

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE MEETING

28 March 2017

Report of the Assistant Director of Finance (Audit)

INTERNAL AUDIT PLAN 2017-18

1. Purpose of Report

To present to Members for consideration and approval the proposed Audit Plan for 2017-18.

2. Information & Analysis

The Audit Plan is designed to provide assurance that the significant risks identified as part of the risk assessment process are being managed effectively and, where appropriate, to make recommendations for improvements in overall control, efficiency and effectiveness. As part of this process Audit Services will also examine risk management frameworks, control and governance arrangements.

The Audit Plan has been formulated from our risk assessment drawn from a wide range of sources including the Council Plan, the Council's strategic risk register, Departmental risk registers, service plans and meetings with the Chief Executive, Strategic Directors and the Director of Finance. As part of this process Audit projects have been identified which will be developed specifically to address key Corporate and Departmental risks and build on those areas where frauds/control weaknesses have previously been identified.

The Audit Plan will, as in previous years, be continually reviewed to ensure that it remains aligned with significant risks whilst remaining responsive to changes in risk, operations, systems and controls. Any amendments will be identified through Audit Services' ongoing liaison and discussions with the Audit Committee, Chief Executive, Strategic Directors, Directors and Senior Managers. Progress against the approved Audit Plan will be monitored and regularly reported to the Audit Committee.

The Audit Plan for 2017-18 is based on a staffing structure which provides for the deployment of approximately 15.5 full time equivalents to deliver 2,914 Audit days (2016-17 2,857 days). The Unit is currently carrying a vacant post which, due to a number of operational factors, has not been filled; this situation is subject to on-going review.

The Unit provides a full range of Audit services using only in-house staff, including the specialist areas of investigative and IT Audit work. This level of resource is required in order that we are able to provide an adequate and effective service and the necessary overall Audit opinion required for the Authority.

The Plan has been communicated to External Audit and whilst the duties placed on Internal Audit and External Audit are different and distinct, their aims and objectives are complementary. We continue to work together in accordance with the agreed External and Internal Audit Protocol.

The Audit Services' Plan is attached at Appendix 1 to this Report and details the Audit Services' coverage for all Departments and the Corporate Authority, and identifies the perceived level of risk, the resource to be employed and the expected outcomes of Audit work. Timetabling of the individual projects will be agreed with Corporate and Departmental Management on an ongoing basis throughout the year, and this will be informed by the findings and emerging initiatives identified.

3. Legal Considerations

The Audit Services Unit discharges the Authority's statutory responsibilities under Regulation 5 of the Accounts & Audit Regulations 2015 and significant aspects of the Director of Finance's statutory duties under Section 151, Local Government Act 1972.

The Head of Internal Audit (HIA) is also required to provide a formal controls assurance statement and opinion which contributes to the Authority's Annual Governance Statement. This is one of the main sources of objective assurance that Chief Executives have for their annual governance report. This opinion must reflect the work done during the year and it must summarise the main findings and conclusions together with any specific concerns the HIA has. The Audit work should address key risk areas and draw attention to significant concerns and what needs to be done. The HIA must express concerns where they exist.

4. Other Considerations

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

5. Background Papers

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

6. Officer's Recommendation

That the Audit Committee consider and approve the Audit Services' Plan for 2017-18 details of which are attached at Appendix 1.

Carl Hardman
Assistant Director of Finance (Audit)

DERBYSHIRE COUNTY COUNCIL
AUDIT SERVICES PLAN
2017/18

CARL HARDMAN
Assistant Director of Finance (Audit)



Background

The Audit Services Unit discharges the Authority's statutory responsibilities under Regulation 5 of the Accounts & Audit Regulations 2015 and significant aspects of the Director of Finance's statutory duties under Section 151 of the Local Government Act 1972. The Unit also works with the Council's appointed auditors KPMG in accordance with the agreed protocol. The role and responsibilities of the Unit are further clarified and reinforced in the Council's Financial Regulations and Standing Orders Relating to Contracts, Audit Charter, Anti-Fraud and Anti-Corruption Strategy, Fraud Response Plan and the requirements of Whistleblowing The Confidential Reporting Code.

