

**DERBYSHIRE COUNTY COUNCIL**

**AUDIT COMMITTEE MEETING**

**22 November 2017**

**Report of the Assistant Director of Finance (Audit)**

**AUDIT SERVICES UNIT – PROGRESS AGAINST AUDIT PLAN 2017-18**

**1. Purpose of Report**

To inform Members of progress against the approved Audit Plan for 2017-18 as at 30 September 2017.

**2. Information & Analysis**

At the meeting of this Committee held on 28 March 2017 Members approved the Audit Plan for 2017-18 which incorporated the outcome of discussions with individual Strategic Directors and the Chief Executive. In accordance with the Audit Committee's Terms of Reference this report updates Members on progress against the Plan for the six months to 30 September 2017 and represents work undertaken during that period which is detailed in Appendix 1. Appendix 2 provides an analysis of the priority criteria for Audit recommendations and assurance levels.

Following the meeting of the Committee in March, and during the update and finalisation of the Unit's IT system for monitoring the Audit Plan, minor amendments were made to the programme of establishment audits; these changes have no effect on the overall number of planned days.

Members should note that the full assurance classification has been removed on the basis that the Unit perform sample testing and consequently cannot formulate an Audit opinion which is based on findings from a complete review of systems and transactions.

Staffing

The Unit has been able to retain a particularly stable staffing base for the past two years and continues to hold one vacancy at Auditor level which is subject to ongoing review.

Operational Matters

Audit Services continues its approved programme of work including the provision of advice to Management at all levels within the Authority. In common with previous years some work forming part of last year's approved

Audit Plan was completed and reported in the current year which is identified at Appendix 1.

Audit staff routinely follow up progress against agreed recommendations as part of subsequent work in that area. During the current year, as part of Departmental reviews, Audit staff will follow up progress against agreed recommendations for those Departmental operational projects completed in the previous year.

A continuing area of work involves IT systems' reviews and assessment of service contracts in compliance with the Authority's ISO27001 standards, the requirements of the General Data Protection Regulation and those of the protocol developed with the Director of Finance and ICT for the approval of new, or enhancements to existing systems. This work includes an assessment of external data centres and supplier's head office information security procedures. In certain cases a contract review may require Audit staff to undertake several, separate visits to fully evaluate the effectiveness of information security systems and procedures.

Audit Services continues its work in respect of fraud and irregularity which places demands on the Unit with input to 11 separate investigations including liaison with the Police where necessary. In addition the Unit is actively involved in the Authority's working group which was established to respond to the national Serious and Organised Crime initiative. This involves the review of the Council's policies, systems and processes to mitigate the risks of intervention by organised crime and close working arrangements with the Police. Audit staff continue to disseminate information provided by the National Anti-Fraud Network and produce newsletters for Members, Strategic Directors and Directors to raise awareness and ensure that the Council is protected against known fraud risks.

Members are aware of the Unit's involvement in additional work relating to property valuations which was identified as an area of concern by the External Auditor and referred to in the last Audit Services Annual Report. This work was fundamental to the External Auditor issuing an unqualified audit opinion on the Authority's 2016/17 financial statements although a number of detailed actions have been agreed. The Unit has deployed resources from the contingency to meet this unplanned work but it may impact on the completion of the approved Audit Plan. I will continue to monitor this situation and take appropriate action to mitigate any associated risks.

Previous collaborative working arrangements have been enhanced by formalising meetings of Heads of Audit under the joint Nottinghamshire and Derbyshire Audit Group. One joint meeting has already been held and further meetings are planned. At this point no further progress has been made regarding future collaborative opportunities for audit services within Derbyshire.

**3. Considerations**

In preparing this report the relevance of the following factors has been considered: financial, legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, social value, property and transport considerations.

**4. Background Papers**

A file held by the Assistant Director of Finance (Audit).

**5. Officer's Recommendation**

That the Committee note the information on progress to date against the approved Audit Plan.

**Carl Hardman**  
**Assistant Director of Finance (Audit)**

**DERBYSHIRE AUDIT SERVICES**  
**INTERNAL AUDIT PLAN 2017/18**

The information summarized below by Service Department identifies the work approved and actual time spent for the period ending 30<sup>th</sup> September 2017.

