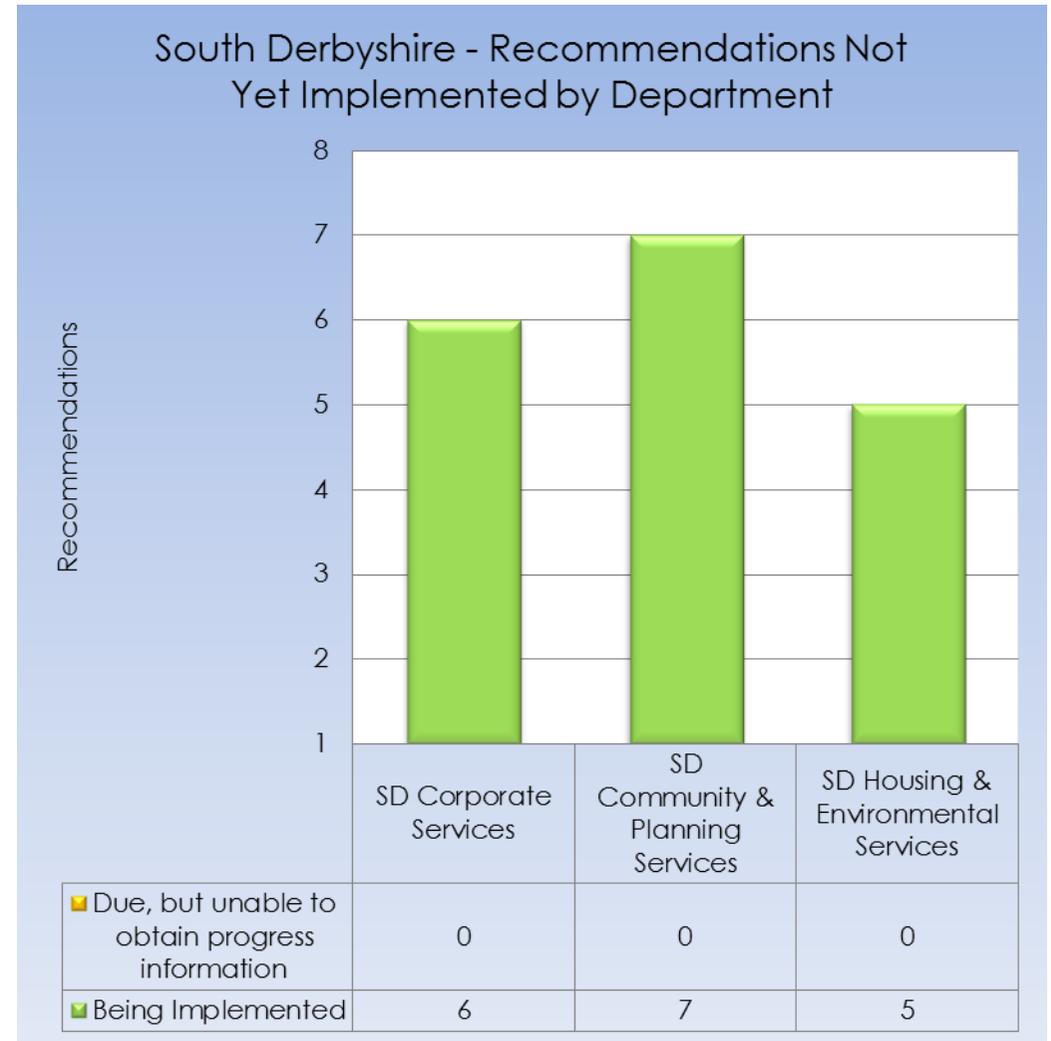
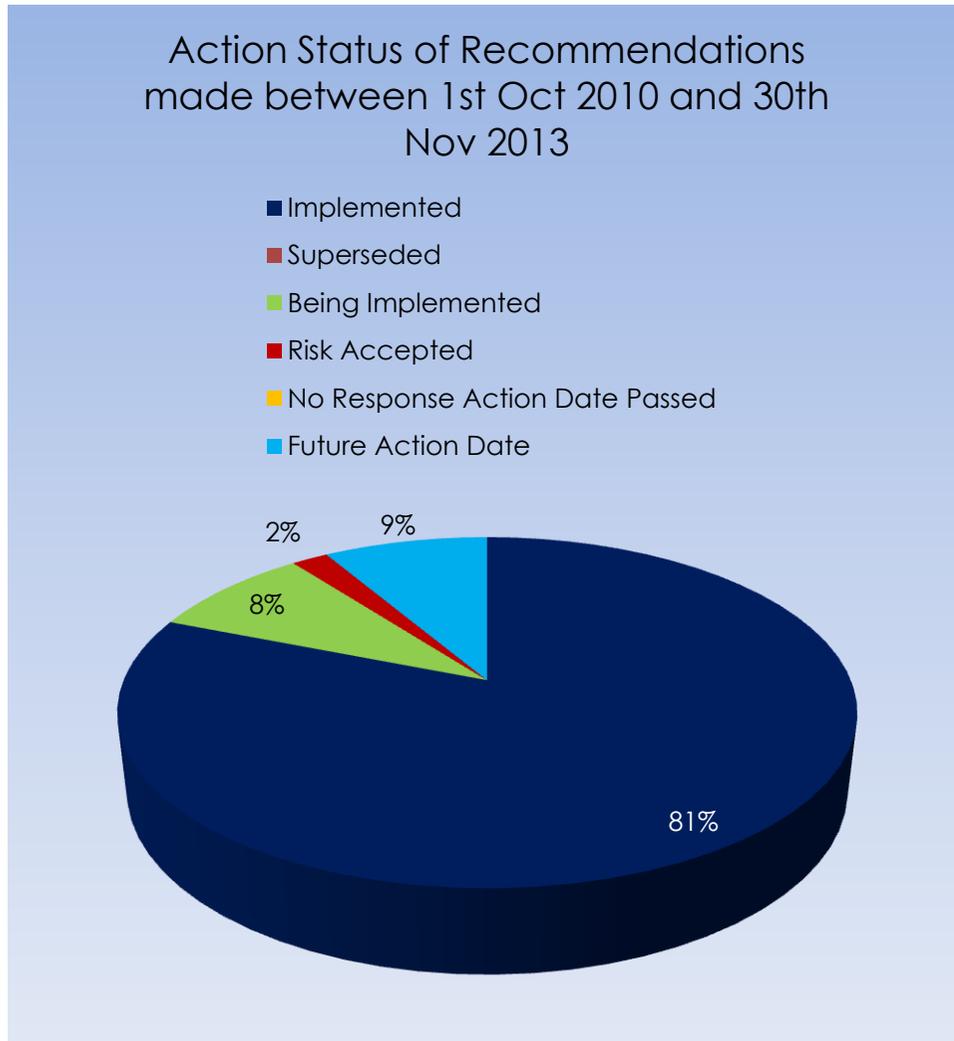
Recommendations Not Yet Implemented	Corporate Services	Community & Planning Services	Housing & Environmental Services	TOTALS
Being implemented	6	7	5	<b>18</b>
Due, but unable to obtain progress information	0	0	0	<b>0</b>
	<b>6</b>	<b>7</b>	<b>5</b>	<b>18</b>

Internal Audit has provided Committee with summary details of those recommendations still in the process of 'Being Implemented' and those that have passed their due date for implementation. We will provide full details of each recommendation where management has decided not to take any mitigating actions (shown in the 'Risk Accepted' category above). The 4 recommendations shown above, where management has chosen to accept the risk, have already been reported to this Committee.

# South Derbyshire District Council – Internal Audit Progress Report

## Recommendation Tracking

### Implementation Status Charts



## South Derbyshire District Council – Internal Audit Progress Report

### Recommendation Tracking

#### Recommendations Not Yet Implemented

##### Corporate Services

###### Car Allowances

**Control Issue** - A neighbouring Authority has revised its car user allowance scheme and introduced a new scheme which has removed the essential user lump sum and pays one mileage rate to both types of user. This will enable the Authority to make significant savings in future years.

**Risk Rating** – Low Risk

**Status Update** - Following the Budget Round for 2013/14 and the recent Council Restructure, it is anticipated that the Single Status Steering Group will be reconvened later in 2013. This item will be considered, as planned, as part of the pay and grading review. However, any proposals are unlikely to be implemented this financial year.

**Original Action Date** 30 Jun 11      **Revised Action Date** 31 Mar 14

###### Risk Management

**Control Issue** - There was not a documented policy or procedure for reporting and management of incidents.

**Risk Rating** – Low Risk

**Status Update** – The Director of Finance and Corporate Services stated on 20 November 2013 that a procedure is currently being drawn up for implementation relating to the reporting and investigation of Health/Safety/Security incidents and near misses. This will be completed by January 2014. This will then be expanded to include property and data incidents by February 2014.

**Original Action Date** 31 Mar 13      **Revised Action Date** 28 Feb 14

###### Council Tax / NNDR / Cashiering 2012-13

**Control Issue** - The safe could be accessed by any one of several officers, with no single officer being accountable for the safe contents.