The Mission of Audit Services is to enhance and protect organisational value by providing risk based assurance, advice and insight.

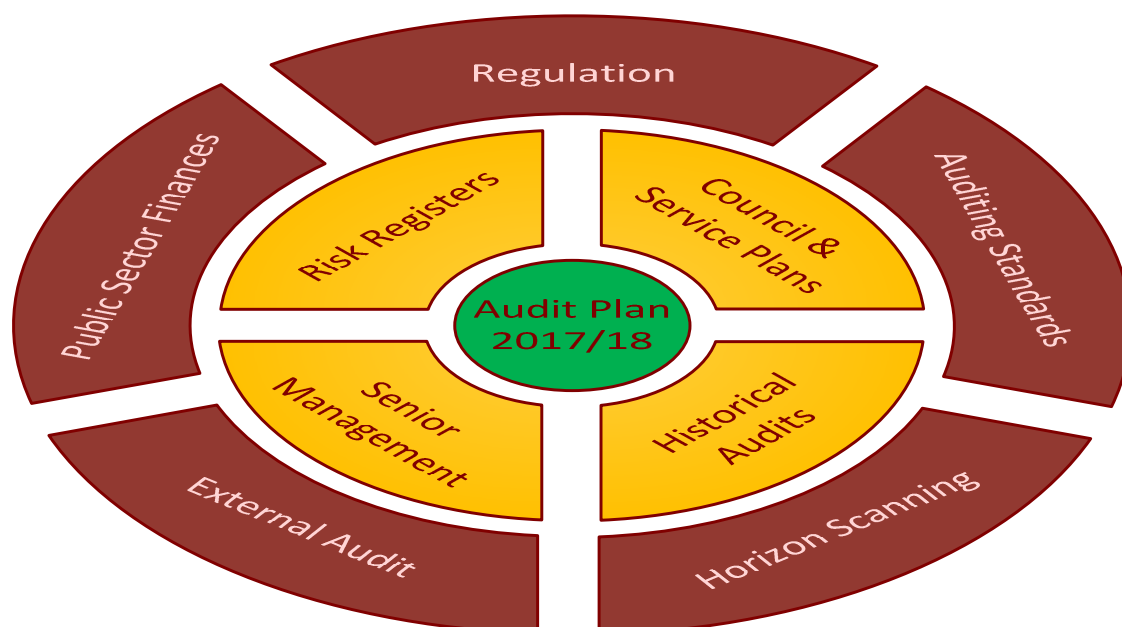
The Public Sector Internal Audit Standards (PSIAS) are recognised under the Accounts and Audit Regulations as the relevant, best practice benchmark for the provision of an adequate and effective internal audit service. The PSIAS define internal auditing as "an independent, objective assurance and consulting 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."

The PSIAS also requires that the "chief audit executive (Assistant Director of Finance (Audit)) is responsible for developing a risk-based plan.... The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework."

Risk Assessment Process

The Audit Plan has been formulated from our risk assessment drawn from a wide range of sources including the Council Plan, the Council's strategic risk register, Departmental risk registers, service plans and meetings with the Chief Executive, Strategic Directors and the Director of Finance. The chart overleaf identifies key factors which influence our risk assessment.

As part of this process Audit projects have been identified which will be developed specifically to address key Corporate and Departmental risks and build on those areas where frauds/control weaknesses have previously been identified. The Council provides a wide range of diverse services in a dynamic environment with limited resources which are under increasing pressure.



Audit Plan

The Audit Plan is designed to provide assurance that the significant risks identified as part of the risk assessment process are being managed effectively and, where appropriate, to make recommendations for improvements in overall control, efficiency and effectiveness. As part of this process Audit Services will also examine risk management frameworks, control and governance arrangements.