**Corporate Activities**

It is intended to spend 825 days on the Audit of Corporate Activities which will be allocated over the following areas:-

Audit Area	Plan Days	Actual Days 16-17 17-18		No of Reports	Level of Assurance	Analysis of Recommendations C H M L				Recs Not Acceptd	Recs Not Implmtd	Comments
Corporate Projects												
• Workforce Development/ Succession Planning <i>High Risk</i>	30	-	-	-	-	-	-	-	-	-	-	-
• Cyber Security <i>High Risk</i>	30	-	2	-	-	-	-	-	-	-	-	Continuation of project commissioned by Chief Executive.
• Audit of Corporate Culture <i>High Risk</i>	30	-	-	-	-	-	-	-	-	-	-	-
• Combined Authority <i>High Risk</i>	5	-	-	-	-	-	-	-	-	-	-	-
• Derbyshire CC Development Company <i>Medium/High Risk</i>	25	-	2	-	-	-	-	-	-	-	-	-
• SAP Utilisation <i>Medium/High Risk</i>	20	-	-	-	-	-	-	-	-	-	-	-
• Health and Safety <i>Medium Risk</i>	20	-	-	-	-	-	-	-	-	-	-	-
• D2N2 LEP <i>Medium Risk</i>	*35	-	37	-	-	-	-	-	-	-	-	*15 days transferred from contingency.
• Development of Audit Collaborative Working <i>Medium Risk</i>	10	-	-	-	-	-	-	-	-	-	-	-
• emPSN (SCo & ICo) <i>Medium Risk</i>	5	-	2	-	-	-	-	-	-	-	-	-
• Pay & Grading <i>Medium/High Risk</i>	-	-	3	-	-	-	-	-	-	-	-	-

Key to Recommendations: C – Critical, H – High, M – Medium, L - Low

Audit Area	Plan Days	Actual Days		No of Reports	Level of Assurance	Analysis of Recommendations				Recs Not Acceptd	Recs Not Implmtd	Comments
		16-17	17-18			C	H	M	L			
• Serious & Organised Crime <i>High Risk</i>	-	-	5	-	-	-	-	-	-	-	-	Work in response to national initiative.
• Maintaining & Providing Property in Safe/Suitable Condition <i>High Risk</i>	*13	13	-	1	Limited	-	2	5	-	-	-	Memo relates to 2016/17. *13 days transferred from contingency.
• Review of Grants <i>Medium/High Risk</i>	-	1	-	1	Qualified	-	2	5	1	-	-	Memo relates to 2016/17.
Corporate Fraud Prevention <i>High Risk</i>	480	75	132	7	-	-	-	-	-	-	-	This includes work on NFI, publication of NAFN alerts, surveillance and data communications compliance, liaison with external audit, work on 11 investigations 7 of which relate to previous years including liaison with the Police. Special Investigation Report recommendations are not categorized.
Audit Contingency	*40	-	-	-	-	-	-	-	-	-	-	Original contingency was 150 days less transfers of 110.
<b>TOTAL</b>	<b>743</b>	<b>89</b>	<b>183</b>	<b>9</b>		<b>-</b>	<b>4</b>	<b>10</b>	<b>1</b>	<b>-</b>	<b>-</b>	

**Chief Executive's Office and Corporate Resources**

It is intended to spend 860 days on the Audit of the Chief Executive's Office and Corporate Resources Department which will be allocated over the following areas:-