**Risk Rating** – Low Risk

**Status Update** - A tamper proof book is now used into which the contents of the safe and cash bags are logged. The remaining proposals would mean someone staying on beyond their contracted hours to deal with the close of business work. We will look at allowing a bit of time beyond closure time for taking payments to then deal with the end of day stuff.

**Original Action Date** 15 Jul 13      **Revised Action Date** 15 Apr 14

###### Legal & Democratic Services

**Control Issue** - Purchase orders were not being raised for goods and services required in respect of running the election.

**Risk Rating** – Low Risk

**Status Update** - Going forward we will now be raising purchase orders for all ordering. This was not undertaken for the County Council elections but will be undertaken going forward. The Elections process has recently been subject to an independent review commissioned by the Chief Executive. Changes to reporting lines have been made and a report will be considered by the Finance and Management Committee.

**Original Action Date** 30 Nov 12      **Revised Action Date** 31 Mar 14

# South Derbyshire District Council – Internal Audit Progress Report

## Housing & Council Tax Benefit 2012-13

**Control Issue** – The business continuity plan was still in development and the Council was not protected against the effects of failure of a proprietary system.

**Risk Rating** – Low Risk

**Status Update** – request received 7 Nov 2013 to extend action by date as Northgate currently carrying out a review of the IT system DR arrangements which is due to be completed at the end of the calendar year.

**Original Action Date** 31 Oct 13      **Revised Action Date** 10 Jan 14

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## Procurement

**Control Issue** – Systems and procedures were not in place for monitoring Procurement activity against the Contracts Register.

**Risk Rating** – Low Risk

**Status Update** – All parts of this rec, but one, have been implemented. The remaining part, to publish extracts from the Contracts Register on the Council's website or intranet should be implemented by the revised date.

**Original Action Date** 1 Dec 13      **Revised Action Date** 31 Jan 14

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## Housing & Environmental Services

### Housing Allocations

**Control Issue** - A lack of control over tenancy bid documentation meant that a bid could accidentally, or even deliberately not be input to the system.

**Risk Rating** – Low Risk

**Status Update** -

**Original Action Date** 1 Nov 13      **Revised Action Date**

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## Housing Repairs

**Control Issue** - The Mutual Repairs Policy had not been established, although it was referred to in the Repairs Policy.

**Risk Rating** – Low Risk

**Status Update** - The Mutual repairs policy went to the legal team in July to check and then to the tenants forum. Hope to have the whole process wrapped up by end of August. The document will be managed by the business support unit who will undertake all consultations and the day to day operation of the policy.

**Original Action Date** 30 Jun 11      **Revised Action Date** 30 Sep 13

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## Waste Management

**Control Issue** - There was no documentation maintained on file in the form of competitor quotes which supported the negotiated, best price offered by the Council.

**Risk Rating** – Low Risk

**Status Update** - A review is to take place of the trade refuse service from a business viability viewpoint. If special rates/discounted prices are to continue within the service then there will be a robust procedure for dealing with this.

**Original Action Date** 1 Apr 13      **Revised Action Date** 28 Feb 14

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**Control Issue** - There were no documented guidelines available for employees to refer to when negotiating a special price for trade waste. This meant that decisions were based on the employees personal judgement and discretion.

**Risk Rating** – Low Risk

**Status Update** – A review is to take place of the trade refuse service from a business viability viewpoint. As a temporary measure, staff have been instructed to only arrange new trade refuse contracts on our current fixed charge and that no special rates will be negotiated.

**Original Action Date** 1 Apr 13      **Revised Action Date** 28 Feb 14

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## South Derbyshire District Council – Internal Audit Progress Report

**Control Issue** - The Council was using historic maximum and minimum pricing parameters which had not been formally approved and may have no longer accurately reflected the latest prices in the trade waste collection market.

**Risk Rating** – Moderate Risk

**Status Update** - Due to a significant number of major service issues needing resolution, the timescale for this item needs to be changed. I have agreed a departmental work programme with Bob Ledger and the review of trade waste will take place following the implementation of the new kerbside recycling scheme in October. This should allow us time to make the necessary improvements to trade refuse charging in time to implement with next year's fees and charges report.

**Original Action Date** 1 Apr 13      **Revised Action Date** 31 Dec 13

### Community & Planning Services

#### Leisure Centres

**Control Issue** – The Annual Performance Review had only been held for year 2 of the contract and had not been held in line with the timelines set out in the contract.

**Risk Rating** – Low Risk

**Status Update** – The Culture & Community Manager suggested on 9 December 2013 a revised implementation date of Dec/early Jan.

**Original Action Date** 30 Nov 13      **Revised Action Date** 31 Jan 14

**Control Issue** – Reports to the Council had not been provided in line with contractual requirements. The monthly Impact Reports contained too much details and it was not clear which data referred to the contractual performance measures.

**Risk Rating** – Low Risk

**Status Update** – The Culture & Community Manager suggested on 9 December 2013 a revised implementation date of Dec/early Jan.

**Original Action Date** 30 Nov 13      **Revised Action Date** 31 Jan 14

**Control Issue** - Only the utility cost reconciliation had been provided to the Council. On review, the reconciliation did not agree to source documentation.

**Risk Rating** – Low Risk

**Status Update** – The Culture & Community Manager stated on 9 December 2013 that he had received advice from accountants who suggest sampling. Scale and nature of sampling to be discussed at KPI meeting in Dec/Jan.

**Original Action Date** 31 Oct 13      **Revised Action Date** 31 Jan 14

**Control Issue** – The Leisure Management Contract was in draft form, despite Active Nation being in the third year of service delivery.

**Risk Rating** – Moderate Risk

**Status Update** – The Culture & Community Manager stated on 9 December 2013 that a revised and final contract has been sent by the Council to AN solicitors. AN solicitors have requested a moved deadline as the solicitor dealing with it is off most of December. New deadline of the first week back in New Year. The Council has agreed.

**Original Action Date** 25 Oct 13      **Revised Action Date** 31 Jan 14

**Control Issue** – A number of issues were identified with the performance measures and indicators and as a result, performance was not being monitored in line with the contract.

**Risk Rating** – Low Risk

**Status Update** – The Culture & Community Manager stated on 9 December 2013 that the issue was discussed at the contract meeting held on 21 October 2013. However the meeting to finalise and formalise has been postponed and is now anticipated in December/early January due to leave, sickness, other priorities etc.

**Original Action Date** 30 Nov 13      **Revised Action Date** 31 Jan 14

## South Derbyshire District Council – Internal Audit Progress Report

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**Control Issue** - Some data within the Impact Report for April 2012 was found to be inaccurate. Active Nation had not documented the methodology for calculating the performance figures or the source of data. There was a lack of internal checks at Active Nation on the reported figures and methods of calculation. Where data was incorrect, it had not been amended in the following periods.

**Risk Rating** – Low Risk

**Status Update** - The Culture & Community Manager stated on 9 December 2013 that the formal request re documenting methodologies and implementing internal checks will follow KPI meeting. Re sample checking request made and some assistance agreed.

**Original Action Date** 31 Oct 13      **Revised Action Date** 31 Jan 14

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**Control Issue** – The contract set out variables which could affect the management sum payment. However, these variables had not been appropriately monitored and the payments had not been adjusted. The Annual Service Report had not been provided to the Council in line with the timelines set out in the contract.

**Risk Rating** – Moderate Risk

**Status Update** – The Culture & Community Manager stated on 9 December 2103 that the principle of payments according to schedule 8 were agreed and will be in line with revised KPIs when formally agreed. (Anticipated in Dec/early Jan)

**Original Action Date** 30 Nov 13      **Revised Action Date** 31 Jan 14

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<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 7</b>
<b>DATE OF MEETING:</b>	<b>18th DECEMBER 2013</b>	<b>CATEGORY:</b>
<b>REPORT FROM:</b>	<b>HEAD OF INTERNAL AUDIT PARTNERSHIP</b>	<b>RECOMMENDED</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>RICHARD BONEHAM</b> <a href="mailto:richard.boneham@derby.gov.uk">richard.boneham@derby.gov.uk</a>	<b>DOC:</b> u/ks/internal audit/derby city/PSIA/audit charter cover
<b>SUBJECT:</b>	<b>Public Sector Internal Audit Standards – Proposed Audit Charter</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 02</b>

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## **1.0 Recommendations**

1.1 That the Internal Audit Charter for the Central Midlands Audit Partnership is approved.

## **2.0 Purpose of Report**

2.1 In accordance with the Public Sector Audit Standards that came into force on 1<sup>st</sup> April 2013, the report sets out a proposed Audit Charter.

## **3.0 Detail**

3.1 The proposed Charter is required under the new Standards and is aimed at ensuring good Governance. It is designed to provide the Council and other stakeholders with a formally defined purpose, authority and responsibility of their Internal Audit activity as well providing arrangements for avoiding conflicts of interest.