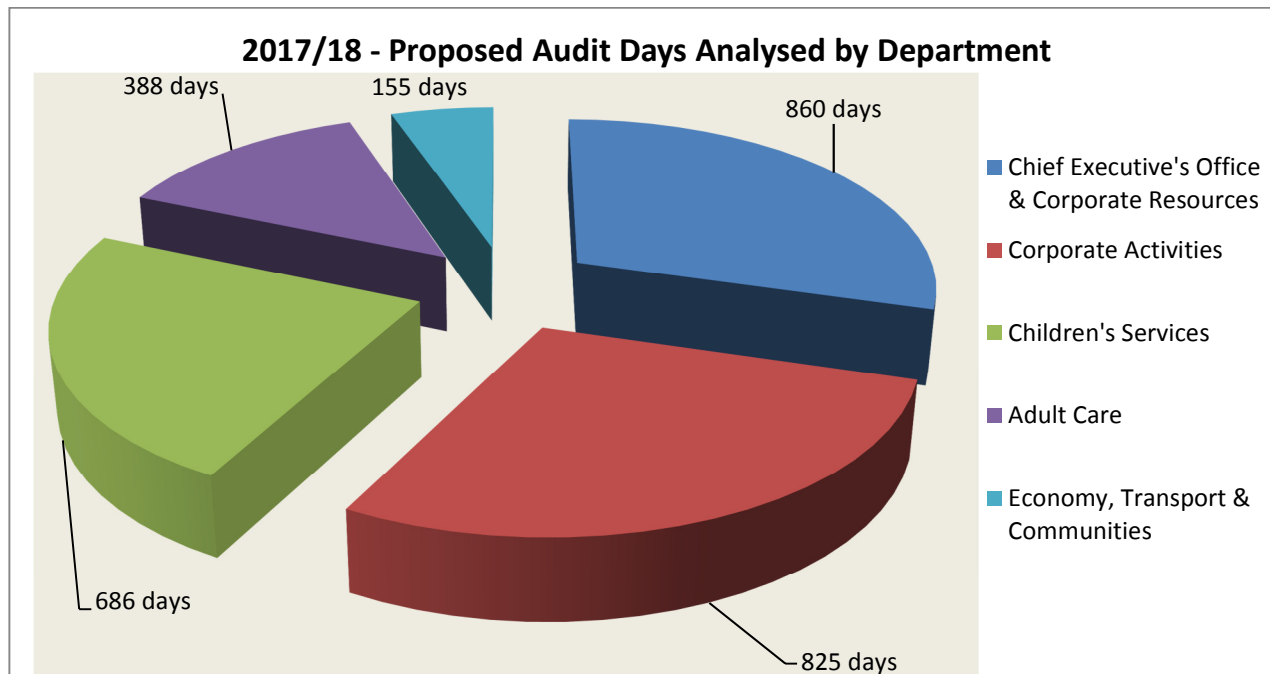
Audit Services also recognise the requirement to provide Members and Senior Management with assurance on the operation of core financial systems and will continue our programme of compliance and probity reviews of other services, systems and processes according to an assessment of risk and business need. This will include financial, administrative and operational systems and establishments including schools, residential homes and care centres. Our work will also include an assessment of new, revised and existing IT systems to verify their compliance with the Authority's ISO27001 accreditation and Departmental service priorities.

Audit Services will seek to identify opportunities to improve value for money through its on-going programme of reviews and specific project work.

The Authority takes a robust stance against fraud and corruption whether it is attempted on or from within the Council. The Audit Plan includes provision for this work based on previous experience; actual time spent will vary depending on the number and complexity of matters which require investigation. As part of this work referrals are made to the Police where potential criminal activity is detected and, where required, specific reports are produced to assist Management by recommending where control frameworks require strengthening.

Audits which make up the Audit Plan are assigned a priority ranking and resources are directed at those areas of highest risk. Should unforeseen events impact on the delivery of the Audit Plan then those areas considered to be of lower risk may not be completed.

The Audit Plan will, as in previous years, be continually reviewed to ensure that it remains aligned with significant risks whilst remaining responsive to changes in risk, operations, systems and controls. Any amendments will be identified through Audit Services' ongoing liaison and discussions with the Audit Committee, Chief Executive, Strategic Directors, Directors and Senior Managers. Progress against the approved Audit Plan will be monitored and regularly reported to the Audit Committee.