Audit Area	Plan Days	Actual Days 16-17	Actual Days 17-18	No of Reports	Level of Assurance	Analysis of Recommendations				Recs Not Acceptd	Recs Not Implmtd	Comments
Departmental Review - Management & Administration <i>Medium Risk</i>	60	31	8	-	-	-	-	-	-	-	-	Completion of 2016/17 work. Memo to be finalised.
Governance <i>High Risk</i> including:- • Corporate Governance	110	-	35	-	-	-	-	-	-	-	-	Work to support Governance Group and, production of Annual Governance Statement.
• Corporate Health Check		4	-	1	Qualified	-	-	7	-	-	-	Memo relates to 2016/17.
• Business Continuity Planning		-	-	-	-	-	-	-	-	-	-	-
• ISO27001 Review		-	28	-	-	-	-	-	-	-	-	-
External Grants & Certifications <i>Medium/High Risk</i>	20	-	4	-	-	-	-	-	-	-	-	-
Policy, Performance & Innovations Leadership <i>Medium/High Risk</i>	15	-	-	-	-	-	-	-	-	-	-	-
Information Security Reviews <i>Medium/High Risk</i>	25	-	32	3	Other	-	-	-	-	-	-	New and enhanced IT systems which require approval by Director of Finance and ICT, site visits to assess suppliers' head office and data centre procedures, compliance with data protection requirements and involvement in project teams.
Services to Members <i>High Risk</i>	*12	12	-	-	-	-	-	-	-	-	-	Completion of 2016/17 work. *12 days transferred from contingency.
<b>Divisional Activity</b>												
Corporate Finance												
Probity and Compliance <i>Medium/High Risk</i>	95	5	52	3	1 Substantial 2 Qualified	-	10	15	9	1H,1M, 1L	4M	1 Memo relates to 2016/17.
Major Systems <i>High Risk</i>	*320	31	150	3	1 Substantial 2 Qualified	-	2	16	11	5M,3L	1H,5M	Due to the nature of these key reviews they are routinely work in progress at the year end. Work on

**Key to Recommendations: C – Critical, H – High, M – Medium, L - Low**

Audit Area	Plan Days	Actual Days 16-17 17-18		No of Reports	Level of Audit Assurance	Analysis of Recommendations C H M L				Recs Not Acceptd	Recs Not Implmtd	Comments
												Accounts Payable, Treasury Management and Funds Management reported in the current year. Additional work was required to provide assurance to External Audit in respect of the processes for valuing and recording land and buildings in the Accounts. <i>*30 days transferred from contingency.</i>
Corporate/Departmental IT Services <i>Medium/High Risk</i>	180	8	106	4	1 Qualified 3 Other	-	1	7	4	1H,2M	3M,1L	Work includes planned IT reviews, reviews of new systems and system enhancements which require approval by Director of Finance and ICT, site visits to assess suppliers' head office and data centre procedures, compliance with data protection requirements and involvement in project teams.
County Property <i>Medium/High Risk</i>	45	-	5	1	Other	-	-	-	-	-	-	Fixed Income system.
Regulatory Coroner's Service <i>Medium/Low Risk</i>	20	2	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>902</b>	<b>93</b>	<b>420</b>	<b>15</b>		<b>-</b>	<b>13</b>	<b>45</b>	<b>24</b>	<b>14</b>	<b>14</b>	



**Children's Services**

It is intended to spend 686 days on the Audit of the Children's Services Department which will be allocated over the following areas:-

Audit Area	Plan Days	Actual Days		No of Reports	Level of Assurance	Analysis of Recommendations				Recs Not Acceptd	Recs Not Implmtd	Comments
		16-17	17-18			C	H	M	L			
Departmental Review - Management & Administration <i>Medium Risk</i>	45	-	51	-	-	-	-	-	-	-	-	-
Information Security Reviews <i>Medium/High Risk</i>	30	-	41	3	Other	-	-	-	-	-	-	New and enhanced IT systems which require approval by Director of Finance and ICT, site visits to assess suppliers' head office and data centre procedures, compliance with data protection requirements and involvement in project teams.
Schools Primary & Special <i>Medium/High Risk</i>	364	-	191	22	1 Substantial 18 Qualified 3 Limited	1	155	189	144	4H,5M,1L	95H,78M,7L	It should be noted that Audit opinions and recommendations made relating to schools and establishments are categorized in relation to the school or establishment and not the Authority.
Secondary <i>Medium/High Risk</i>	49	-	14	-	-	-	-	-	-	-	-	-
Information Security Reviews <i>Medium/High Risk</i>	40	2	17	2	Other	-	-	-	-	-	-	New and enhanced IT systems which require approval by Director of Finance and ICT, site visits to assess suppliers' head office and data centre procedures, compliance with data protection requirements and involvement in project teams.
School Learning & Support Centres <i>Medium/High Risk</i>	12	-	5	-	-	-	-	-	-	-	-	-
Children's Homes <i>Medium/High Risk</i>	36	-	22	4	2 Qualified 2 Limited	1	12	30	9	-	11H,15M,2L	-
Derbyshire Outdoors <i>Medium/Low Risk</i>	10	-	-	-	-	-	-	-	-	-	-	-
Troubled Families Programme <i>Low Risk</i>	20	-	12	-	Not applicable	-	-	-	-	-	-	-
Themed & Operational • Commissioning and Partnership Working <i>High Risk</i>	25	-	5	-	-	-	-	-	-	-	-	-