3.2 The proposed Charter is appended and will be reviewed on an annual basis.

## **4.0 Financial Implications**

4.1 None.

## **5.0 Legal Implications**

5.1 The Authority is obliged under the Accounts and Audit Regulations (England) 2011 to maintain an effective internal audit.

## **6.0 Corporate Implications**

6.1 None

**7.0 Community Implications**

7.1 None

**8.0 Background Papers**

8.1 None

# Internal Audit Charter

## 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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## Table of Contents

1	Introduction.....	4
1.1	Background.....	4
1.2	Content.....	4
1.3	Definitions.....	4
2	Attribute Standards.....	6
2.1	Responsibilities.....	6
2.2	Objectives.....	6
2.3	Independence.....	7
2.4	Reporting Lines & Relationships.....	7
2.5	Internal Audit Remit.....	8
2.6	Review of Control Environment.....	8
2.7	Resources.....	8
2.8	Audit Opinion.....	9
2.9	Anti-Fraud / Consultancy Work.....	9
2.10	Authority (Rights of Access) & Confidentiality.....	10

## 1 Introduction

### 1.1 Background

- 1.1.1 This Charter provides partner organisations and stakeholders with a formally defined purpose, authority and responsibility of their Internal Audit activity as well providing arrangements for avoiding conflicts of interest.

It has been developed in accordance with the Public Sector Internal Audit Standards (PSIAS) which took effect from 1st April 2013 and demonstrates that the Central Midlands Audit Partnership is adhering with this Standard.

The PSIAS are based upon the Institute of Internal Auditors (IIA) mandatory guidance which includes a Definition of Internal Auditing, a Code of Ethics and the International Standards for the Professional Practice of Internal Auditing.

Each year, the Head of the Audit Partnership will, in consultation with the Operational Management Board, review this Charter, and submit any recommended amendments, to the Partnership Board for review and approval.

- 1.1.2 Annually the Head of the Audit Partnership will assess Internal Audit's compliance with PSIAS by completing the Compliance Checklist prepared by CIPFA. The results of this self assessment will be reported to the Partnership Board.

A Quality Assurance and Improvement Programme (QA&IP) will need to be in place requiring both internal and external assessments. The external assessment will be required at least every 5 years. The Head of the Audit Partnership is required to include a statement on the results of the QA&IP in the annual report. The external assessment must be carried out by a qualified and independent assessor from outside the organisation. It can be a full external evaluation or a self-assessment with independent external validation.

### 1.2 Content

- 1.2.1 This document will:

- Define the terms "Board" and Senior Management".
- Define the responsibilities and objectives of Internal Audit.
- Define the organisational independence of Internal Audit.
- Detail the reporting lines and relationships between Internal Audit and other internal and external parties.
- Define Internal Audit's remit in respect of the organisation's control environment.
- Identify Internal Audit's contribution to the review of the effectiveness of the control environment.
- Describe how the Head of the Audit Partnership will deliver annual audit opinions.
- Define the role of Internal Audit in relation to any fraud-related or consultancy work.
- Explain how Internal Audit's resource requirements will be assessed.
- Establish Internal Audit's right of access to all records, assets, personnel and premises, including those of customer organisations outside of the partnership, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

### 1.3 Definitions

- 1.3.1 PSIAS specify that the purpose and definition of Internal Audit is as follows:

# Internal Audit Charter

*“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

- 1.3.2 The PSIAS require that this Charter must define the terms “Board” and “Senior Management” for the purposes of internal audit activity. The PSIAS defines the Board as:

*“The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically this includes an independent group of directors (e.g. a board of directors, a supervisory board or a board of governors or trustees). If such a group does not exist, the “board” may refer to the head of the organisation, “Board” may refer to an audit committee to which the governing body has delegated certain functions.”*

The following bodies shall be defined as the Board for each of the organisations where we provide their internal audit services:

Organisation	Board
<b>Derby City Council</b>	Audit & Accounts Committee
<b>South Derbyshire District Council</b>	Audit Sub-Committee
<b>Derby Homes</b>	Audit Committee
<b>Amber Valley Borough Council</b>	Governance & Audit Board
<b>Derbyshire Fire &amp; Rescue Service</b>	Governance & Performance Working Group

- 1.3.3 The PSIAS defines Senior Management as *“Those responsible for the leadership and direction of the Council.”*

The following bodies shall be defined as Senior Management for each of the organisations where we provide their internal audit services:

Organisation	Senior Management
<b>Derby City Council</b>	Chief Officer Group
<b>South Derbyshire District Council</b>	Senior Management Team
<b>Derby Homes</b>	Executive Team
<b>Amber Valley Borough Council</b>	Management Team
<b>Derbyshire Fire &amp; Rescue Service</b>	Senior Leadership Team

## 2 Attribute Standards

### 2.1 Responsibilities

- 2.1.1 The Responsible Financial Officer at each organisation has a statutory responsibility for the overall financial administration of the organisation's affairs and is responsible for maintaining an adequate and effective Internal Audit of the financial and other records, systems and procedures for control of the organisation's resources.
- 2.1.2 Internal Audit is responsible for:
- Checking that management's arrangements for the control of finance, stocks and assets are adequate.
  - Highlighting weaknesses in controls.
  - Checking that financial and other systems and procedures are sound.
  - Appraising the adequacy of procedures to secure economy, efficiency and effectiveness in the use of resources.
  - Offering advice and suggesting improvements which ensure the organisation obtains value for money.
  - Reviewing, on behalf of the Responsible Financial Officer, any new systems for maintaining financial records or records of assets or changes to such systems.
  - Investigating promptly any suspected fraud, theft, irregularity, improper use or misappropriation of the organisation's property or resources identified by or notified to the Head of the Audit Partnership.
  - Ensuring that issues raised by External Audit are brought to the attention of the relevant Board, and if appropriate to the relevant Chief Executive and to the relevant member body.
  - Providing consultancy services, such as training, facilitation where considered beneficial to the organisation's control environment.
  - Providing internal audit services to other external organisations on a contractual basis, with the agreement of the Partnership Board and where resources permit.
- 2.1.3 The relevant Board at each organisation the Partnership serves has the responsibility for overseeing all of these responsibilities in accordance with its own terms of reference.

### 2.2 Objectives

- 2.2.1 Internal Audit's objectives 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 PSIAS.
  - Better integrate the outcomes and other information gathered as part, of the internal audit process, with the risk management processes of each organisation.
  - Maintain ongoing effective relationships with the relevant External Auditors and deliver complimentary plans of work so as to deliver an efficient audit service collectively, for each organisation.
  - 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.

# Internal Audit Charter

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- 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 each organisation's processes.
- Contribute to the development and maintenance of an effective counter fraud culture within each organisation.

## 2.3 Independence

- 2.3.1 Internal Audit must be independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. As such, Internal Auditor staff have no operational responsibilities and report directly to management in the name of the Head of the Audit Partnership. With the exception of Information Governance, Insurance, Risk Management and Taxation functions at Derby City Council where the Head of the Audit Partnership has Line Management responsibilities. In these instances, reports will be issued to management in the name of the Audit Manager.
- 2.3.2 The Head of the Audit Partnership is free to report directly to each organisation's relevant Board on all Internal Audit matters.
- 2.3.3 The Head of the Audit Partnership is jointly managed by the Partnership's Operational Management Board and on a day-to-day basis by Derby City Council's Strategic Director – Resources who is also member of the Operational Management Board. This level of status within the organisational structure ensures that the Head of the Audit Partnership is sufficiently influential in the maintenance and development of each organisation's control environment.
- 2.3.4 Internal Audit has produced a policy which sets out principles for minimising and managing potential conflicts of interest for Internal Audit staff. The Head of the Audit Partnership maintains a register of annual declarations of interest and Auditor declarations are made in relation to each individual audit assignment. Auditors are required to refrain from involvement in assessing specific operations where they have had a previous responsibility or a personal relationship.
- 2.3.5 The Head of the Audit Partnership will confirm to each organisation's relevant Board at least annually, the organisational independence of the internal audit service.

## 2.4 Reporting Lines & Relationships

- 2.4.1 The Section 151 Officers from each partner organisation, along with the Head of the Audit Partnership, will form the Operational Management Board. As host authority, Derby City Council's Strategic Director – Resources has line management responsibilities for the Head of the Audit Partnership.
- 2.4.2 The Head of the Audit Partnership reports to the relevant Board of each organisation on the following:
- The planned programme of internal audit work for the year.
  - Progress in implementing the planned audit programme, including a report following the year-end.
  - The findings of each audit to a degree of detail to be determined by each Board.
  - Progress made in implementing agreed actions arising from internal audits.
- 2.4.3 Internal Audit endeavours to work with the relevant External Auditor and share plans so as to avoid potential duplication of work and to deliver an effective corporate assurance service to each organisation. Internal Audit regularly liaises with the External Auditor.

# Internal Audit Charter

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External Audit's joint approach with Internal Audit is based upon the Audit Commission's "managed audit" concept. A managed audit involves co-ordination of the work of External and Internal Audit to ensure that audit resources are deployed with the greatest efficiency. Wherever possible and if appropriate, this entails External Audit placing reliance on the work of Internal Audit. Their audit fee is set on the assumption that they can rely upon Internal Audit work in a number of key areas.