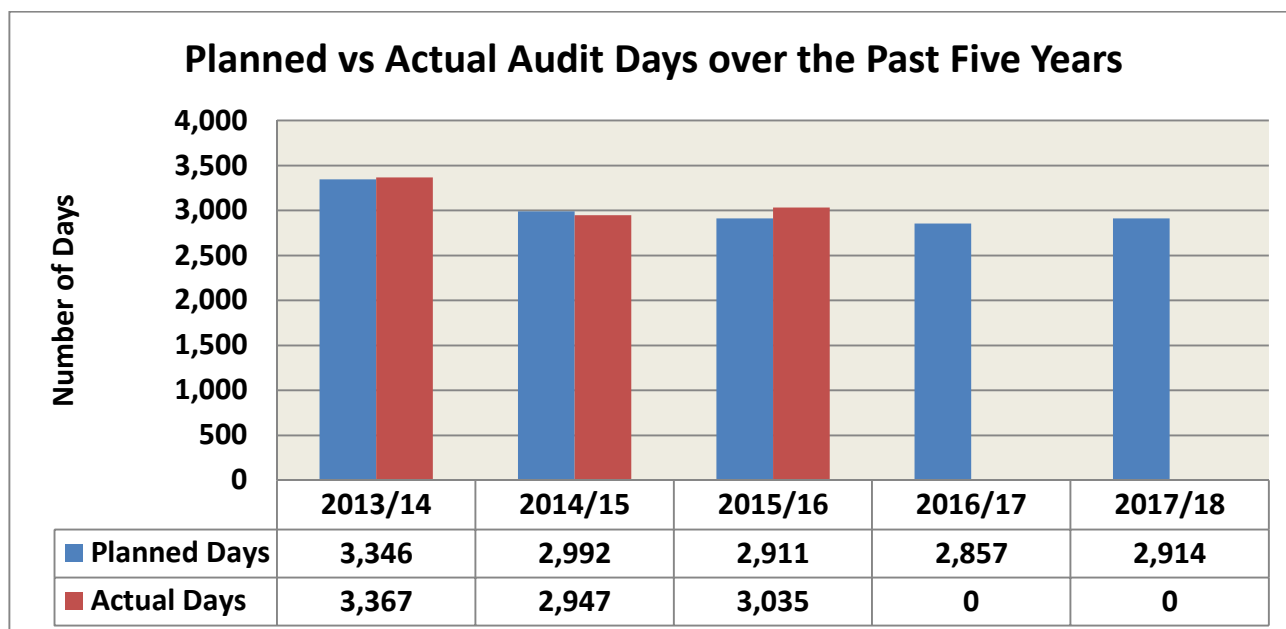


Resources

Resource requirements are considered each year as part of the Audit planning process. The Authority continues to operate under increasing financial pressures and the need to seek innovative working methods, generate income and cashable savings is essential in helping to protect vital services.

The Audit Plan for 2017-18 is based on a staffing structure which provides for the deployment of approximately 15.5 full time equivalents. The Unit continues to carry a vacant post which, due to a number of operational factors, has not been filled; this situation is subject to on-going review. The Unit provides a full range of Audit services using only in-house staff, including the specialist areas of investigative and IT Audit work.

The Audit Plan for 2017-18 requires the deployment of 2,914 Audit days and is set at a similar level to that of the previous year. The detailed Audit Plan is shown on pages 7 to 16 and includes a contingency of 150 Audit days to cover unforeseen events and enable the Unit to be reactive and able to respond to situations which may arise throughout the year which are not included in the Plan. The following table analyses planned and actual Audit days delivered during recent years:-



Delivery of Audit Work

The scope and timing of Audit work will be discussed with Management and all Audit assignments will be reported to the appropriate levels of Management on completion. Audit staff will provide an opinion and a level of assurance which Management may draw from the adequacy and effectiveness of the overall control framework in operation in the area subject to Audit based on the results of our work.

