

**DERBYSHIRE COUNTY COUNCIL**

**AUDIT COMMITTEE MEETING**

**7 February 2017**

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

**AUDIT SERVICES UNIT – PROGRESS AGAINST AUDIT PLAN 2016-17**

**1. Purpose of Report**

To inform Members of progress against the approved Audit Plan for 2016-17 as at 31 December 2016.

**2. Information & Analysis**

At the meeting of this Committee held on 29 March 2016 Members approved the Audit Plan for 2016-17 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 nine months to 31 December 2016 and represents work undertaken during that period which is detailed in Appendix 1. An analysis of the priority criteria for Audit recommendations and assurance levels is shown in Appendix 2.

Staffing

The Unit continues to retain a particularly stable staffing base which significantly aids operational planning and delivery of Audit work. One vacancy at Auditor level is held and 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 elements of work forming part of last year's approved Audit Plan was completed and reported in the current year which is identified at Appendix 1.

An expanding area of work involves IT systems' reviews and assessment of service contracts in compliance with the Authority's ISO27001 standards and the requirements of the protocol developed with the Director of Finance 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 Audit staff may undertake several, separate visits to fully evaluate the effectiveness of information security systems and procedures. For example during October to December 2016 the

Unit issued six reports following reviews at seven, separate organisations involving visits in an area ranging from Skipton to Brighton.

Over the past 12 months, Audit staff have supported the Authority's Information Governance Group in the creation and approval of a Supplier Information Security Policy to simplify the Council's procurement procedures. The Policy is currently being trialled in a small number of procurement tenders with the aim of working with local and national organisations to raise the current base level of information security controls and awareness in contracts with the Council. Organisations which do not implement simple basic controls to limit the opportunity for data loss or potential for an attack remain a significant risk to the Authority's information and its reputation. For example, of the seven organisations recently visited by Audit (including a large charity), only one had implemented encryption on their company owned laptops, PCs or server hard drives.

Whilst the Authority remains vigilant against emerging threats faced by a cyber-attack, it is well documented that the most likely source of an information breach is from within the organisation. This can be from a number of sources including a Member or an employee simply "clicking" on a link from a fake email. As the methods by which services are delivered, and individuals interact with the Authority continue to become increasingly automated, the types of attack are constantly evolving. In response to the risk of cyber threats the Chief Executive has instigated a review of the Council's associated security arrangements and a group has been established to undertake this work, chaired by the Strategic Director of Corporate Resources, on which Audit Services are represented.

Fraud and irregularity reported to, and investigated by Audit Services continues to place demands on the Unit and up to December 2016 work had been completed on 20 separate investigations including liaison with the Police where necessary. Audit staff concluded the Corporate Fraud Assessment and Mitigation review, which resulted in a presentation to the Corporate Management Team and reports to the Chief Executive and Director of Finance identifying areas of good practice and opportunities to strengthen existing arrangements.

### **3. Legal Considerations**

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

### **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 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 2016/17**

The information summarized below by Service Department identifies the work approved and actual time spent for the period ending 31<sup>st</sup> December 2016.

### Chief Executive's and Corporate Resources

It is intended to spend 975 days on the Audit of the Chief Executive's and Corporate Resources Departments which will be allocated over the following areas:-

Audit Area	Plan Days	Actual Days 15-16 16-17		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>	55	5	9	1	Qualified	-	1	16	9	3M,2L	1H,5M,1L	Memo relates to 2015/16.
Governance <i>High Risk</i> including:- • Corporate Governance	100	-	34	-	-	-	-	-	-	-	-	Work to support Governance Group, production of Annual Governance Statement and preparatory work on revised Governance Matrices.
• Corporate Health Check		-	15	-	-	-	-	-	-	-	-	
• Business Continuity Planning		21	-	1	Qualified	-	4	6	-	1M	3H,1M,1L	
• ISO27001 Review		-	33	-	-	-	-	-	-	-	-	Work to support Information Governance Group and review of IT security policies.
Services to Members <i>High Risk</i>	25	-	1	-	-	-	-	-	-	-	-	
External Grants & Certifications <i>Medium/High Risk</i>	20	-	11	-	-	-	-	-	-	-	-	
Policy, Performance & Innovations Leadership <i>Medium/High Risk</i>	15	-	-	-	-	-	-	-	-	-	-	
<b>Divisional Activity</b>												
Corporate Finance												
Probity and Compliance <i>Medium/High Risk</i>	85	6	29	10	9 Qualified 1 Limited	-	28	53	15	5H,7M,2L	6H,4M	
Major Systems <i>High Risk</i>	290	62	107	8	3 Substantial 4 Qualified 1 Other	1	12	52	21	2M,6L	13H,19M,4L	Due to the nature of these key reviews they are routinely work in progress at the year end. Work on HR, Accounts Payable, Duplicate Payments, Accounts Receivable, Accountancy and Budgetary Control, Procurement and Funds Management was reported in current year.