- 2.4.4 To maintain a co-operative relationship with management, Internal Audit consults with management on audit work both at the annual planning stage and prior to commencing the assignment. This ensures that the timing of the audit is not inconvenient and the scope of the work is not inappropriate.

## 2.5 Internal Audit Remit

- 2.5.1 Internal Audit's remit encompasses the entire control environment of each organisation. This extends to all of the controls and procedures (financial or otherwise) in operation in all services provided by each organisation. Currently, the section provides Internal Audit services to Amber Valley Borough Council, Derbyshire Fire & Rescue Service, St Benedict's School Academy, St George's School Academy and Liversage Trust on a contractual basis.

## 2.6 Review of Control Environment

- 2.6.1 Annually, the Head of the Audit Partnership produces an Audit Strategy which defines the approach that will be used to manage the following:
- How the service is delivered.
  - The provision to the organisation, through the relevant Board of an overall opinion each year on the organisation's risk management, control and governance, to support the Annual Governance Statement.
  - Audit of the organisation's risk management, control and governance systems through audit plans in a way which affords suitable priority to the organisation's objectives and risks.
  - The identification of audit resources required to deliver an audit service which meets required professional standards.
  - The relative allocation of resources between assurance, fraud related and consultancy services provided by Internal Audit.
- 2.6.2 The Head of the Audit Partnership also produces a risk based Audit Plan to deliver the Audit Strategy. The Annual Audit Plan is developed with due regard to the information produced by each organisation's risk and performance management systems in order that audit resources may be targeted at areas of greatest risk to the organisation. It is primarily based on Internal Audit's own risk assessment of each organisation's whole control environment. It is in part based on subjective judgment, but modelling techniques are also used to ensure that the approach is systematic. Stakeholders are consulted on the contents of the Audit Plan.

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.

## 2.7 Resources

- 2.7.1 Internal Audit must be appropriately resourced to meet its objectives. It should have appropriate numbers of staff in terms of grades, qualifications, personal attributes and experience or have access to appropriate resources in order to meet its objectives and audit standards.

# Internal Audit Charter

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The Head of the Audit Partnership is CIPFA qualified and has over 20 years Local Government Internal Audit experience. The Head of the Audit Partnership is responsible for recruiting appropriate staff and ensuring that job descriptions and person specifications reflect the needs of the service.

Each year Internal Audit staff receive an appraisal and are measured against the skills and competencies framework described in CIPFA's Excellent Internal Auditor publication. This is used to identify the training and development needs of individuals.

- 2.7.2 Nonetheless, Internal Audit has finite resources which can be deployed to meet the Annual Audit Plan. Where the Head of the Audit Partnership considers available resources do not balance with the organisation's Internal Audit requirements, he will take a report to the relevant Board suggesting proposed solutions.

When the in-house resources or skills cannot meet each organisation's or our external clients demand for control assurance or advice, Internal Audit has a long-standing arrangement with an external provider whereby additional resources can be readily available.

## 2.8 Audit Opinion

- 2.8.1 The Head of the Audit Partnership will provide a written report to those charged with governance which gives an opinion on the overall adequacy and effectiveness of each organisation's internal control environment.

Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit review, appraise and report on the effectiveness of financial and other management controls. The overall audit opinion is based on the work undertaken by internal audit.

The reporting of the incidence of significant control failings or weaknesses is also covered in the progress reports to the relevant Board on Internal Audit's progress against the Annual Audit Plan.

In preparing the overall opinion, the Head of the Audit Partnership reviews all audit activity carried out during the previous Audit Plan year. Each individual audit undertaken contains a control rating (opinion) on the adequacy and effectiveness of controls in place to mitigate the risks identified. 4 levels of "assurance rating" are given for each audit review, ranging from "Comprehensive" through to "None". Where weaknesses in control are identified, an action plan is agreed with management. Progress with these agreed actions is monitored by Internal Audit through follow up audit work.

The Head of the Audit Partnership uses the individual control ratings from the audits conducted in the Audit Plan year and the progress with agreed actions to form the overall opinion.

When presenting the opinion, the Head of the Audit Partnership also identifies where reliance has been placed on work by other assurance bodies.

## 2.9 Anti-Fraud / Consultancy Work

- 2.9.1 Managing the risk of fraud and corruption is the responsibility of management, *but* In accordance with the each organisation's internal rules, Internal Audit will promptly investigating any suspected fraud, theft, irregularity, improper use or misappropriation of property or resources on behalf of the relevant Responsible Financial Officer.

The Head of the Audit Partnership should also be specifically mentioned in each organisation's Anti-Fraud and Corruption Strategy, Fraud Response Plan and Confidential Reporting Code (Whistleblowing Policy) as a point of contact for anyone who suspects a fraud has been committed.

[Page 33 of 59](#)

Although Internal Audit does not have responsibility for the prevention or detection of fraud and corruption, it has taken steps to develop proactive anti-fraud and corruption initiatives. Internal Audit uses internal data matching to enhance and build upon the National Fraud Initiative exercise and seeks to develop a corporate approach to addressing fraud across the organisation.

2.9.2 Internal Audit may be asked by clients to conduct consultancy work. Acceptance of the assignment will be dependant on available resources, the nature of the assignment and any potential impacts on assurances.

The role of Internal Audit in a consultancy assignment is to provide advice, facilitation and support to management who retain the responsibility for the ultimate decisions taken within the area under review.

## 2.10 Authority (Rights of Access) & Confidentiality

2.10.1 As representatives of the relevant Responsible Financial Officer, all Internal Audit staff have authority to:

- Enter at all reasonable times any of the organisation's premises or land.
- Have access to all records, documents and correspondence relating to any financial and other transactions of the organisation, and the management of its risks.
- Require and receive explanations as necessary about any matter under examination.
- Require any employees of the organisation to produce cash, stores or any other of the organisation's property under their control.

For the avoidance of doubt, the authority detailed above relates to any other establishment operated within the organisation's financial accounts.

In relation to rights of access, Internal Audit staff are expected to have a personal responsibility to observe the highest standards of confidentiality and personal integrity during the course of their work.

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The central midlands audit partnership was formed to provide shared internal audit services to local authorities in the region. CMAP currently provides audit services to two District Councils, a Unitary Council, a Housing ALMO and a Fire Authority and welcomes further public sector partners or clients from within the region.



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<b>REPORT TO:</b>	<b>AUDIT SUB COMMITTEE</b>	<b>AGENDA ITEM: 8</b>
<b>DATE OF MEETING:</b>	<b>18th DECEMBER 2013</b>	<b>CATEGORY:</b>
<b>REPORT FROM:</b>	<b>HEAD OF INTERNAL AUDIT PARTNERSHIP</b>	<b>RECOMMENDED</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>RICHARD BONEHAM</b> <a href="mailto:richard.boneham@derby.gov.uk">richard.boneham@derby.gov.uk</a>	<b>DOC:</b> u/ks/internal audit/derby city/PSIA/quality assurance programme cover
<b>SUBJECT:</b>	<b>Public Sector Internal Audit Standards – Quality Assurance &amp; Improvement Programme</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 02</b>

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## **1.0 Recommendations**

1.1 That the Quality Assurance and Improvement Programme for Internal Audit is approved.

## **2.0 Purpose of Report**

2.1 In accordance with the Public Sector Audit Standards that came into force on 1<sup>st</sup> April 2013, the report sets out a new quality assurance and improvement programme (QAIP) for internal audit.

## **3.0 Detail**

3.1 The Programme is required under the new Standards and is aimed at ensuring an effective internal audit function. Areas for continuous improvement and development are contained in a work plan.

3.2 The proposed QAIP is appended with the work plan up to September 2014 detailed on Page 17.

## **4.0 Financial Implications**

4.1 None.

## **5.0 Legal Implications**

5.1 The Authority is obliged under the Accounts and Audit Regulations (England) 2011 to maintain an effective internal audit.

## **6.0 Corporate Implications**

6.1 None

**7.0 Community Implications**

7.1 None

**8.0 Background Papers**

8.1 None

# Central Midlands Audit Partnership – Quality Assurance & Improvement Programme

Partnership Board: 4<sup>th</sup> December 2013



## 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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## Contents

Introduction	3
On-going Monitoring	5
Periodic Reviews	13
External Assessment	16
Improvement Plan	17



*Providing Excellent Audit Services in the Public Sector*

# CMAA – PSIAS Quality Assurance & Improvement Programme

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## Introduction

### IIA Guidance

A QAIP should draw conclusions regarding the quality of the internal audit activity and lead to recommendations for appropriate improvements. All Chief Audit Executives (CAEs) are required to develop a QAIP that includes both internal and external assessments. Internal assessments should include both on-going monitoring and periodic self-assessment. External assessments may be either a full external assessment or a self-assessment with independent validation. Under the QAIP, quality should be assessed at both an individual audit engagement level as well as at a broader internal audit activity level. A well-developed QAIP will ensure that quality is built in to, rather than on to, the way the internal audit activity operates. In other words, an internal audit activity should not need to assess whether each individual engagement conforms to the Standards. Rather, engagements should be undertaken in accordance with an established methodology that promotes quality and, by default, conformance with the Standards.