Audit staff will support Management by making prioritised recommendations based on our findings which will, if implemented, improve the effectiveness, efficiency and adequacy of the internal control framework. These recommendations are incorporated into an Action Plan. Recommendations are classified as those which will result in improvements in governance and control and those which will result in improvements in efficiency and effectiveness.

Audit Services continues to develop opportunities to streamline service delivery through the use of IT and the remote capture of information to assist in maximising the effectiveness of Audit resources and reduce the impact of Audit visits on operational staff.

Annual Audit Report

The Audit Services' Annual Report draws together the results of the work undertaken against the approved Audit Plan and is a requirement of the PSIAS which states that the "chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control."

The annual report must incorporate:

- the opinion;

- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

External Audit

We continue to work with External Audit in accordance with the agreed External and Internal Audit Protocol and the findings from work carried out by Audit Services is used by External Audit to inform their risk assessment and develop their programme of work. This in turn supports their assessment that the statement of accounts fairly presents the Council's financial position and the adequacy of the Council's arrangements for ensuring the economic, efficient and effective use of resources. The findings of Audit Services' work is a key contributor to the Authority's Annual Governance Statement.

DERBYSHIRE AUDIT SERVICES
INTERNAL AUDIT PLAN 2017/18

The information summarized below by Service Department identifies our work for the year totalling 2,914 days and the expected outcomes of that work for the Authority.

Chief Executive's Office and Corporate Resources Department

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	Audit Days	Expected Outcomes
Departmental Review Management & Administration <i>Medium Risk</i>	60	<p>Provision of an assurance to the Chief Executive, Strategic Director of Corporate Resources and Members with regard to the identified Audit areas.</p> <p>Review of key Departmental systems and processes to assess and ensure the:-</p> <ul style="list-style-type: none"> • continued, effective operation of core systems within the Department, • consistent application and dissemination of the Authority's Policy framework, • compliance with internal and external regulatory requirements, • effective discharge within the Departments of delegated responsibilities/requirements in relation to Corporate Governance, • effective operation of financial systems, • effectiveness of risk management arrangements.
Governance <i>High Risk</i> including:- <ul style="list-style-type: none"> • Corporate Governance • Corporate Health Check • Business Continuity Planning • ISO27001 Review 	110	<p>Compliance with key probity, legislative and accountability requirements placed upon the Corporate Authority. Work on Annual Governance Statement and attendance and support to the Authority's Audit Committee and Governance Group. (40 days)</p> <p>Strategic review of the overall control environment including compliance with key legislative requirements. (20 days)</p> <p>Assessment of the arrangements to ensure that the Authority can maintain the provision of essential services in the event of a major disaster/disruption to facilities. (20 days)</p> <p>Attendance at Information Governance Group, review of associated IT security policies and the maintenance of the Information Security Management System. (30 days)</p>

Audit Area	Audit Days	Expected Outcomes
External Grants and Certifications <i>Medium/High Risk</i>	20	Review and certification of grant claims to support external funding.
Policy, Performance and Innovations Leadership <i>Medium/High Risk</i>	15	Involvement in this key policy initiative to reshape service delivery, develop innovation projects and drive efficient and effective service provision.
Information Security Reviews <i>Medium/High Risk</i>	25	IT system testing and head office visits to ensure systems do not compromise the Council's ISO accreditation in compliance with ISO27001 standards and the requirements of the protocol developed with the Director of Finance.
Divisional Activity		
Corporate Finance Probity and Compliance <i>Medium/High Risk</i>	95	Assessment of the overall level of compliance with key statutory/legislative requirements and the probity of systems and adequacy of internal controls relating to pensions administration, the movement of cash and ISO27001 compliance together with the adequacy of insurance and risk management arrangements.
Major Systems <i>High Risk</i>	290	Essential, annual reviews of designated key financial systems operated by the Council including human resources, accounts payable, accounts receivable, Corporate purchasing, accountancy and budgetary control, assets and funds management.
Corporate/Departmental Services <i>Medium/High Risk</i>	IT 180	Includes assessments of new and existing IT systems together with specific reviews of the network infrastructure, database and server management and the BACSTEL-IP system.
County Property <i>Medium/High Risk</i>	45	Review of key systems operated within the Property Division and Business Units.
Regulatory Coroner's Service <i>Medium/Low Risk</i>	20	Provision of an assurance on the adequacy and effectiveness of systems in operation and the overall control environment.