**Key to Recommendations: C – Critical, H – High, M – Medium, L - Low**

Audit Area	Plan Days	Actual Days		No of Reports	Level of Assurance	Analysis of Recommendations				Recs Not Acceptd	Recs Not Implmtd	Comments
		16-17	17-18			C	H	M	L			
• Impact of Increased Number/Cost of Children in Care <i>High Risk</i>	15	-	1	-	-	-	-	-	-	-	-	-
• Provision of Youth Services <i>High Risk</i>	20	-	1	-	-	-	-	-	-	-	-	-
• Early Years <i>Medium/High Risk</i>	20	-	21	1	Qualified	-	4	5	2	-	1M	-
<b>TOTAL</b>	<b>686</b>	<b>2</b>	<b>381</b>	<b>32</b>		<b>2</b>	<b>171</b>	<b>224</b>	<b>155</b>	<b>10</b>	<b>209</b>	

**Adult Care**

It is intended to spend 388 days on the Audit of the Adult Care Department which will be allocated over the following areas:-

Audit Area	Plan Days	Actual Days		No of Reports	Level of Assurance	Analysis of Recommendations				Recs Not Acceptd	Recs Not Implmtd	Comments
		16-17	17-18			C	H	M	L			
Departmental Review - Management & Administration <i>Medium Risk</i>	45	-	18	-	-	-	-	-	-	-	-	-
Information Security Reviews <i>Medium/High Risk</i>	80	12	30	6	Other	-	-	-	-	-	-	New and enhanced IT systems which require approval by Director of Finance and ICT, site visits to assess suppliers' head office and data centre procedures, compliance with data protection requirements and involvement in project teams.
Social Care Elderly Residential <i>Medium/High Risk</i>	60	-	33	6	5 Qualified 1 Limited	-	24	43	14	1H,1M	9H,19M, 3L	It should be noted that Audit opinions and recommendations made relating to establishments are categorized in relation to the establishment and not the Authority.
Physical/Mental Disability <i>Medium/High Risk</i>	28	-	4	1	Qualified	-	1	6	1	-	2H	-
Day Care & Hostels <i>Medium/High Risk</i>	24	-	-	-	-	-	-	-	-	-	-	-
Community Care Centres <i>Medium/High Risk</i>	16	-	-	-	-	-	-	-	-	-	-	-
Themed & Operational												
• Public Health <i>High Risk</i>	30	17	-	1	Qualified	-	4	4	4	1H	3H,4M, 1L	Memo relates to 2016/17.
• Better Care Funding <i>High Risk</i>	30	6	-	-	-	-	-	-	-	-	-	-
• Impact of Welfare Reform <i>High Risk</i>	25	-	10	-	-	-	-	-	-	-	-	-
• Continuing Health Care <i>High Risk</i>	25	-	21	1	Qualified	-	4	4	4	-	-	-
• Direct Payments <i>Medium/High Risk</i>	25	-	31	-	-	-	-	-	-	-	-	-

