



East Herts Council
Audit Committee

2015/16 Internal Audit Plan Report

18 March 2015

Recommendation

Members are recommended to approve the
proposed East Herts Council
Internal Audit Plan for 2015/16

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1. Introduction and Background

Purpose of Report

- 1.1 To provide Members with the proposed East Herts Council 2015/16 Internal Audit Plan.

Background

- 1.2 The East Herts Council 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 2014 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 June 2015 Audit 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 2014/15 in order to comply with the requirements of the PSIAS, SIAS revised its approach to planning and for 2015/16 has continued with a methodology for all SIAS partners which contains the following elements:

Local and National Horizon Scanning

SIAS reviews, on an ongoing basis:

- 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

Consideration of risk management arrangements

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

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 2015/16 has been characterised by:

- a) Detailed discussions with senior managers 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:

Risk Assessment

Managers and SIAS agree the level of risk associated with an identified auditable area

Other sources of Assurance

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

Managers assess how significant the auditable area is in terms of the achievement of corporate or service objectives and priorities.

Timings

Managers identify when an audit should be undertaken to add most value.

- b) Proposed plans are based on the information obtained from the planning meetings. 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 2015/16 plans for all SIAS partner councils are then scrutinised and cross-partner audits highlighted;
- d) Proposed draft plans are presented to Corporate Management Team for discussion and agreement;
- e) The views of Members of the Audit Committee and the council's external auditor are sought to confirm that their requirements are adequately addressed.

This approach ensures that our work gives assurance on what is important and risky and thus assists the Council in achieving its objectives.

The Planning Context

- 2.4 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.

2.5 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.

2.6 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 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 2015/16

2.7 The draft plan for 2015/16 is included at Appendix A and contains a high level proposed outline scope for each audit; Appendix C details the agreed start months. The table below shows the estimated allocation of the total annual number of purchased audit days for the year.

	15/16	%
Purchased audit days		
Key Financial Systems	103	26%
Operational audits	122	31%
Joint Reviews	5	1%
Procurement / Contracts	66	16%
IT Audits	16	4%
Strategic Support*	56	14%
Risk Management	12	3%
Follow Ups	5	1%
Completion of 14/15 Work	15	4%
Total allocated days	400	100%

* This covers supporting the Audit Committee, monitoring, client liaison and planning for 2016/17.

2.8 A list of reserve audits that will be performed in the event that a planned review is cancelled is presented at Appendix B.

2.9 Members will note the inclusion of a provision for the completion of projects that relate to 2014/15. 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.

- 2.10 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.

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 good practice that progress reports also include proposed amendments to the agreed annual audit plan. Progress against the agreed plan for 2015/16 and any proposed changes will be reported to this Committee four times in the 2015/16 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 and are reviewed annually by the Board. Details of the targets set for 2015/16 are shown in the table below. Actual performance against target will be included in the update reports to this Committee.

Performance Indicator	Performance Target
<p>1. Planned Days percentage of actual billable days against planned chargeable days completed</p>	95%
<p>2. Planned Projects percentage of actual completed projects to draft report stage against planned completed projects Note: To be based on the judgement of the SIAS management team and representing the best estimate as to a reasonable expectation of progress on the audit plan.</p>	95%
<p>3. Client Satisfaction percentage of client satisfaction questionnaires returned at 'satisfactory' level</p>	100%
<p>4. Number of High Priority Audit Recommendations agreed</p>	95%
<p>5. External Auditor Satisfaction</p>	Annual Audit Letter formally records that the External Auditors are able to rely upon the range and quality of SIAS' work

6. Annual Plan	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
7. Head of Assurance's Annual Report	Presented to the first meeting of each Audit Committee in the new financial year.

APPENDIX A – PROPOSED EAST HERTS COUNCIL AUDIT PLAN 2015/16

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
KEY FINANCIAL SYSTEMS		
Main Accounting	Key financial system - CRSA year 2	8
Debtors	Key financial system	12
Creditors	Key financial system	12
Treasury Management	Key financial system – CRSA year 1	8
Payroll	Key financial system - CRSA year 2	8
Council Tax	Key financial system	12
NDR	Key financial system	12

APPENDIX A – PROPOSED EAST HERTS COUNCIL AUDIT PLAN 2015/16

Benefits	Key financial system	15
Asset Management	Key financial system – CRSA year 2 & Strategy	15
Payroll Annual Pension Certificate	Annual certificate verification	1
OPERATIONAL AUDITS		
FM Planned Maintenance	Looking at the implementation of recommendations made by an external consultant in respect of how the Authority complies with external requirements with regard to the maintenance of its offices and buildings.	15
Homelessness	Looking at controls that ensure responsible officers comply with the Homelessness Act 2002 and including the use of grant funding from the DCLG to prevent homelessness in the district.	15