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	Audit Days	Expected Outcomes
Corporate Projects		
<ul style="list-style-type: none"> Workforce Development/Succession Planning <i>High Risk</i> 	30	Review of the adequacy and effectiveness of systems in place to identify significant workforce issues, develop appropriate skill sets and workforce capacity.
<ul style="list-style-type: none"> Cyber Security <i>High Risk</i> 	30	Review of the adequacy and effectiveness of systems in place to protect information systems (hardware, software and associated infrastructure), the data on them and the services they provide, from unauthorised access, harm or misuse whether intentional or accidental.
<ul style="list-style-type: none"> Audit of Corporate Culture <i>High Risk</i> 	30	Review of the adequacy and effectiveness of governance arrangements, communication and ethics which underpin the purpose, vision, values and priorities of the Council.
<ul style="list-style-type: none"> Combined Authority <i>High Risk</i> 	5	Review of governance and operational arrangements to develop this key policy initiative and deliver improvements in economic regeneration and transport.
<ul style="list-style-type: none"> Derbyshire CC Development Company <i>Medium/High Risk</i> 	25	Review of governance arrangements, consideration and formulation of strategic aims and effectiveness of monitoring procedures to deliver the company's objectives.
<ul style="list-style-type: none"> SAP Utilisation <i>Medium/High Risk</i> 	20	Review of the adequacy and effectiveness of SAP in supporting and developing service delivery and providing an effective control framework.
<ul style="list-style-type: none"> Health and Safety <i>Medium/High Risk</i> 	20	Review of the adequacy and effectiveness of systems in place to ensure compliance with statutory and regulatory requirements, identify, mitigate and record health and safety risks.

Audit Area	Audit Days	Expected Outcomes
<ul style="list-style-type: none"> D2N2 LEP <i>Medium Risk</i> 	20	Provision of internal audit as part of the Council's Accountable Body responsibilities.
<ul style="list-style-type: none"> Development of Audit Collaborative Working <i>Medium Risk</i> 	10	Development of collaborative working protocols between Derbyshire and Nottinghamshire Audit Groups and Chesterfield Borough, Bolsover, North East Derbyshire and Derbyshire Dales District Councils and the County Council.
<ul style="list-style-type: none"> emPSN (SCo & ICo) <i>Medium Risk</i> 	5	Attendance at Audit Committee meetings for both companies as the County Council's appointee as a contributor to the adequacy and effectiveness of systems and internal controls in place to deliver the objectives of this collaborative project to Derbyshire schools.
Corporate Fraud Prevention <i>High Risk</i>	480	Part of the County Council's Corporate Fraud Prevention culture including liaison with External Audit, National Fraud Initiative, National Anti-Fraud Network, RIPA management and the provision for investigative reviews of areas of irregularity/suspected fraud identified within the year.
Audit Contingency	150	A 5% contingency for unforeseen work and to mitigate the impact of vacancies within the Unit, based on the experience of recent years.