Audit Area	Plan Days	Actual Days		No of Reports	Level of Assurance	Analysis of Recommendations				Recs Not Acceptd	Recs Not Implmtd	Comments
		15-16	16-17			C	H	M	L			
Corporate/Departmental IT Services <i>Medium/High Risk</i>	320	30	292	13	3 Qualified 10 Other	1	29	91	47	2H,7M,7L	1H,2M	Work includes planned IT reviews, reviews of new systems and system enhancements which require approval by Director of Finance, site visits to assess suppliers' head office and data centre procedures and involvement in project teams.
County Property <i>Medium/High Risk</i>	45	-	33	-	-	-	-	-	-	-	-	
Regulatory Registrars Service Coroner's Service <i>Medium/Low Risk</i>	20 *4	- 4	33 -	1 1	Qualified Limited	- 1	7 12	13 9	5 1	1M 2H	5H,2M 1C,9H,2M	Completion of 2015/16 work. *4 days transferred from contingency.
<b>TOTAL</b>	<b>979</b>	<b>128</b>	<b>597</b>	<b>35</b>		<b>3</b>	<b>93</b>	<b>240</b>	<b>98</b>	<b>47</b>	<b>80</b>	

**Corporate Activities**

It is intended to spend 800 days on the Audit of Corporate Activities 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
		15-16	16-17			C	H	M	L			
Corporate Projects												
• Corporate Fraud Assessment/ Mitigation Review <i>High Risk</i>	-	-	10	1	Presentation to CMT and Report to Chief Executive and Director of Finance	-	7	-	-	-	-	Completion of 2015/16 work.
• Workforce Development/ Succession Planning <i>High Risk</i>	30	-	4	-	-	-	-	-	-	-	-	
• Combined Authority <i>High Risk</i>	20	-	-	-	-	-	-	-	-	-	-	
• Maintaining & Providing Property in Safe/Suitable Condition <i>High Risk</i>	20	-	-	-	-	-	-	-	-	-	-	
• SAP Utilisation <i>Medium/High Risk</i>	20	-	-	-	-	-	-	-	-	-	-	
• Review of Grants <i>Medium/High Risk</i>	25	-	9	-	-	-	-	-	-	-	-	
• Information Sharing Agreements <i>Medium/High Risk</i>	20	-	-	-	-	-	-	-	-	-	-	
• D2N2 LEP <i>Medium Risk</i>	*60	-	63	2	1 Qualified 1 Other	-	4	5	1	1M	-	Audit grant certification required on this work. *40 days transferred from contingency.
• Development of Audit Collaborative Working <i>Medium Risk</i>	10	-	2	-	-	-	-	-	-	-	-	
• emPSN (SCo & ICo) <i>Medium Risk</i>	5	-	2	-	-	-	-	-	-	-	-	

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
		15-16	16-17			C	H	M	L			
<ul style="list-style-type: none"> <li>Supply Chain Failure <i>High Risk</i></li> <li>Shared Service Centre Delivery <i>Medium/High Risk</i></li> </ul>	-	8	-	2	Qualified	-	9	10	4	4H,1M	-	Completion of 2015/16 work.
Corporate Fraud Prevention <i>High Risk</i>	500	103	325	21	-	-	-	-	-	-	-	This includes work on NFI, publication of NAFN alerts, surveillance and data communications compliance, liaison with external audit, work on 20 investigations 5 of which relate to previous years including liaison with the Police. Special Investigation Report recommendations are not categorized. *20 days transferred from contingency.
Audit Contingency	45	-	-	-	-	-	-	-	-	-	-	*Original contingency was 150 days less transfers of 105 days.
<b>TOTAL</b>	<b>755</b>	<b>111</b>	<b>415</b>	<b>26</b>		<b>-</b>	<b>20</b>	<b>15</b>	<b>5</b>	<b>6</b>	<b>-</b>	



**Children's Services**

It is intended to spend 676 days on the Audit of the Children's Services Department which will be allocated over the following areas:-

Audit Area	Plan Days	Actual Days 15-16 16-17		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>	40	6	42	1	Qualified	-	7	14	1	1M,1L	3H,9M	Memo relates to 2015/16.
Schools Nursery/Primary/Special <i>Medium/High Risk</i>	393	1	402	66	2 Substantial 59 Qualified 5 Limited	2	450	596	410	10H,18M, 8L	4C,334H, 322M,26L	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>	89	7	117	14	12 Qualified 2 Limited	-	99	158	72	1H,4M,2L -	1C,63H, 54M,12L	
School Learning & Support Centres <i>Medium/High Risk</i>	16	-	-	-	-	-	-	-	-	-	-	
Children's Homes <i>Medium/High Risk</i>	56	-	20	5	3 Qualified 1 Limited 1 Other	-	30	30	6	11H,4M, 1L	8H,13M, 1L	
Derbyshire Outdoors <i>Medium/Low Risk</i>	7	-	9	1	Qualified	-	4	8	4	1H,2M,1L	3H,1M,	
Themed & Operational • Looked After Children <i>High Risk</i>	25	-	35	-	-	-	-	-	-	-	-	Audit grant certification required on this work.  *14 days transferred from contingency.  Completion of 2015/16 work.
• Children at Risk of Missing Education <i>High Risk</i>	25	-	27	-	-	-	-	-	-	-	-	
• Fostering <i>High Risk</i>	25	-	37	1	Qualified	-	3	10	6	-	2L	
• Troubled Families <i>Medium Risk</i>	-	-	13	2	Not applicable	-	-	-	-	-	-	
• Derbyshire Music Partnership <i>Medium Risk</i>	*14	-	14	1	Qualified	-	4	8	1	-	-	
• Home Education <i>Medium Risk</i>	-	1	-	1	Qualified	-	3	11	3	-	-	
<b>TOTAL</b>	<b>690</b>	<b>15</b>	<b>716</b>	<b>92</b>		<b>2</b>	<b>600</b>	<b>835</b>	<b>503</b>	<b>65</b>	<b>856</b>	

