



East Herts Council  
Audit Committee

2014/15 Internal Audit Plan Report

19 March 2014

Recommendation

Members are recommended to approve the  
proposed East Herts Council  
Internal Audit Plan for 2014/15

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Internal Audit Plan

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# 1. Introduction and Background

## Purpose of Report

- 1.1 To provide Members with the proposed East Herts Council 2014/15 Internal Audit Plan.

## Background

- 1.2 The Internal Audit Plan sets out the programme of internal audit work for the year ahead, and forms part of the Council's wider assurance framework. It supports the requirement to produce an audit opinion on the overall internal control environment of the Council, as well as a judgement on the robustness of risk management and governance arrangements, contained in the Head of Internal Audit annual report.
- 1.3 The Shared Internal Audit Service (SIAS) Audit Charter which was presented to the June 2013 meeting of this Committee shows how the Council and SIAS work together to provide a modern and effective internal audit service. This approach complies with the requirements of the United Kingdom Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013. An updated version of the SIAS Audit Charter will be brought to the July 2014 committee meeting for Member approval.
- 1.4 The PSIAS require that the audit plan must incorporate or be linked to a strategic or high-level statement which:
  - Outlines how the service will be developed in accordance with the internal audit charter
  - Details how the internal audit plan will be delivered
  - Evidences how the service links to organisational objectives and priorities
- 1.5 Section 2 of this report details how the SIAS complies with this requirement.

## 2. Audit Planning Process

### Planning Principles

- 2.1 SIAS audit planning is underpinned by the following principles:
- a) Focus of assurance effort on the council's key issues, obligations, outcomes and objectives, critical business processes and projects and principal risks. This approach ensures coverage of both strategic and key operational issues.
  - b) Maintenance of an up-to-date awareness of the impact of the external and internal environment on the council's control arrangements.
  - c) Use of a risk assessment methodology to determine priorities for audit coverage based, as far as possible, on management's view of risk;
  - d) Dialogue and consultation with key stakeholders to ensure an appropriate balance of assurance needs. This approach includes recognition that in a resource constrained environment, all needs cannot be met.
  - e) Identification of responsibilities where services are delivered in partnership.
  - f) In-built flexibility to ensure that new risks and issues are accommodated as they emerge;
  - g) Capacity to deliver key commitments including work undertaken on behalf of External Audit, governance work and counter fraud activity;
  - h) Capacity to respond to management requests for assistance with special investigations, consultancy and other forms of advice.

### Approach to Planning

- 2.2 In order to comply with the requirements of the PSIAS, SIAS has revised its approach to planning and for 2014/15 has introduced a standard methodology for all SIAS partners. This revised methodology contains the following elements:

#### *Local and National Horizon Scanning*

Where SIAS reviews:

- key committee reports at each client and identifies emerging risks and issues;
- the professional and national press for risks and issues emerging at national level

It is anticipated that in future years, local and national horizon scanning will be undertaken in-year on a continuous basis. This will support the achievement of principle f) above, 'Accommodation of new risks and issues as they emerge.'

#### *Consideration of risk management arrangements*

Where SIAS assesses the risk maturity of the council and based on this assessment, determines the extent to which information contained within the council's risk register informs the identification of potential audit areas.

#### *Confirmation of the council's objectives and priorities*

Where SIAS confirms the current objectives and priorities of the Council, this information is used to confirm that identified auditable areas will provide assurance on areas directly linked to the achievement of the council's objectives and priorities.

- 2.3 The approach to audit planning for 2014/15 has been characterised by:

- a) Detailed discussions with Heads of Service and other key officers within the council to confirm auditable areas and elicit high level detail of the scope of audits. This process incorporates the following four steps to assist in the later prioritisation of projects:

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### *Risk Assessment*

Where managers and SIAS agree the level of risk associated with an identified auditable area.

### *Other sources of Assurance*

Where managers are asked whether assurance in the auditable area is obtained from other assurance providers e.g. External Audit or the Health and Safety Executive. This approach ensures that provision of assurance is not duplicated.