To achieve comprehensive coverage of all aspects of the internal audit activity, a QAIP must effectively be applied at three fundamental levels (or perspectives):

### Internal Audit Engagement Level

This is self-assessment at the audit, engagement, or operational level, where the engagement supervisor (possibly a manager or the CAE) is responsible for providing assurance that:

- Appropriate processes have been used to translate audit plans into specific, appropriately resourced audit engagements.
- Planning, fieldwork conduct, and reporting/communicating results conform to the Definition of Internal Auditing, the Code of Ethics, and the Standards.
- Appropriate mechanisms are established and used to follow-up management actions in response to audit recommendations.
- Post-engagement client surveys, lessons learned, self-assessments, and other mechanisms to support continuous improvement are completed.

### Internal Audit Activity Level

This is self-assessment at the internal audit activity or organisational level) where the CAE is responsible for providing assurance that:

- Written policies and procedures, covering both technical and administrative matters, are formally documented to guide audit staff in consistent conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.
- Audit work conforms to written policies and procedures.
- Audit work achieves the general purposes and responsibilities described in the internal audit charter.

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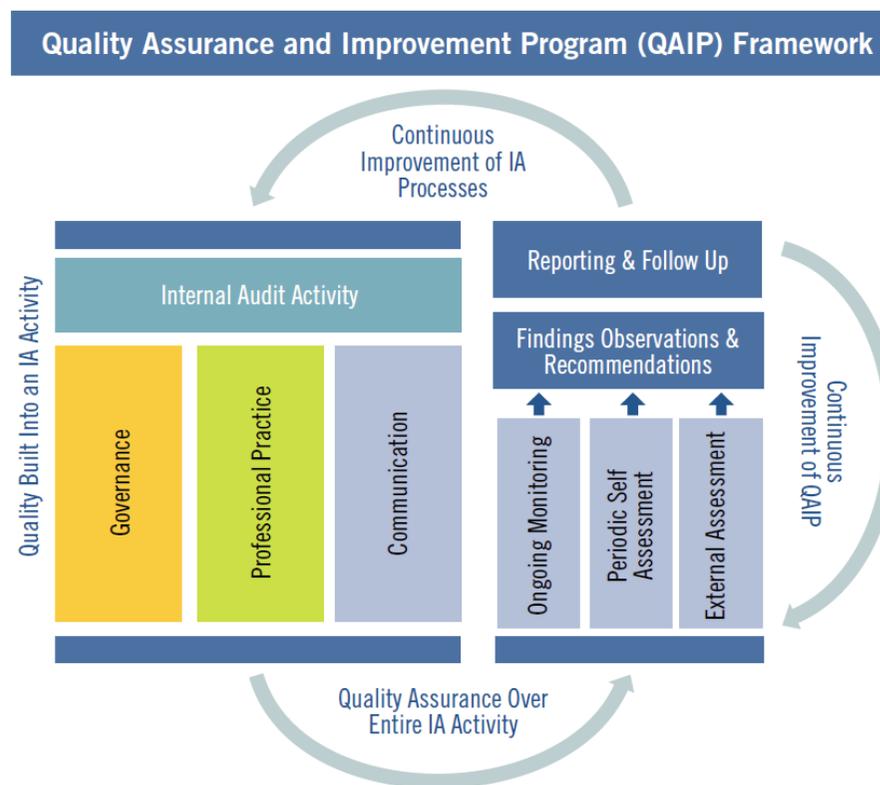
- Audit work conforms to the Definition of Internal Auditing, the Code of Ethics, and the Standards.
- Internal audit work meets stakeholder expectations.
- The internal audit activity adds value and improves the organisation's operations.
- Resources for the internal audit activity are efficiently and effectively utilised.

## External Perspective

This is independent external assessment of the entire internal audit activity including individual engagements) where:

- The CAE must ensure that the internal audit activity undergoes an external assessment (either an independent external assessment or a self-assessment with independent validation) at least once every five years by an independent assessor or assessment team from outside the organisation that is qualified in the practice of internal auditing as well as the quality assessment process.
- External assessors express an opinion on the entire spectrum of assurance and consulting work performed (or that should have been performed) by the internal audit activity, including its conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. Assessors also conclude on the efficiency and effectiveness of the internal audit activity in

carrying out its charter and meeting the expectations of stakeholders.



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## On-going Monitoring

### Planning to Engagement

#### **Risk Based Planning**

Each year the Audit Manager produces a risk based Audit Plan for each organisation we serve. The Annual Audit Plan is developed with due regard to the information produced by each organisation's risk and performance management systems in order that audit resources may be targeted at areas of greatest risk to the organisation. Plans are primarily based on Internal Audit's own risk assessment of each organisation's whole control environment. They are in part based on subjective judgment, but modelling techniques are also used to ensure that the approach is systematic. Stakeholders are consulted on the contents of the Audit Plan.

As part of this risk assessment and planning process we meet with the organisation's key stakeholders to better understand their requirements from internal audit and provide them with an opportunity to identify any concerns they may have about the organisation's control environment or the risks it faces. We seek to derive information from the organisation's key governance documents (such as risk registers, internal rules, codes of conduct, schemes of delegation etc.) Armed with this information, we seek to identify the organisation's audit universe (i.e. everything that could feasibly be audited), then perform a risk assessment to prioritise resources to the areas of greatest risk. We also need to identify previous internal audit coverage to avoid repeating work recently undertaken. The resultant document would provide an indicative

Audit Plan, which would be used to consult with the organisation's key stakeholders on the final agreed Audit Plan for the year.

#### **Scoping & Risk Assessing Engagements**

Our Auditors are allocated their assignments for the year from the agreed Audit Plans. For each engagement, the responsible Auditor is required to complete our bespoke risk assessment for the area under review in our Audit Management System. The risk assessment requires the Auditor to consider and score 4 areas that affect the impact of the risks occurring and 4 areas that affect the likelihood of risks occurring. The Auditor is required to record a narrative to indicate the reasons behind their scores. Once this risk assessment has been produced, the Auditor prompts the Audit Management System to email an Assistant Audit Manager to inform them that a risk assessment has been produced for the assignment which is ready for their review and approval. Once reviewed, Auditors can then consider developing the scope of the assignment. When deriving the scope the following issues are considered:

- The results from the Auditors risk assessment.
- What areas have been covered in past assignments.
- Any areas identified for future coverage from the previous assignments.
- Information ascertained from scoping meeting / correspondence with the responsible Line Management.

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- Any control weaknesses identified in previous assignments where corrective action needs to be followed up.
- Any information stemming from consultation with Senior Management at the annual Audit Planning stage.
- Information gathered from the Auditors research into current issues affecting the area and any best practice guidance relating to the area.

The Auditor records the scope of the assignment in the standard Job Control Sheet in our Audit Management System which once again prompts an Assistant Audit Manager via email (as well as a via a specific Review tab in the Audit Management System) to inform them that a scope has been produced for the assignment which is ready for their review and approval. As appropriate, the responsible Line Manager is sent a copy of the Job Control Sheet for them to formally acknowledge their agreement to our proposals.

## Conformance with Procedures, Ethics & Standards

### Conduct of Engagements

We have created a bespoke Automated Working Papers package using MS Word, MS Excel and MS Access which reflects our own working practices that are designed to ensure adherence to Auditing Standards. The package was introduced to make efficiency savings, but it also ensures uniformity of process. By using these automated processes, the audit assignment has to be completed in a particular way, the same standard documents have to be used and the same formatting is applied. Many tasks have been automated, such as populating other working papers with

relevant information and automatically producing draft and final reports which reduces the need to copy and paste. Our Automated Working Papers package governs the following processes:



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## **Audit Management System**

We have developed a bespoke database which currently governs the following aspects of audit work:

- **Job Control & Progress Tracking** – An auditor-specific homepage, unique job numbering, job control sheets, job risk assessments, job progress dates, auto emails prompting various reviews.
- **Time Recording & Analysis** – Auto generated weekly timesheets, code search facility, flexible time search and reporting facilities.
- **Recommendation Tracking & Automated Follow-ups** – Records recommendation, action status, responsible officer, agreed action date and auto emails responsible officer when action date has passed for a status update, flexible recommendation search and reporting facilities, allows searching for past recommendations.
- **Performance Monitoring** – Individual productivity information as well as overall productivity figures for the service, includes ranking information and comparisons with previous year. Prompts the Auditor and Reviewer to complete post audit assessments based on the Excellent Internal Auditor guidance. Prompts the sending, chasing and recording of customer satisfaction surveys.
- **Management Reporting** – Flexible reporting on time, job progress, customer satisfaction and recommendation status to facilitate Committee and management progress reports.