**Adult Care**

It is intended to spend 281 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 Accepted	Recs Not Implmtd	Comments
		15-16	16-17			C	H	M	L			
Departmental Review - Management & Administration <i>Medium Risk</i>	40	5	36	1	Qualified	-	5	20	2	1H,1M,1L	2H,8M,1L	Memo relates to 2015/16.
Social Care Elderly Residential <i>Medium/High Risk</i>	36	-	40	9	1 Substantial 7 Qualified 1 Limited	-	51	66	32	3H,3M,2L	13H,29M,7L	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	-	36	7	6 Qualified 1 Limited	-	34	61	21	1H,4M,1L	4H,36M,5L	
Day Care & Hostels <i>Medium/High Risk</i>	36	-	15	4	1 Substantial 3 Qualified	-	17	20	19	2M,1L	2H,8M,5L	
Community Care Centres <i>Medium/High Risk</i>	16	-	4	1	Qualified	-	4	6	5	1M	3H,6M,1L	
Themed & Operational • Public Health <i>High Risk</i>	30	2	-	1	Limited	1	9	5	1	-	-	Memo relates to 2015/16.
• Better Care Funding <i>High Risk</i>	30	-	5	1	Qualified	-	1	6	-	-	-	Memo relates to 2015/16.
• Emergency Response & Service Continuity <i>Medium/High Risk</i>	20	-	21	-	-	-	-	-	-	-	-	
• Management of Housing Adaptations, Disabled Facilities Grant <i>Medium/High Risk</i>	20	-	23	1	Qualified	-	12	7	1	1H	-	
• Review of Domiciliary Care <i>Medium/High Risk</i>	38	-	47	-	-	-	-	-	-	-	-	*13 days transferred from contingency.

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
		15-16	16-17			C	H	M	L			
<ul style="list-style-type: none"> <li>Regulatory &amp; Legislative Failures</li> <li><i>High Risk</i></li> <li>Impact of Deprivation of Liberty Standards</li> <li><i>Medium/High Risk</i></li> </ul>	*14	14	-	1	Qualified	-	2	3	3	1L	-	Completion of 2015/16 work. *14 days transferred from contingency.
<b>TOTAL</b>	<b>308</b>	<b>21</b>	<b>227</b>	<b>26</b>		<b>1</b>	<b>135</b>	<b>194</b>	<b>84</b>	<b>23</b>	<b>130</b>	

**Economy, Transport and Communities**

It is intended to spend 125 days on the Audit of the Economy, Transport and Communities 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
		15-16	16-17			C	H	M	L			
Departmental Review - Management & Administration <i>Medium Risk</i>	40	-	37	-	-	-	-	-	-	-	-	
Themed & Operational												
• Procurement of Taxi & Small Hire Services <i>Medium/High Risk</i>	20	-	3	-	-	-	-	-	-	-	-	
• Community Safety <i>Medium/High Risk</i>	30	-	-	-	-	-	-	-	-	-	-	
• Public Transport Contracts <i>Medium/High Risk</i>	25	-	-	-	-	-	-	-	-	-	-	
• Digital Derbyshire <i>Medium/High Risk</i>	10	-	-	-	-	-	-	-	-	-	-	
<b>TOTAL</b>	<b>125</b>	<b>-</b>	<b>40</b>	<b>-</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</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	<b>Critical</b>	Significant strategic, financial or reputational risks where immediate remedial action is considered essential.
2	<b>High</b>	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	<b>Medium</b>	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	<b>Low</b>	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
Full Assurance	There is a sound system of control designed to achieve the system/audit area objectives and to identify and manage the risks to achieving those objectives.
Substantial Assurance	Whilst there is a sound system of control some minor weaknesses have been identified which may put some of the system/audit area objectives at risk.
Qualified Assurance	Whilst there is basically a sound system of control some critical/high priority recommendations have been made to address potentially significant or serious weaknesses identified. Should these weaknesses remain unaddressed they may expose the Council to reputational risk or significant control failure.
Limited Assurance	Significant weaknesses 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 weak 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 high risk of error or abuse.