

Agenda Item No.5 (a)

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE MEETING

24 March 2020

Report of the Assistant Director of Finance (Audit)

INTERNAL AUDIT PLAN 2020-21

1. Purpose of Report

To present to Members for consideration and approval the proposed Audit Services Plan for 2020-21.

2. Information & Analysis

The Audit Services 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 Services Plan has been formulated in accordance with the Internal Audit Strategy and Audit Charter. This Plan is informed by our risk assessment drawn from a wide range of sources including:-

- Council Plan;
- Council's strategic risk register;
- Departmental risk registers;
- Service plans;
- meetings with Corporate Management Team, Executive Directors and Directors including the Head of Paid Service, Section 151 Officer and Monitoring Officer;
- Management requests for assistance;
- previous cyclical Audit work, knowledge of systems, controls and follow up;
- pro-active fraud work;
- external audit.

As part of this process Audit projects have been identified which will be developed specifically to address significant Corporate and Departmental risks and build on those areas where frauds/control weaknesses have previously been identified.

In common with previous years the Audit Services Plan will 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, Corporate Management Team, Executive Directors, Directors and Senior Managers. Progress against the approved Audit Services Plan will be monitored and regularly reported to the Audit Committee.

The proposed Audit Services Plan for 2020-21 is based on a staffing structure which provides for the deployment of 2,884 days. Members are aware of the staffing challenges which Audit Services has faced during the current year and which still continue, although some progress has been made recently. Consequently resources available to deliver the Audit Services Plan for 2020-21 are forecast to exceed those deployed in the current year. Those projects which will not be completed during the current year have been considered for inclusion in the proposed Audit Services Plan for 2020-21 in accordance with the Internal Audit Strategy. Several assumptions have been made which have been incorporated into the estimate of resources available to deliver the proposed Audit Services Plan for 2020-21. The Unit is committed to providing a full range of Audit services using only in-house staff, including the specialist areas of investigative and IT Audit work.

Mazars LLP act as the Council's External Auditors and Audit Services will work with them 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, it also identifies the perceived level of risk, the resource to be employed and the expected outcomes of Audit work. Timetabling of the individual projects will continue to be agreed with Executive Directors, Directors and Senior 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 Council's statutory responsibilities under Regulation 5 of the Accounts & Audit Regulations 2015 and significant aspects of the Director of Finance & ICT's statutory duties under Section 151, Local Government Act 1972.

The Public Sector Internal Audit Standards require that the Assistant Director of Finance (Audit), as Head of Internal Audit (HIA), 'must deliver an annual audit opinion and report that can be used' to inform the Council's Annual Governance Statement. This opinion must reflect the work done during the year and 'must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control'. In providing this opinion it is necessary to summarise the main findings and conclusions from Audit work together with any specific concerns the HIA has.

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, 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 2020-21 details of which are attached at Appendix 1.

Carl Hardman
Assistant Director of Finance (Audit)

DERBYSHIRE COUNTY COUNCIL
AUDIT SERVICES PLAN
2020/21



CARL HARDMAN
Assistant Director of Finance (Audit)



Background

The Audit Services Unit discharges the Council's statutory responsibilities under Regulation 5 of the Accounts & Audit Regulations 2015 to '*undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes*'. In addition the Unit performs significant aspects of the Director of Finance & ICT's statutory duties under Section 151 of the Local Government Act 1972. The Unit also works with Mazars LLP, the Council's appointed external auditors.

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, Internal Audit Strategy, Anti-Fraud and Anti-Corruption Strategy, Fraud Response Plan and the requirements of Whistleblowing The Confidential Reporting Code.

Cabinet has approved the Audit Charter which draws together existing practice and formalizes procedures relating to Audit Services whose mission 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)) must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals....*

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 audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.'

The Unit has been subject to an external assessment of its compliance with the requirements of the PSIAS by Cifpa C.Co who assessed that the Unit conforms overall and in each of the four areas of focus assessed.