Children's Services Department

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	Audit Days	Expected Outcomes
Departmental Review Management & Administration <i>Medium Risk</i>	45	Provision of an assurance to the Strategic Director of Children's Services and Members with regard to the identified Audit areas. Review of key Departmental systems and processes to assess and ensure the:- <ul style="list-style-type: none"> • continued, effective operation of core systems within the Department, • consistent application and dissemination of the Authority's Policy framework, • compliance with internal and external regulatory requirements, • effective discharge within the Department of delegated responsibilities/requirements in relation to Corporate Governance, • effective operation of financial systems, • effectiveness of risk management arrangements.
Information Security Reviews <i>Medium/High Risk</i>	30	IT system testing and head office visits to ensure systems do not compromise the Council's ISO accreditation in compliance with ISO27001 standards and the requirements of the protocol developed with the Director of Finance.
Schools Primary and Special <i>Medium/High Risk</i>	364	Provision of an assurance to Governors and the Corporate Authority regarding the adequacy and effectiveness of governance arrangements, financial systems and other operational procedures. Also to discharge the Section 151 Officer's duty to ensure compliance with auditing requirements as specified by the DfE. (77 Primary School, 4 Special School and 7 Secondary School visits are planned). The period between Audit visits is normally four years for primary and special schools and three years for secondary schools. However, in those instances where significant problems have been identified, which have reduced the level of assurance given, visits will be made on an annual/biennial basis determined by the level of concern.
Secondary <i>Medium/High Risk</i>	49	
Information Security Reviews <i>Medium/High Risk</i>	40	IT system testing and head office visits to ensure systems incorporate robust and effective controls in compliance with the requirements of the protocol developed with the Director of Finance.

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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	Audit Days	Expected Outcomes
Departmental Review Management & Administration <i>Medium Risk</i>	45	Provision of an assurance to the Strategic Director of Adult Care and Members with regard to the identified Audit areas. Review of key Departmental systems and processes to assess and ensure the:- <ul style="list-style-type: none"> • continued, effective operation of core systems within the Department, • consistent application and dissemination of the Authority's Policy framework, • compliance with internal and external regulatory requirements, • effective discharge within the Department of delegated responsibilities/requirements in relation to Corporate Governance, • effective operation of financial systems, • effectiveness of risk management arrangements.
Information Security Reviews <i>Medium/High Risk</i>	80	IT system testing and head office visits to ensure systems do not compromise the Council's ISO accreditation in compliance with ISO27001 standards and the requirements of the protocol developed with the Director of Finance.
Social Care Elderly Residential Physical/Mental Disability Day Care & Hostels Community Care Centres <i>Medium/High Risk</i>	60 28 16 24	Provide an assurance regarding the adequacy and effectiveness of systems in operation and the overall control environment. The period between Audit visits for establishments is normally set at two years except where significant problems have been identified which have reduced the level of assurance given and where, as a result, visits will be made on an annual basis.
Themed and Operational • Public Health <i>High Risk</i> • Better Care Funding <i>High Risk</i> • Impact of Welfare Reform <i>High Risk</i>	30 30 25))))) Provision of an assurance on the adequacy and effectiveness of systems in operation, risk) management and the overall control environment.

Audit Area	Audit Days	Expected Outcomes
<ul style="list-style-type: none">Continuing Health Care <i>High Risk</i>Direct Payments <i>Medium/High Risk</i>	<div>25</div> <div>25</div>	<div>)</div> <div>)</div> <div>)</div> <div>)</div>

Economy, Transport and Communities

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

Audit Area	Audit Days	Expected Outcomes
Departmental Review Management & Administration <i>Medium Risk</i>	45	Provision of an assurance to the Strategic Director of Economy, Transport and Communities and Members with regard to the identified Audit areas. Review of key Departmental systems and processes to assess and ensure the:- <ul style="list-style-type: none"> • continued, effective operation of core systems within the Department, • consistent application and dissemination of the Authority's Policy framework, • compliance with internal and external regulatory requirements, • effective discharge within the Department of delegated responsibilities/requirements in relation to Corporate Governance, • effective operation of financial systems, • effectiveness of risk management arrangements.
Information Security Reviews <i>Medium/High Risk</i>	10	IT system testing and head office visits to ensure systems do not compromise the Council's ISO accreditation in compliance with ISO27001 standards and the requirements of the protocol developed with the Director of Finance.
Themed and Operational		
• Public Transport and Procurement of Taxis <i>Medium/High Risk</i>	25)
• Waste Management <i>Medium/High Risk</i>	25)
• Regeneration <i>Medium/High Risk</i>	20)
• Trading Standards <i>Medium/High Risk</i>	20)
• Digital Derbyshire <i>Medium/High Risk</i>	10)
) Provision of an assurance on the adequacy and effectiveness of systems in operation, risk management and the overall control environment.