### *Significance*

Where the manager is asked to assess how significant the auditable area is in terms of the achievement of corporate or service objectives and priorities.

### *Timings*

Where the manager is asked to identify when an audit should be undertaken to add most value.

- b) Proposed plans are based on the information obtained from the planning meetings. A contingency allocation is determined to allow flexibility to respond to in-year changes in organisational risk and priorities. Details of audits that have not been included in the proposed draft plan as a result of resource limitations are reported to senior management and the audit committee.
- c) The proposed 2014/15 plans for all SIAS partner councils are then scrutinised and cross-partner audits highlighted;
- d) Proposed draft plans were presented to the Directors for discussion and agreement;
- e) The views of the council's external auditor are sought to confirm that their requirements are adequately addressed.

- 2.4 This approach ensures that our work gives assurance on what is important and those areas of highest risk and thus assists the Council in achieving its objectives.

### The Planning Context

- 2.5 The context within which local authorities and housing associations provide their services remains challenging:
- Austere public finances will last well into the next parliament, meaning that previous expenditure levels are not sustainable and public leaders expect serious financial difficulty ahead
  - Demand continues to rise, driven by complex needs, an ageing population and higher service expectations from citizens
  - Technology ranging from use of mobile devices and applications, to Big Data and predictive analytics, is developing rapidly and offers opportunities along with significant risks
  - Major, national programmes in areas like welfare reform and business rate reform, and structural changes such as the introduction of Police and Crime Commissioners, Clinical Commissioning Groups and Local Enterprise Partnerships mean the environment has been relatively unstable.
- 2.6 The resultant efficiency and transformation programmes that councils are in the process of implementing and developing are profoundly altering each organisation's nature. Such developments are accompanied by potentially significant governance, risk management and internal control change.
- 2.7 The challenge of giving value in this context, means that Internal Audit needs to:
- Meet its core responsibilities, which are to provide appropriate assurance to Members and senior management on the effectiveness of governance, risk

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management and control arrangements in delivering the achievement of Council objectives;

- Identify and focus its effort on areas of significance and risk, assisting the organisation in managing change effectively, and ensuring that core controls remain effective;
- Give assurance which covers the control environment in relation to new developments, using leading edge audit approaches such as 'control risk self assessments' or 'continuous assurance' where appropriate;
- Retain flexibility in the audit plan and ensure the plan remains current and relevant as the financial year progresses.

### Internal Audit Plan 2014/15

- 2.8 The draft plan for 2014/15 is included at Appendix A and contains a high level proposed outline scope for each audit and a suggested quarter for delivery.
- 2.9 The table below shows the estimated allocation of the total annual number of purchased audit days for the year.

	<b>Total</b>
Key Financial Systems	103
Operational audits	161
Procurement	26
Joint Reviews	10
IT Audits	39
Contingency	20
Follow Ups	5
Strategic Support*	56
2013/14 Projects Requiring Completion	15
	<hr/>
<b>Total audit days 2014/15</b>	<b>435</b>



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\* This covers, for example, supporting the Audit Committee, Monitoring and Liaison and Planning for 2015/16.

- 2.10 Members will note the inclusion of a provision for the completion of projects that relate to 2013/14. The structure of Internal Audit's programme of work is such that full completion of every aspect of the work in an annual plan is not always possible; especially given the high dependence on client officers during a period where there are competing draws on their time e.g. year end closure procedures.
- 2.11 The nature of assurance work is such that enough activity must have been completed in the financial year, for the Head of Assurance to give an overall opinion on the Authority's internal control environment. In general, the tasks associated with the total completion of the plan, which includes the finalisation of all reports and negotiation of the appropriate level of agreed mitigations, is not something that adversely affects delivery of the overall opinion. The impact of any outstanding work is monitored closely during the final quarter by SIAS in conjunction with the Section 151 Officer.
- 2.12 On behalf of the Authority SIAS is developing a three year rolling Internal Audit plan and during planning discussions with senior managers, a number of potential audits were identified (in addition to the annual key financial systems audits) that will likely feature in the plans for subsequent years. Appendix B lists those areas of activity we currently anticipate will be included in 2015/16 and 2016/17 and these will be formally risk assessed as those plans are compiled. In a scenario where an audit within the 2014/15 plan is cancelled consideration will be given to bringing forward one of the 2015/16 items.