Risk Assessment Process

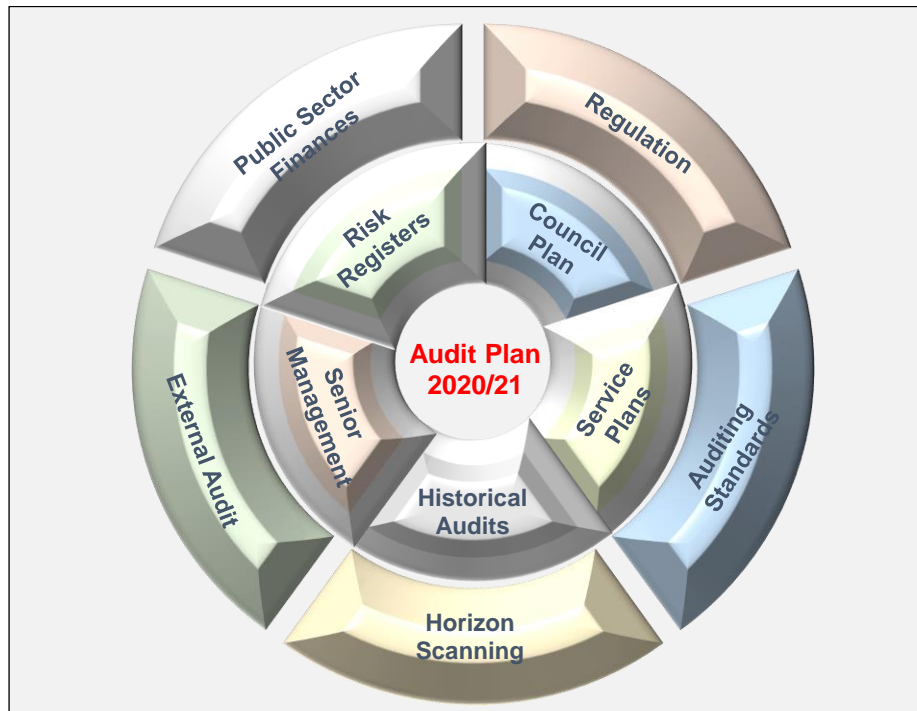
The Audit Plan has been formulated in accordance with the Internal Audit Strategy and informed by our risk assessment drawn from a wide range of sources including:-

- Council Plan;
- Council's strategic risk register;
- Departmental risk registers;
- Service plans;
- meetings with Corporate Management Team, Executive Directors and Directors including the Head

of Paid Service, Section 151 Officer and Monitoring Officer;

- Management requests for assistance;
- previous cyclical Audit work, knowledge of systems, controls and follow up;
- pro-active fraud work;
- external audit.

The chart below 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.

The planning of Audit assignments is recorded in Project Briefs which are designed to inform the scope of the Audit, identify key risks, activities/controls to be tested, resource and reporting requirements.

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.

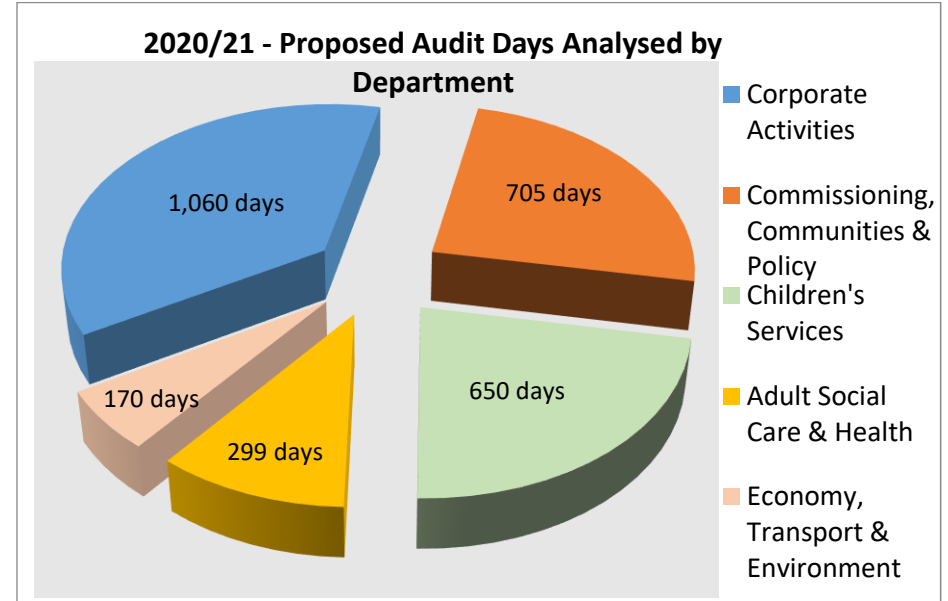
Audit Services also recognise the requirement to provide Members and Senior Management with assurance on the operation of core financial systems and will continue our programme of compliance and probity reviews of other services, systems and processes according to an assessment of risk and business need. 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 Council's ISO27001 accreditation, General Data Protection Regulation (GDPR) requirements 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 Council 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, Corporate Management Team, Executive 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 Council 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. Consequently the Authority has adopted an enterprising council approach which will bring further challenges and opportunities requiring Audit Services' input and support.