Key to Recommendations: C – Critical, H – High, M – Medium, L - Low

Audit Area	Plan Days	Actual Days		No of Reports	Level of Assurance	Analysis of Recommendations				Recs Not Acceptd	Recs Not Implmtd	Comments
		16-17	17-18			C	H	M	L			
• Emergency Response & Service Continuity <i>Medium/High Risk</i>	*10	11	-	-	-	-	-	-	-	-	-	Completion of 2016/17 work. *10 days transferred from contingency.
<b>TOTAL</b>	<b>398</b>	<b>46</b>	<b>147</b>	<b>15</b>		<b>-</b>	<b>33</b>	<b>57</b>	<b>23</b>	<b>3</b>	<b>41</b>	

**Economy, Transport & Communities**

It is intended to spend 155 days on the Audit of the Economy, Transport & Communities Department which will be allocated over the following areas:-

Audit Area	Plan Days	Actual Days 16-17 17-18		No of Reports	Level of Assurance	Analysis of Recommendations C H M L				Recs Not Acceptd	Recs Not Implmtd	Comments
Departmental Review - Management & Administration <i>Medium Risk</i>	45	1	3	1	Qualified	-	9	8	5	3H,1M	7M	Memo relates to 2016/17.
Information Security Reviews <i>Medium/High Risk</i>	10	3	-	1	Other	-	-	-	-	-	-	New and enhanced IT systems which require approval by Director of Finance and ICT, site visits to assess suppliers' head office and data centre procedures, compliance with data protection requirements and involvement in project teams.
Themed & Operational • Public Transport and Procurement of Taxis <i>Medium/High Risk</i>	25	5	-	1	Limited	-	1	-	-	-	-	Memo relates to 2016/17 – high level review. Detailed review planned in current year.
• Waste Management <i>Medium/High Risk</i>	25	-	21	1	Substantial	-	-	3	5	2L	-	-
• Regeneration <i>Medium/High Risk</i>	20	-	-	-	-	-	-	-	-	-	-	-
• Trading Standards <i>Medium/High Risk</i>	20	-	3	-	-	-	-	-	-	-	-	-
• Digital Derbyshire <i>Medium/High Risk</i>	10	-	-	-	-	-	-	-	-	-	-	-
• Community Safety <i>Medium/High Risk</i>	*30	35	-	-	-	-	-	-	-	-	-	Completion of 2016/17 work. *30 days transferred from contingency.
<b>TOTAL</b>	<b>185</b>	<b>44</b>	<b>27</b>	<b>4</b>		<b>-</b>	<b>10</b>	<b>11</b>	<b>10</b>	<b>6</b>	<b>7</b>	

### **Audit Recommendations**

Audit recommendations are categorized depending upon the level of associated risk and impact upon the management control framework as follows:-

Level	Category	Definition
1	Critical	Significant strategic, financial or reputational risks where immediate remedial action is considered essential.
2	High	The absence of, significant weaknesses in, or inadequate internal controls over, the operation of key systems or processes which compromise the integrity/probity of the client's operations. These would result in a potential significant increase in the level of risk exposure which may be financial, reputational or take the form of an increased risk of litigation.
3	Medium	Findings which identify poor working practices or non-compliance with established systems or procedures which result in increased risk of loss/inefficient operation and which expose the client to an increased level of risk.
4	Low	General housekeeping issues which require consideration and a planned implementation date within the medium term.

### **Audit Opinions**

Audit opinions are categorized based upon the assurance that Management may draw on the adequacy and effectiveness of the overall control framework in operation as follows:

Level of Assurance	Explanation and significance
Substantial Assurance	Whilst there is a sound system of control minor weaknesses have been identified which include non-compliance with some control processes. No significant risks to the system/audit area objectives have been detected.
Qualified Assurance	Whilst there is basically a sound system of control some high priority recommendations have been made to address potentially significant or serious weaknesses and/or evidence of a level of non-compliance with some controls identified which may put system/audit area objectives at risk. Should these weaknesses remain unaddressed they may expose the Council to reputational risk or significant control failure.
Limited Assurance	Significant weaknesses and/or non-compliance have been identified in key areas of the control system which expose the system/audit area to a high risk of failure and the Council to significant reputational risk.
No Assurance	Control has been judged to be inadequate as systems weaknesses have been identified in numerous key areas rendering the overall system of internal control ineffective and leaving the system/audit area open to a significant risk of error, loss, misappropriation or abuse.