## 3. Performance Management

### Update Reporting

- 3.1 The work of Internal Audit is required to be reported to a Member Body so that East Herts Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. It is considered

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good practice that progress reports also include proposed amendments to the agreed annual audit plan. Progress against the agreed plan for 2014/15 and any proposed changes will be reported to this Committee four times in the 2014/15 civic year.

- 3.2 The implementation of agreed high priority recommendations will be monitored by Internal Audit and progress will be reported as part of the update reporting process.

### Performance Indicators

- 3.3 Annual performance indicators were approved at the SIAS Board meeting on the 7 September 2011. Details of the targets set for 2014/15 are shown in the table below. Actual performance against target will be included in the update reports to this Committee.

<b>Performance Indicator</b>	<b>Performance Target</b>
<b>1. Planned Days</b> percentage of actual billable days against planned chargeable days completed	95%
<b>2. Planned Projects</b> percentage of actual completed projects to draft report stage against planned completed projects	95%
<b>3. Client Satisfaction</b> percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%
<b>4. Number of High Priority</b>	95%

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<b>Audit Recommendations agreed</b>	
<b>5. External Auditor Satisfaction</b>	Annual Audit Letter formally records that the External Auditors are able to rely upon the range and quality of SIAS' work
<b>6. Annual Plan</b>	Presented to the March meeting of each Audit Committee. Or if there is no March meeting then presented to the first meeting of the new financial year
<b>7. Head of Assurance's Annual Report</b>	Presented to the first meeting of each Audit Committee in the new financial year.

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
<b>KEY FINANCIAL SYSTEMS</b>			
Asset Management	Key financial system – CRSA year 1 & Strategy Coverage	18	Q4
Benefits	Key financial system	15	Q3
Council Tax	Key financial system	12	Q3
Creditors	Key financial system – CRSA year 2	8	Q4
Debtors	Key financial system – CRSA year 2	8	Q4
Main Accounting System	Key financial system – CRSA year 1	10	Q4

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
NDR	Key financial system	12	Q3
Payroll	Key financial system – CRSA year 1	10	Q4
Treasury Management	Key financial system	10	Q3
<b>OPERATIONAL AUDITS</b>			
Enforcement	Review of enforcement activities across the Council. Specific areas of coverage to be determined when the audit assignment is planned. Typical areas to include planning, building control, licensing.	15	Q3
Parking Permits	With the Authority moving to electronic issue of permits during 2014/15 this review would look at how the new process is operating.	10	Q3

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
Local Development Plan	Giving assurance around the robustness of the processes used to consult residents, including resolving queries and reporting on outcomes.	12	Q2
S106 Agreements	Review of how the Council monitors the calculation, justification and spend of new contributions received to ensure there is sufficient clarity over the use of funds received and minimise the risk of repayment.	12	Q1
Cash and Banking	Review the secure, complete and accurate receipting, recording, banking and reconciliation of cash, cheque and card payments through all channels. Including consideration of alternative mechanisms / channel shift.	12	Q2
Fees and Charges	Review the setting and application of fees and charges across the Council including assurances regarding minimising the level of subsidy (or hidden costs) across appropriate services.	15	Q2
Recruitment	Following recent changes in external service providers review the Council's current approach to both permanent and temporary	15	Q1