Although the Unit has an establishment of approximately 17 full time equivalents, during the past year it has faced significant, prolonged staffing challenges which have impacted on the days available to deliver the Audit Plan. The Unit currently has one vacancy at Senior Auditor level and

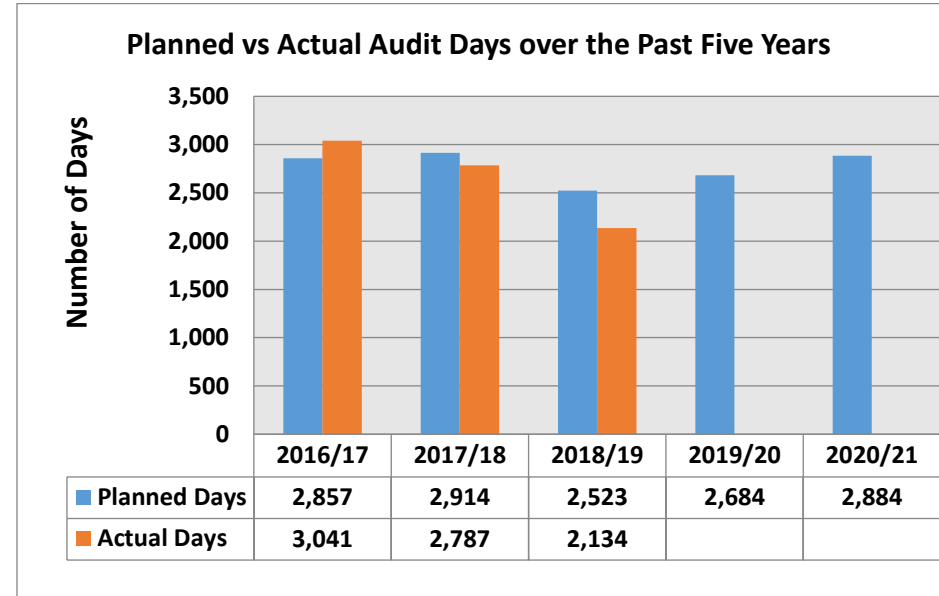
during 2020-21 there will be a commitment to induct and train new staff.

The Audit Plan for 2020-21 requires the deployment of 2,884 Audit days which has been assessed based on known and estimated resources. I will continue to provide updates to Members on available resources as part of regular reporting on the achievement of the Audit Plan.

The Unit is committed to providing a full range of Audit services using only in-house staff, including the specialist areas of investigative and IT Audit work.

The detailed Audit Plan is shown on pages 7 to 18 and includes a contingency of 200 Audit days. This enables the Unit to be reactive and able to respond to emerging risks and unforeseen 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 and highlights the effect of staffing shortages on the delivery of the approved Audit Plan:-



During the year Audit Services will liaise with the Corporate Management Team, Executive Directors and Directors to provide updates on performance, significant findings from Audit work and identify any issues which affect the current and future Audit Plans.

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 continue to support Management by making prioritised recommendations based on our findings which will, if implemented, improve the effectiveness, efficiency and adequacy of governance, risk and internal control frameworks. 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.

To enable Audit Services to deliver the Audit Plan we will seek to foster collaborative working arrangements with Senior Management. This is essential to ensure that the scope of Audit work and its objectives are understood, key staff are available to assist Audit delivery, prompt reporting of actions and agreed recommendations are implemented in accordance with time scales.

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.

The Unit has a Quality Assurance and Improvement Programme, which is required by the PSIAS, that includes arrangements for the ongoing management, supervision, review and delivery of Audit work, facilitates feedback from clients and measurement of performance.

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 incorporates:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

External Audit

Mazars LLP acts as the Council's External Auditors and we will work with them in accordance with the agreed External and Internal Audit Protocol. 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 arrangements for ensuring the Council's economic, efficient and effective use of resources. The findings of Audit Services' work is a key contributor to the Council's Annual Governance Statement.

DERBYSHIRE AUDIT SERVICES
INTERNAL AUDIT PLAN 2020/21

The information summarized below by Service Department identifies our work for the year totalling 2,884 days and the expected outcomes of that work for the Council.