This system allows individual Auditors and Audit Management to easily determine, the status of each individual audit assignment as

well as the overall Audit Plan and the performance of each member of the team.

## **Code of Ethics**

Internal Audit has produced a policy which sets out principles for minimising and managing potential conflicts of interest for Internal Audit staff. The Head of the Audit Partnership maintains a record of annual declarations of interest and for each audit assignment the Auditor and Manager reviewing the work are required to complete a Declaration of Interest form to identify where any conflicts may exist. Auditors are required to refrain from involvement in assessing specific operations where they have had a previous responsibility or a personal relationship.

## **Audit Manual**

In the past we have developed CIPFA's model Audit Manual to reflect our own documents and working procedures. We have endeavoured to maintain this as an up-to-date point of reference for Audit staff which guides them through the relevant standards and our processes. The recent introduction of the PSIAS has rendered much of the CIPFA model Audit Manual unsuitable. Accordingly, we have committed to producing a revised Audit Manual based around the new standards.

## **Audit Charter**

This Charter provides partner organisations and stakeholders with a formally defined purpose, authority and responsibility of their Internal Audit activity as well providing arrangements for avoiding conflicts of interest.

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It has been developed in accordance with the Public Sector Internal Audit Standards (PSIAS) which took effect from 1<sup>st</sup> April 2013 and demonstrates that the Central Midlands Audit Partnership is adhering with this Standard.

The PSIAS are based upon the Institute of Internal Auditors (IIA) mandatory guidance which includes a Definition of Internal Auditing, a Code of Ethics and the International Standards for the Professional Practice of Internal Auditing.

Each year, the Head of the Audit Partnership will, in consultation with the Operational Management Board, review this Charter, and submit any recommended amendments, to the Partnership Board for review and approval.

## **Audit Strategy & Business Plan**

The PSIAS states that there is a need for a risk-based plan linked to a strategic / high-level statement on how the service will be provided and developed in accordance with the charter and how this links to the organisation's objectives and priorities.

Our Audit Strategy sets out the overall strategy for the Audit Partnership's internal audit service for the year ahead and the strategic approach to delivering internal audit services. It sets out the following:

- Internal audit objectives and outcomes.
- How the head of internal audit will form and evidence his or her opinion on the control environment to support the annual governance statement.
- How internal audit's work will identify and address significant local and national issues and risks.

- How the service will be provided i.e. internally, externally or a mix of the two.
- The resources and skills required to deliver the service.

Our Business Plan sets out the aims and objectives of the Partnership and links them to the Corporate Visions and Values of our partner organisations. It also identifies the strengths, weaknesses, opportunities and threats for the the Partnership as well as classifying the risks the Partnership is facing.

Both the Audit Strategy and Business Plan must be kept up-to date to reflect the organisations and their changing priorities and needs to be reported to, and approved by, the relevant management bodies on an annual basis. Accordingly, our Strategy and Business Plan needs to be updated to reflect the Audit Charter and the new PSIAS.

## **Recommendation Follow-up**

### **Automated Process**

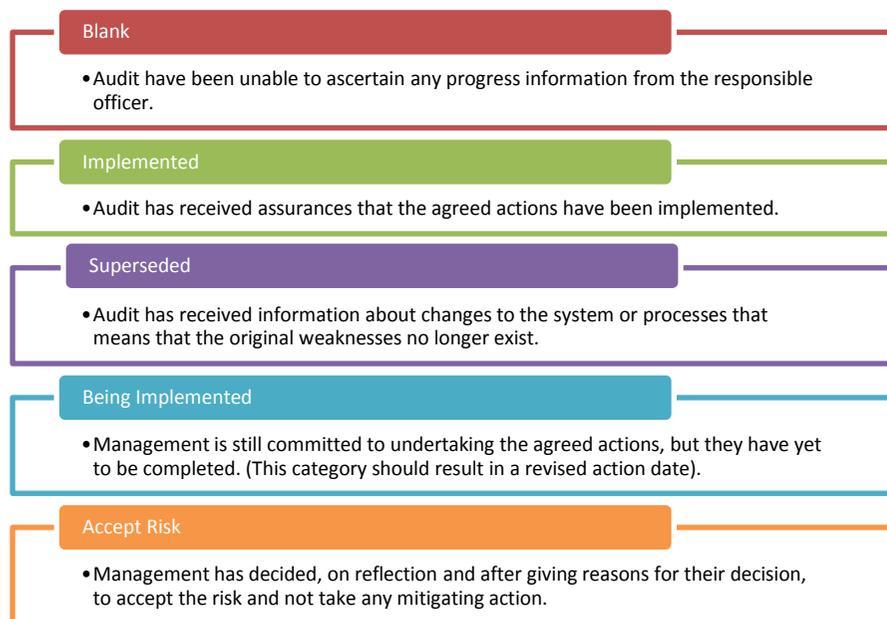
We no longer undertake specific follow up audits, although previous recommendations will be examined the next time the area is audited. We send emails, automatically generated by our bespoke recommendations database, to officers responsible for action where their recommendations' action dates have been exceeded. We request an update on each recommendation's implementation status, which is then fed back into the database, along with any revised implementation dates. Each recommendation can, and usually does, have its own action date and responsible officer, but this doesn't hamper our process.

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We ask managers to let us know when they have implemented the agreed actions in respect of our recommendations. Similarly, if circumstances change to the extent that the planned activity is no longer relevant, we ask managers to keep us informed, so we can update our records.

## Action Status

Each recommendation made by Internal Audit is assigned one of the following “Action Status” categories as a result of our attempts to follow-up management’s progress in the implementation of agreed actions. The following explanations are provided in respect of each “Action Status” category:



## Audit Committee Reporting

In advance of an Audit Committee meeting, each Chief Officer is also provided with the details of each of the recommendations made to their departments, which have yet to be implemented, and those where an “Accept Risk” response has been provided. This is intended to give them an opportunity to provide Audit with an update position before we report on progress to the Audit Committee.

Every quarter, statistics relating to progress against recommendations are reported the Audit Committee, with summary details being provided on individual recommendations that are taking a long time to implement. This report includes all recommendations where management has decided to accept the risk, and the reasons for this acceptance will be provided to the Committee. Where the Committee feel that insufficient progress has been made, they may call the responsible officers before the Committee to explain in detail why there has been a delay.

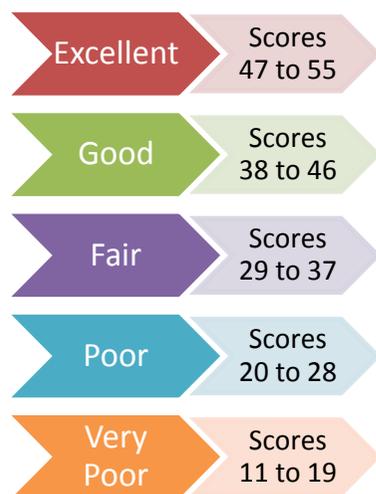
## Continuous Improvement

### Customer Satisfaction

The Audit Section sends out a customer satisfaction survey with the final audit report to obtain feedback on the performance of the auditor and on how the audit was received. The survey consists of 11 questions which require grading from 1 to 5, where 1 is very poor and 5 is excellent.

The overall responses are graded as either:

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Customers are asked to return the completed survey to the Head of the Audit Partnership and responses are treated with strict confidentiality. Customers are also invited to submit any additional comments they wish to make on the form.

Customers are informed that their responses are extremely important as they help us monitor our performance and provide us with information which helps to improve the quality of our service.

The results of customer satisfactions surveys for each organisation are included in our performance reports to each relevant Audit Committee, with an overall report going to the Partnership Board as part of the Balanced Scorecard.

## Quality Review Process

Following a closing meeting and prior to issuing the draft report each assignment undergoes a two-stage quality control process. This involves the report being checked by:

- An Assistant Audit Manager to examine the Auditor's file, working papers and report to ensure that:
  - All work undertaken complies with the requirements of professional best practice and appropriate audit techniques have been used.
  - Audit files are complete and properly structured.
  - The objectives of the audit have been fulfilled.
  - Appropriate levels of testing have been carried out.
  - The findings and conclusions are sound and are demonstrably supported by relevant, reliable and sufficient audit evidence.
  - The related audit report is complete, accurate, objective, clear, concise, constructive and timely.
- The Audit Manager to ensure that all recipients of the report would find the contents clear, logical and unambiguous. He will try to ensure consistency of style, quality and stance from across the whole Audit team. The Audit Manager will determine whether the risk assessments of the recommendations and overall control environment opinions will stand up to challenge and are being applied on a consistent basis.

## Post Audit Assessment

At the end of each audit, the Auditor is required to score their performance on the assignment in a post audit assessment (based on CIPFA's Excellent Internal Auditor). The Assistant Audit Manager performing the review of the assignment also scores the auditors performance. This exercise is intended to identify any training and development requirements as well as acknowledging any areas of excellent performance.