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
	recruitment.		
Community Grants	Review whether opportunities for grants are appropriately publicised; the criteria for making decisions are being correctly applied; and that the use of grant monies is evidenced and monitored. In addition we will look at how the Authority publicises the grant outcomes post-award.	15	Q2
Healthcheck / Performance Framework	A review of the Healthcheck process to ascertain the Authority's approach the production and use of performance information; to include comparison with other the approaches utilised by other SIAS clients.	10	Q4
Shared Services Benefits Realisation	A review of the mechanisms to measure the achievement of the planned benefits derived from the Revs & Bens and IT shared service.	10	Q3
Hertford Theatre	Business / Commercial Approach (* to be delivered by PwC @ specialist rate)	25*	Q2

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
Compliance Project Plan	Assurance on the implementation of the actions arising out of the project	10	Q4
<b>PROCUREMENT</b>			
New Planning / Building Control system	Review procurement exercise for the purchase of the new system within the Planning and Building Control services.	8	Q4
Leisure Services – third party inspections	Review of inspection procedures i.e. contractor records. New processes introduced – audit to review contract monitoring with particular focus on maintenance of Council buildings.	10	Q2
Acquisition of the LOCATA Housing system	Review of the procurement exercise for the purchase of the new system within the Housing service.	8	Q2



Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
<b>JOINT REVIEWS</b>			
NDR Avoidance	Following the HCFO conference it is considered that there could be value in reviewing NDR anti-avoidance arrangements across all authorities in 14/15 and comparing approaches. This would be in addition to the standard NDR control review undertaken as part of main financial system audits.	10	Q1
<b>IT AUDITS</b>			
Help Desk Operations	Looking at the arrangements with regard to the new help desk function and to include incident recording and production of management information and the development of a service catalogue for clients.	15	Q2
Change Control	To provide assurance that EHDC has a process in place to ensure that the scheduling of any task or action that can alter the organization's IT production environment is carried out in a controlled	12	Q2

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
	manner; to include approach to emergency changes, reporting and tracking.		
IT Asset Management	Looking at the controls in place to ensure the completeness and accuracy of information in the ICT asset inventory regarding all servers, laptops and desktop PCs in the EHDC estate. We will also look at how this impacts other control areas e.g. virus protection.	12	Q2
<b>FOLLOW-UP AUDITS</b>			
Follow-up of outstanding audit recommendations	Obtaining updates on the status of internal audit recommendations from action owners and reporting these each quarter to Audit Committee	5	Qtly
<b>STRATEGIC SUPPORT</b>			
Head of Internal Audit Opinion	To prepare and agree the Head of Internal Audit Opinion for 2013/14	5	Q1

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
2013/14			
Audit Committee	To provide services linked to the preparation and agreement of Audit Committee reports and presentation of reports / participation at Audit Committee. Provide Committee Member training prior to the meetings.	15	Qtly
Client Liaison Meetings	To produce and monitor performance and billing information, work allocation and scheduling, and to meet with the Council's Audit Champion and other key officers.	10	Ongoing
Liaison with External Audit	As required	1	Ongoing
Progress Monitoring	Audit plan progress monitoring and related actions	10	Ongoing
SIAS Development	Included to reflect the Council's contribution to developing the partnership	5	Q1

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
2015/16 Audit Planning	To provide services in relation to preparation and agreement of the 2015/16 Audit Plan	10	Q3/4
<b>CONTINGENCY</b>			
Contingency	Allocated as discussed and agreed with Management.	20	As required
<b>COMPLETION OF 2013/14 Work</b>			
Completion of 13/14 Work	Coverage TBC	15	Q1
<b>TOTAL AUDIT PLAN DAYS</b>		<b>435</b>	

<b>PROPOSED AREAS OF COVERAGE 2015/16</b>
Community Infrastructure Levy
Website
Freedom of Information
Data Protection
Leisure - Swimming Pools
Waste Services
Parking Collection
Parking Enforcement - IT systems

<b>PROPOSED AREAS OF COVERAGE 2016/17</b>
Members Expenses & Allowances
Conflicts of interest
Gifts & Hospitality
Grounds Maintenance
Operational Risk Mgt
Parking Contractor - changes to contract