Corporate Activities

It is intended to spend 1,060 days on the Audit of Corporate Activities which will be allocated over the following areas:-

Audit Area	Level of Risk	Audit Days	Expected Outcomes
Corporate Projects			Provision of an assurance to Executive Directors and Members with regard to the identified Audit areas.
<ul style="list-style-type: none"> • Workforce Development/Succession Planning 	H	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 	H	30	Assessment 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 	H	30	Evaluation 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"> • Climate Change 	H	30	Review of the adequacy and effectiveness of systems in place to respond to climate change initiatives including the identification of risks, threats and opportunities.
<ul style="list-style-type: none"> • Major Incident Response 	M/H	30	Assessment of the adequacy and effectiveness of systems in place to respond to a major incident/emergency.
<ul style="list-style-type: none"> • Maintenance of Council Properties 	M/H	30	Evaluation of the adequacy and effectiveness of systems in place to ensure that properties are safe, properly and adequately maintained.

Audit Area	Level of Risk	Audit Days	Expected Outcomes
<ul style="list-style-type: none"> New Delivery & Commissioning Models/Partnership Working 	M/H	30	Review of the adequacy and effectiveness of systems in place to assess new and changes to delivery models including partnership working, and the monitoring of outcomes. Supports the Enterprising Council approach.
<ul style="list-style-type: none"> Data Protection Compliance 	M/H	20	Evaluation of the adequacy and effectiveness of systems in place to ensure compliance with statutory requirements and particularly the General Data Protection Regulation.
<ul style="list-style-type: none"> Supply Chain Failure 	M/H	20	Review of the adequacy and effectiveness of systems in place to monitor supplier resilience, commissioning arrangements and contingency planning.
<ul style="list-style-type: none"> Health and Safety & Wellbeing 	M/H	20	Assessment of the adequacy and effectiveness of systems in place to ensure compliance with statutory requirements and promote employee wellbeing.
<ul style="list-style-type: none"> Serious and Organised Crime 	M/H	10	Evaluation of the adequacy and effectiveness of systems in place to protect procurement arrangements from infiltration by serious and organised crime groups.
<ul style="list-style-type: none"> D2N2 LEP 	M	50	Provision of internal audit as part of the Council's Accountable Body responsibilities.
<ul style="list-style-type: none"> emPSN (SCo & ICo) 	M	5	Attendance at Audit Committee meetings for both companies as the 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 Governance including:-			
<ul style="list-style-type: none"> Embedding Corporate Governance 	H	40	Attendance and support to the Council's Audit Committee and Governance Group. Work to support the production of the Annual Governance Statement and embedding the principles of good Corporate Governance throughout the Council.
<ul style="list-style-type: none"> Business Continuity Planning 	H	20	Assessment of the arrangements to ensure that the Council can maintain the provision of essential services in the event of a major disaster/disruption to facilities.

Audit Area	Level of Risk	Audit Days	Expected Outcomes
• Corporate Health Check	H	20	Strategic review of the overall control environment including compliance with key legislative requirements.
• Information Governance Group and Support	H	20	Attendance and support to the Council's Information Governance Group, review of associated IT security policies and the maintenance of the Information Security Management System.
Corporate Fraud Prevention <i>High Risk</i>	H	425	Part of the Council's Corporate Fraud Prevention culture including liaison with External Audit, National Fraud Initiative, National Anti-Fraud Network, RIPA/IPA management and the provision for investigative reviews of areas of irregularity/suspected fraud identified within the year.
Audit Contingency	-	200	A 7% contingency for unforeseen work and to mitigate the impact of vacancies within the Unit.

Commissioning, Communities and Policy Department

It is intended to spend 705 days on the Audit of the Commissioning, Communities and Policy Department which will be allocated over the following areas:-

Audit Area	Level of Risk	Audit Days	Expected Outcomes
Departmental Review Management & Administration	M	60	Provision of an assurance to the Executive Director of Commissioning, Communities and Policy 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 Council'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.
External Grants and Certifications	M/H	10	Review and certification of grant claims to support external funding.
Information Security Reviews (including follow up reviews)	M/H	45	IT solution testing and head office visits to ensure systems incorporate core data protection principles, and do not compromise the Council's ISO27001 accreditation in accordance with the requirements of the protocol developed with the Director of Finance & ICT.
Themed and Operational • Implementation of ICT Strategy • Communications and Call Derbyshire	M/H	25))))) Provision of an assurance on the adequacy and effectiveness of systems in operation, risk management and the overall control environment.