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### Staff Development

Central Midlands Audit Partnership endeavours to develop and maintain an internal audit team which possesses the necessary capacity, skills and knowledge to successfully deliver the audit plans of the partners and stakeholders in their entirety. We apply staff in the most effective way in accordance with their experience and skills and in accordance with the Audit Standards.

Our current team has in excess of 200 years of public sector audit experience. Team members hold a variety of academic and professional qualifications. We have 5 CCAB qualified accountants, 3 officers are PIIA qualified (IIA Diploma in Internal Audit Practice), 4 officers hold CIPFA's Certificate in Investigative Practices Qualification, 1 officer is qualified with the Institute of Revenues Rating and Valuation and both members of our IT Audit team have recent degrees in computing as well as professional IT qualifications (ITIL and CISA). ITIL (IT Infrastructure Library) is the industry recognised standard for best practices in the provision of IT infrastructure management and service delivery and the Certified Information Systems Auditor (CISA) program has been the globally accepted standard of achievement among information systems audit, control and security professionals. All 4 members of Internal Audit's management team have recently completed the University of Derby's accredited programme on Managing and Working in a Mobile Workforce.

We develop the skills and competencies of our staff through a systematic appraisal, development and training process. We aim to ensure that:

- Internal audit staff have appropriate qualifications, skills and competencies and are continuously developed.

- The professional and training needs of staff are assessed and monitored and staff are set meaningful performance objectives.
- The internal audit service is continuously developing and improving.

Each year Internal Audit staff receive an appraisal and are measured against the skills and competencies framework described in CIPFA's Excellent Internal Auditor publication. This is used to identify the training and development needs of individuals. Regular staff appraisals are undertaken to ensure that we are improving by having a shared understanding about what we need to achieve and developing our people to deliver it. This process helps to provide the consistency, support and guidance that is needed for our staff to work to their highest potential for the benefit of the individual and all our stakeholders.

Each year as part of the staff appraisal process, a development objective is agreed with each member of the team, which gives them the opportunity to develop their skills by taking on a task that will benefit the whole team.

We are currently developing and supporting our workforce as follows:

- One member of the team is studying for the Institute of Internal Auditors (IIA) Advanced Diploma professional qualification.
- To keep staff up-to-date with the latest practices in public sector auditing, we will continue to support officers' attendance at the annual CIPFA in the Midlands Audit Training Seminars (CATS).

## CMAP – PSIAS Quality Assurance & Improvement Programme

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- We continue to send officers on relevant CIPFA courses, utilising the 4 free places afforded to us by our membership of CIPFA's Better Governance Forum.
- Our IT Audit team maintain their cutting edge knowledge through their attendance at Open Web Application Security Project (OWASP) seminars and their membership the First Forensic Forum (F3).
- To keep abreast of audit best practices, various members of the team attend audit management and practitioner group meetings.
- One member of the team is also a member of CIPFA's Technical Information Services 'TISonline' Internal Audit Editorial Board, which is a web service seeking to operate as a hub of best practice guidance to public sector financial managers.

# CMAP – PSIAS Quality Assurance & Improvement Programme

## Periodic Reviews

### Self Assessment to PSIAS Standards

The Public Sector Internal Audit Standards (PSIAS) came into force on 1 April 2013 to create consistent standards for the practice of internal audit across the public sector and establish the basis for its quality assurance. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

The PSIAS and the Local Government Application Note together supersede the 2006 CIPFA Code of Practice for Internal audit in Local Government in the United Kingdom (2006 Code). The Application Note has been developed as the sector specific requirements for local government organisations.

A checklist has been developed by CIPFA to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self-assessments as part of the QA & IP. It incorporates the requirements of the PSIAS as well as the Application Note in order to give comprehensive coverage of both documents. An initial desk top review of the PSIAS has been carried out using the checklist by the Head of the Audit Partnership.

Due to the fact that the Central Midlands Audit Partnership was fully compliant with the 2006 CIPFA Code of Audit Practice, the majority of the requirements of the new PSIAS have already been achieved without any need to change existing practices.

### Annual Audit Risk Assessment

To assist with our annual Audit Risk Assessment process, we have developed the following risk assessment model which incorporates eight risk factors which encapsulate the risks in the Audit universe:

<b>Materiality</b>	•Potentially, how much money could the Council lose if this auditable area is not properly controlled?
<b>Criticality</b>	•How critical is this function to the effective running of the Council's core activities?
<b>Sensitivity</b>	•How important is this auditable area in the opinion of corporate management?
<b>Strategic Effect</b>	•How does this function affect the Council's long term aims and objectives?
<b>Changes</b>	•How much have things changed in this auditable area since audit were last involved?
<b>Complexity</b>	•How complicated is this auditable area?
<b>Review Process</b>	•How long has it been since this auditable area has been looked at?
<b>Inherent Risks</b>	•How susceptible is this auditable area to fraud and irregularity?

## CMAP – PSIAS Quality Assurance & Improvement Programme

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Risk is composed of the two elements: likelihood and impact. The first four risk factors listed above relate to the impact if the risks were to occur; the last four are concerning the likelihood of the risks occurring.

We score the risk factors, between one and five, for each auditable area. Our risk model automatically determines which auditable areas will be looked at more often than others. Those areas with risk scores in the higher frequency stratifications should be looked at more often than those with lower risk scores. Similarly, the auditable areas with risk scores in the highest workday stratification should be allocated more time than those with lower risk scores. The workday allocations applied to each type of Audit work is different for each organisation we serve.

Once the scores for each auditable area have been input to the risk model, along with the date when the area was last audited, the risk model will automatically generate a five-year rolling plan of suggested audit coverage for those auditable areas that can be risk assessed.

To create an achievable tactical plan the first year of the five-year rolling plan needs to be adjusted to fit with resources available.

Management are consulted on the proposed tactical plan and their views are taken account of before producing the final, ranked list of auditable areas requiring Audit attention.

Discussions are also undertaken with the External Auditors to ensure that the proposed coverage is in accordance with their expectations and does not duplicate any work they propose.

### Activity Reporting to Audit Committees

Approximately each quarter year we provide each Audit Committee with progress reports on the audit services provided during the period.

We provide the following in each report:

- A summary of our progress against each assignment the agreed plan.
- A summary of the key findings of each assignment finalised during period and their overall assurance rating.
- How we are faring against a couple of key performance measures (i.e. current customer satisfaction levels and how we are performing against our Audit Plan achievement target)
- An overview of the current implementation status of all agreed actions to address the control weaknesses highlighted by audit recommendations.
- Summary details of those recommendations still in the process of 'Being Implemented' and those that have passed their due date for implementation.
- Full details of any recommendations where management has decided not to take any mitigating actions.

### Performance Measurement

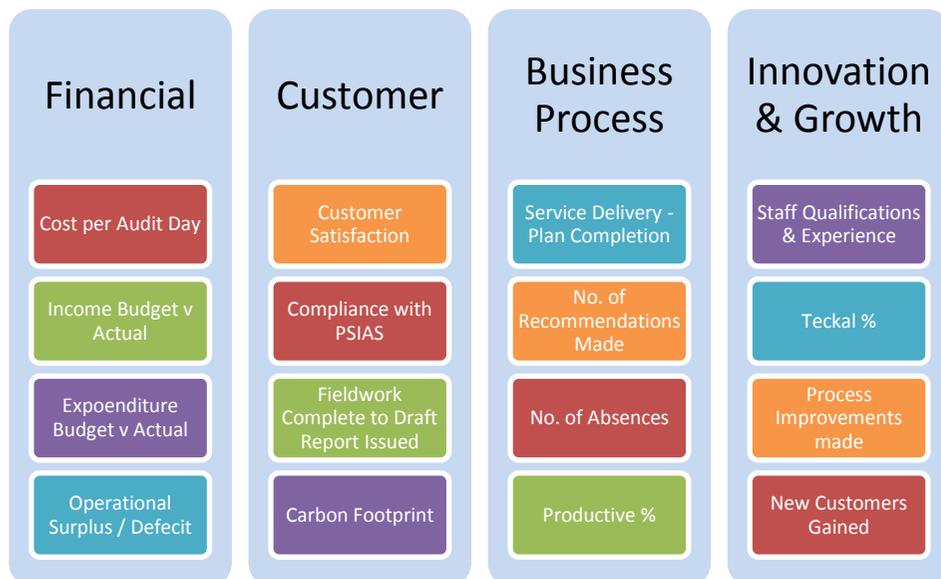
A Balanced Scorecard approach to audit performance has also been adopted to ensure that the efficiency and effectiveness of the internal audit activity can be monitored and opportunities for

# CMA – PSIAS Quality Assurance & Improvement Programme

improvement and development can be identified. Our balanced scorecard approach takes a strategic view on the performance of the service from four different perspectives:

- **Financial** – To succeed financially, how should we appear to our stakeholders?
- **Customer** – To achieve our vision, how should we appear to our customers?
- **Business Process** – To satisfy our stakeholders and customers what business processes must we excel at?
- **Innovation & Growth** – To achieve our vision, how will we sustain our ability to change and improve?