APPENDIX A – PROPOSED EAST HERTS COUNCIL AUDIT PLAN 2015/16

HR Policy Revisions & Communications Strategy	Looking at the communication of the revised policies and compliance with the new approaches in a sample of operational departments.	15
Insurance Arrangements	Examining the provision / procurement of insurance services and the processing of claims.	12
Member Allowances / Staff Expenses	Looking at the controls around payment of allowances and expenses including receipt of evidence of expenditure etc.	10
Public Health Burials	A review looking at the controls which ensure that the Authority meets its statutory obligations and at the subsequent recovery of costs from the deceased's estate (where applicable).	10
Section 106	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.	15

APPENDIX A – PROPOSED EAST HERTS COUNCIL AUDIT PLAN 2015/16

Street Markets	A review looking at income reviews and collection; performance management and monitoring; as well as monitoring of the contract relating to the new outsourced arrangement.	15
Development Management	A review looking at the planning cycle including: the processing of applications through to decision: recovery of fees and income; as well as appeals and compliance with legislative timelines.	15
JOINT REVIEWS		
Shared Learning	Shared Learning Newsletters and Summary Themed Reports - 2 days Audit Committee Workshop – 1 day Joint Review – Risk Management Benchmarking Workshop – 2 days	5
PROCUREMENT / CONTRACTS		
Procurement & Contract Management	A review looking at the effectiveness of the various approaches to procurement of goods and services across the Authority and the post award management of a variety of contracts. Will include: corporate policies and procedures; corporate training performance; and financial management.	25

APPENDIX A – PROPOSED EAST HERTS COUNCIL AUDIT PLAN 2015/16

Veolia Waste Contract Mgt	A review looking at the controls around continuity of management in this area reflecting the recent personnel changes as well as the value of the contract (£5.5m pa)	15
Leisure Services 3 rd Party Inspections	Follow Up of the review carried out in 2014/15	6
Acquisition of LOCATA System	A post implementation review of the new system within the housing service.	10
Land Drainage Contract	Covering the letting of the contract to provide drainage services to the Authority	10
IT AUDITS		
IT Helpdesk	A review of the arrangements with regard to the new help desk function, to include incident recording and production of management information and the development of a service catalogue for clients.	8

APPENDIX A – PROPOSED EAST HERTS COUNCIL AUDIT PLAN 2015/16

Software Licensing	A review of controls for ensuring that software used by the Authority is appropriately licensed and such licences are up to date. To review mechanisms to react to changes in the user base.	8
RISK MANAGEMENT		
Operational Risk Mgt	Looking at the controls to ensure that there is a consistent approach to the use of the corporate risk register including communication of the corporate view on approaching risk; the application of independent scrutiny e.g. internal peer review; the management of risks where possible and identification of any associated opportunities.	12
FOLLOW UP OF AUDIT RECOMMENDATIONS		
Follow Up of Audit Recommendations	Follow Up of High Priority Recommendations	5

APPENDIX A – PROPOSED EAST HERTS COUNCIL AUDIT PLAN 2015/16

STRATEGIC SUPPORT		
Head of Internal Audit Opinion 2014/15	To prepare and agree the Head of Internal Audit Opinion for 2014/15	5
Audit Committee	To provide services linked to the preparation and agreement of Audit Committee reports and presentation of reports / participation at Audit Committee	15
Client Liaison	To meet with the Council's Audit Champion and other key officers.	10
Liaison with External Audit	As required	1
Progress Monitoring	Audit plan monitoring and reporting	10
SIAS Development	Included to reflect the Council's contribution to developing the partnership	5

APPENDIX A – PROPOSED EAST HERTS COUNCIL AUDIT PLAN 2015/16

2016/17 Audit Planning	To provide services in relation to preparation and agreement of the 2016/17 Audit Plan	10
COMPLETION OF 2014/15 Work		
Completion of 2014/15 Projects	Completion of outstanding work from 2014/15	15
TOTAL AUDIT PLAN DAYS		400

APPENDIX B – PROPOSED EAST HERTS COUNCIL AUDIT PLAN 2015 / 16 – RESERVE LIST

Reserve List		
Cemeteries	Looking at how the Authority meets its statutory obligations in this area.	12
Commercialisation Agenda	Scope to be confirmed with Management	15

APPENDIX C - AUDIT START DATES AGREED WITH MANAGEMENT

Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Payroll Certificate	Homelessness	Operational Risk Mgmt	Members Allowances	Procurement & Contract Mgmt	Key Financial Systems (9)	FM Planned Maintenance Programme	Section 106	Veolia Waste Contract	Follow Up - Leisure Services Contractor Compliance	Acquisition of LOCATA System	Software Licensing
HR Policy Review		Insurance			Public Health Burials	Development Mgt	Street Markets	Land Drainage Contract			
					IT Helpdesk						