Audit Area	Level of Risk	Audit Days	Expected Outcomes
<ul style="list-style-type: none"> • Democratic Services • Public Library Service 	M M/L	25 5)))
Divisional Activity			
Corporate Finance Major Systems	H	285	Annual reviews of the Council's key financial systems including human resources, accounts payable, accounts receivable, Corporate purchasing, accountancy and budgetary control, assets and funds management.
Probity and Compliance	M/H	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, ISO27001 and GDPR compliance together with the adequacy of insurance and risk management arrangements.
Corporate/Departmental Services	ICT M/H	90	Includes assessment of new and existing IT system development controls together with specific reviews of the network infrastructure, BACSTEL-IP application, database and server management.
County Property	M/H	20	Review of key systems operated within the Property Division and Business Units.
Regulatory Registration Service	M/L	20	Provision of an assurance on the adequacy and effectiveness of systems in operation and the overall control environment.

Children's Services Department

It is intended to spend 650 days on the Audit of the Children's Services Department which will be allocated over the following areas:-

Audit Area	Level of Risk	Audit Days	Expected Outcomes
Departmental Review Management & Administration	M	45	Provision of an assurance to the Executive 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 Council'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 (including follow up reviews)	M/H	35	IT solution testing and head office visits to ensure systems incorporate core data protection principles, and do not compromise the Council's ISO27001 accreditation in accordance with the requirements of the protocol developed with the Director of Finance & ICT.
Schools Nursery, Primary and Special Secondary <i>Medium/High Risk</i>	M/H	348	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. (4 Nursery School, 75 Primary School, 3 Special School and 8 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 basis to work with the school to improve the control environment.

Audit Area	Level of Risk	Audit Days	Expected Outcomes
Information Security Reviews	M/H	35	IT solution testing and head office visits to ensure systems incorporate core data protection principles, and do not compromise the Council's ISO27001 accreditation in accordance with the requirements of the protocol developed with the Director of Finance & ICT.
Children's Homes	M/H	16	Review of the adequacy and effectiveness of systems in operation and the overall control environment to support vulnerable children and young adults. 4 settings will be reviewed.
Derbyshire Outdoors	M/L	10	Review of the adequacy and effectiveness of systems in operation and the overall control environment.
<p>Themed and Operational</p> <ul style="list-style-type: none"> • Use of Personal Budgets and Children with SEND • Adult Community Education • Derbyshire Music Partnership • Troubled Families Programme 	<p>H</p> <p>M/H</p> <p>M/L</p> <p>M/L</p>	<p>25</p> <p>25</p> <p>25</p> <p>30</p>	<p>)</p> <p>)</p> <p>) Provision of an assurance on the adequacy and effectiveness of systems in operation, risk management and the overall control environment.</p> <p>)</p> <p>)</p> <p>Review and certification of grant claims to support external funding.</p>

Adult Social Care and Health

It is intended to spend 299 days on the Audit of the Adult Social Care and Health Department which will be allocated over the following areas:-

Audit Area	Level of Risk	Audit Days	Expected Outcomes
Departmental Review Management & Administration	M	45	<p>Provision of an assurance to the Executive Director of Adult Social Care and Health 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 Council'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.
Public Health	M/H	25	Provision of an assurance on the adequacy and effectiveness of systems in operation, risk management and the overall control environment.
Information Security Reviews (including follow up reviews)	M/H	70	IT solution testing and head office visits to ensure systems incorporate core data protection principles, and do not compromise the Council's ISO27001 accreditation in accordance with the requirements of the protocol developed with the Director of Finance & ICT.
Social Care Elderly Residential	M/H	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.
Physical/Mental Disability	M/H	24	
Day Care & Hostels	M/H	20	
Community Care Centres	M/H	16	

Audit Area	Level of Risk	Audit Days	Expected Outcomes
Themed and Operational • Review of Quality Assurance Framework • Direct Payments • Delayed Transfers of Care and Data Accuracy	H H M/H	25 25 25)))) Provision of an assurance on the adequacy and effectiveness of systems in) operation, risk management and the overall control environment.))

Audit Area	Level of Risk	Audit Days	Expected Outcomes
• Concessionary Fares	M/H	20)
• Grants	M/H	15)