For each perspective, we have developed four different metrics:



All of which are reported on, in detail, to the Head of the Audit Partnership and the Partnership Board at regular intervals.

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## External Assessment

### General Considerations

External assessments will appraise and express an opinion about internal audit's conformance with the Standards, Definition of Internal Auditing and Code of Ethics and include recommendations for improvement, as appropriate.

### Timing

An external assessment must be conducted every five years.

### Scope of External Assessment

An external assessment will consist of a broad scope of coverage that includes the following elements of Internal Audit activity:

- Conformance with the Standards, Definition of Internal Auditing, the Code of Ethics, and internal audit's Charter, plans policies, procedures, practices, and any applicable legislative and regulatory requirements.
- Expectations of Internal Audit as expressed by the Partnership Board, Operational Board, and operational managers.
- Integration of the Internal Audit activity into Partner organisations' governance process, including the audit relationship between and among the key groups involved in the process.
- Tools and techniques used by Internal Audit.

- The mix of knowledge, experiences, and disciplines within the staff, including staff focus on process improvement.
- A determination whether Internal Audit adds value and improves each Partner's operations.

### Considerations

The qualifications and considerations of external reviewers as noted in The IIA's Practice Advisory 1312-1 will be considered when contracting with an outside party to conduct the external review.

Results of external assessments will be provided to the Partnership Board and the Audit Committee. The external assessment report will be accompanied by a written action plan in response to significant comments and recommendations contained in the report.

The Head of the Audit Partnership will implement appropriate follow-up actions to ensure that recommendations made in the report and action plans developed are implemented in a reasonable timeframe.

The partnership has yet to determine when and how any external assessment will be conducted.

# CMAA – PSIAS Quality Assurance & Improvement Programme

## Improvement Plan

ACTION	DATE	RESPONSIBLE OFFICERS
<b>Develop this QAIP document.</b>	December 2013	HoAP, Audit Manager
<b>Develop an Internal Audit Charter</b>	December 2013	HoAP, Audit Manager
<b>Produce a revised Internal Audit Strategy and Business Plan which links the Internal Audit Charter to a risk based Audit Plan as well as all the organisational objectives and priorities of the Partner organisations.</b>	February 2014	HoAP, Audit Manager
<b>Re-perform a Self-assessment of the Partnership's compliance with the PSIAS using CIPFA's checklist following the production of the Audit Charter and QAIP.</b>	February 2014	HoAP, Audit Manager
<b>Develop a new Audit Manual which links to the new PSIAS.</b>	September 2014	Audit Manager, Assistant Audit Managers
<b>Determine when an External Assessment should be carried out and how this will be undertaken.</b>	February 2014	HoAP
<b>Consider whether any Assurance Mapping methodologies will add value to partner organisations</b>	March 2014	Audit Manager, Assistant Audit Managers
<b>Seek to ensure the independence of the Head of the Audit Partnership is safeguarded by ensuring that his performance assessment is not inappropriately influenced by those subject to audit.</b>	September 2014	HoAP

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<b>REPORT TO:</b>	<b>AUDIT SUB-COMMITTEE</b>	<b>AGENDA ITEM: 9</b>
<b>DATE OF MEETING:</b>	<b>18<sup>TH</sup> DECEMBER 2013</b>	<b>CATEGORY: DELEGATED</b>
<b>REPORT FROM:</b>	<b>MONITORING OFFICER</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>ARDIP KAUR (01283 595715)</b> <a href="mailto:Ar dip.kaur@south-derbys.gov.uk">Ar dip.kaur@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/governance/local code/Dec 12/update report Dec 12
<b>SUBJECT:</b>	<b>LOCAL CODE OF CORPORATE GOVERNANCE – REVIEW OF WORK PLAN 2013/14</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 04</b>

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## **1.0 Recommendation**

- 1.1 That progress on the Action Plan for 2013/14 is considered and noted.

## **2.0 Purpose of Report**

- 2.1 To review progress associated with updating and strengthening the Council's Corporate Governance arrangements as set out in the approved work plan. This plan was approved by the Committee in June 2013 and in accordance with Council policy, this report provides a six monthly update.

## **3.0 Detail**

- 3.1 The current Local Code of Corporate Governance was adopted by the Council in 2008. It is based on a best practice document and principles which were founded by the professional organisations SOLACE and CIPFA. The local code provides evidence of how the Council has fulfilled or intends to fulfil its commitment to corporate governance.
- 3.2 Under its terms of reference, the Committee is required to review progress in relation to compliance against six core principles on which the Code is based. These principles and the local work plan are a fundamental part of the Council's Annual Governance Statement; this is subject to External Audit review as part of the annual accounts process.

### **What is Corporate Governance?**

- 3.3 Corporate Governance is the system by which a Council directs and controls its functions and relates to its community. Good Corporate Governance is essential in demonstrating there is credibility and confidence in the public services provided. Sound arrangements are founded upon openness,

integrity and accountability, together with the over-arching concept of leadership.

### **The Purpose of the Local Code of Governance**

3.4 The Local Code of Governance is a single document that aims:

- To serve as a framework for reviewing and monitoring existing Corporate Governance arrangements.
- To ensure that evidence about governance arrangements is available and to fulfil statutory commitments required in the Annual Governance Statement.
- To help develop plans for improving arrangements for Corporate Governance

### **How Governance Arrangements are Measured**

3.5 The local code is based on six core principles:

1. Focusing on the purpose of the Council and on outcomes for the community, creating and implementing a vision for the local area.
2. Members and Officers working together to achieve a common purpose with clearly defined functions and roles.
3. Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
5. Developing the capacity and capability of Members and Officers to be effective.
6. Engaging with local people and other stakeholders to ensure robust public accountability.

3.6 The Council's Governance arrangements are overseen by a corporate group of senior officers consisting of

- Legal and Democratic Services Officer (Monitoring Officer)
- Director of Finance and Corporate Services
- Director of Community and Planning Services
- Policy & Communications Manager

3.7 On an on-going basis, this group monitors and reviews a detailed self-assessment. This is effectively a checklist which assesses the documents and processes, together with any other means used to measure compliance

with the six supporting principles. This is reported in detail to the Committee in June and is considered as part of the Annual Governance Statement.

3.8 This assessment may identify internal factors and new external requirements that need to be addressed to ensure that the Council maintains effective governance arrangements.

3.9 This is then formulated into an annual work plan that aims to meet any new requirements or identified areas of risk. The work plan approved for 2013/14 with progress is set out in **Appendix 1**. This shows that all actions are on track or have been completed as planned.

#### **4.0 Financial Implications**

4.1 None.

#### **5.0 Corporate Implications**

5.1 The Code covers all of the Council's activities and compliance with it affects all services.

5.2 The self assessment process is an important element in ensuring that the Council reviews its Local Code of Corporate Governance in order to continue to adhere to the six core principles.

#### **6.0 Community Implications**

6.1 A key aim of the authority is community leadership, which is concerned with the style and manner in which the Council operates and how it relates to local people and partners. One important aspect included in this aim are the policies and arrangements for corporate governance.

#### **7.0 Background Papers**

- CIPFA/SOLACE publication "*Delivery Good Governance in Local Government*".

## APPENDIX 1: GOVERNANCE WORK PLAN 2013/14

<b>Work Area</b>	<b>Timescale</b>	<b>Responsible Officer</b>	<b>Progress as at November 13</b>
Continue to review the Local Code of Corporate Governance and to monitor the Governance Work Plan for the year	½ yearly review	Legal and Democratic Services Manager	Completed and included in this report
A new Leadership and Development Programme for Managers	Expected to commence in October 2013	Director of Housing and Environmental Services	Independent service provider appointed. However, discussions on-going regarding specific programmes and affordability.
On-going review of Members' training and development and in particular, their role and responsibilities as community leaders	March 2014	Legal and Democratic Services Manager	No action as yet, induction process for Members ahead of the next District Council Election to be reviewed.
Application of the new Internal Auditing Standards for the Public Sector	March 2014 with a progress report in September 2013	Director of Finance and Corporate Services	Detail of new standards and areas to be addressed were reported to the Committee in September. Application of standards to be formally assessed by March 2014 as planned. This will be reported to the Committee in April 2014.
Introduction of E-Committees	October 2013	Legal and Democratic Services Manager	Implemented
Development of Neighbourhood Plans for local communities	March 2014	Director of Community and Planning Services	As planned, to be reviewed following recent consultation on second part of proposed Local Plan.

Update the Council's Scheme of Delegation to reflect the Council's new structure	July 2013	Legal and Democratic Services Manager	Completed
Review Whistleblowing policy	December 2013	Director of Finance and Corporate Services	<p>Completed.</p> <p>The Code was updated in September following some legislative changes which came into effect on 25<sup>th</sup> June 2013.</p> <p>Changes were made to clarify what constitutes a qualifying disclosure under the policy, how potential breaches of employment contracts should be dealt with, together with protection afforded to whistle blowers.</p>
A Review of the Corporate Plan, 2009 - 2014	March 2014	Director of Finance and Corporate Services	Not yet commenced.