



East Herts Council
Audit Committee

2016/17 Internal Audit Plan Report

16 March 2016

Recommendation

Members are recommended to approve the
proposed East Herts Council
Internal Audit Plan for 2016/17

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1. Introduction and Background

Purpose of Report

- 1.1 To provide Members with the proposed East Herts Council 2016/17 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 Assurance Audit Annual Report.
- 1.3 The Shared Internal Audit Service (SIAS) Audit Charter which was presented to the July 2015 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 2016 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 order to comply with the requirements of the PSIAS, SIAS 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 2016/17 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 2016/17 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 continue, 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 and business rate reform, and structural changes 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 2016/17

- 2.7 The draft plan for 2016/17 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.

	2016/17	%
Purchased audit days		
Key Financial Systems	95	24%
Operational audits	166	42%
Joint Reviews	17	4%
Procurement / Contracts	25	6%
IT Audits	16	4%
Strategic Support*	56	14%
Risk Management	0	0%
Anti-Fraud	5	1%
Follow Ups	5	1%
Completion of 2015/16 Work	15	4%
Total allocated days	400	100%

* This covers supporting the Audit Committee, monitoring, client liaison and planning for 2017/18.

- 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 2015/16. 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 internal audit 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 2016/17 and any proposed changes will be reported to this Committee four times in the 2016/17 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 in September 2011 and are reviewed annually by the Board. Details of the targets set for 2016/17 are shown in the table below. Actual performance against target will be included in the update reports to this Committee.

Performance Indicator	Performance Target
1. Planned Days percentage of actual billable days against planned chargeable days completed.	95%
2. Planned Projects percentage of actual completed projects to draft report stage against	95%

<p>planned completed projects</p> <p>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>	
<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.
<p>6. Annual Plan</p>	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.
<p>7. Head of Assurance's Annual Report</p>	Presented to the first meeting of each Audit Committee in the new financial year.

APPENDIX A – PROPOSED EAST HERTS COUNCIL INTERNAL AUDIT PLAN 2016/17

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
KEY FINANCIAL SYSTEMS		
Asset Management	SIAS will be conducting a full audit on the Asset Management system and associated records, covering systems access, asset management plans, maintenance of key records and lease and disposal activities.	12
Benefits	SIAS will be conducting a full audit on the Benefits system covering the areas of set-up of standing data, assessments and backdating, payments, recovery and write-off of overpayments, system controls and data retention.	12
Council Tax	SIAS will be conducting a full audit on the Council Tax system covering the areas of liability, billing, collection, refunds and recovery.	10
Creditors	In line with the three-year CRSA* approach, the 2016/17 audit will return to year one of the CRSA cycle, whereby management will self-evaluate the adequacy of controls, risk management and business processes within the area of creditors and act on weaknesses identified. SIAS will provide independent validation of key assurance areas of ordering, goods receipting and invoicing, supplier records, payment runs, reconciliations and systems access.	10
Debtors	In line with the three-year CRSA approach, the 2016/17 audit will return to year one of the CRSA cycle, whereby management will self-evaluate the adequacy of controls, risk management and business processes within the area of debtors and act on weaknesses identified. SIAS will provide independent validation of evidence to support management	10

APPENDIX A – PROPOSED EAST HERTS COUNCIL INTERNAL AUDIT PLAN 2016/17

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
	assertions around key assurance areas of raising of sales invoices, accounting of payments received, refunds and credit notes, recovery processes and write-off's, reconciliations, and systems access.	
Main Accounting	SIAS will be conducting a full audit on the Main Accounting system covering the areas of systems access, journals and virements, feeder systems, bank reconciliations, control accounts, suspense accounts, year-end processes, and business continuity arrangements.	12
NDR	SIAS will be conducting a full audit on the NDR system covering the areas of liability, billing, collection, refunds and recovery.	10
Payroll	SIAS will be conducting a full audit on the Payroll system covering the areas of starters, leavers, transfers and amendments, payroll payments (including scheduling and BACS), pension contribution rates, payroll deductions and third party payments, reconciliations, management exception reports, systems access / security and management of the external Payroll contract.	12
Payroll Annual Pension Cert	Annual certificate verification.	1
Treasury Management	In line with the three-year CRSA approach, the 2016/17 will form year two of the current cycle, whereby management will self-evaluate the adequacy of controls, risk management and business processes within the area of treasury and act on weaknesses identified. SIAS will provide independent validation of evidence to support management assertions around key	6

APPENDIX A – PROPOSED EAST HERTS COUNCIL INTERNAL AUDIT PLAN 2016/17

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
	assurance areas of investment policies and procedures, systems access, cashflow forecasting, placing and authorisation of investments, capital and interest payments, reconciliations, external service providers / contracts, and performance monitoring.	
OPERATIONAL AUDITS		
Safeguarding	Performing a gap analysis of the Councils current approach against the recommendations and outcomes of recent national CSE* and Safeguarding reports. This aims to provide EHC with initial information to inform and where relevant empower change.	15
Digital by Design	This audit will consist of a benchmarking exercise against SIAS partner authorities (or wider) to identify opportunities for the Council to consider channel shift in the delivery of services or information to the end consumer.	18
Absence Management	To provide assurance that robust policies and procedures are in place and followed in practice in relation to managing and reporting of staff absence.	10
Enviro Crime	To provide assurance that the Council has a proportionate and transparent approach to dealing with enviro crime (abandoned vehicles, dog fouling, littering etc).	15
Tree Surveying	To provide assurance that robust systems are in place to risk assess the condition of the Council's tree stock and respond in a timely manner to issues identified.	12

APPENDIX A – PROPOSED EAST HERTS COUNCIL INTERNAL AUDIT PLAN 2016/17

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
Consultants	To provide assurance that appropriate systems are in place to govern the procurement and monitoring of consultants engaged by the Council, thereby ensuring compliance with regulations (e.g. HMRC) and achievement of value for money.	10
Project Management / Benefits Realisation	To provide assurance that the Council has robust processes in place governing the project lifecycle, specifically creation and approval of business cases, project governance and benefits realisation.	12
Development Management – pre applications	To provide assurance that an appropriate control environment is in place over the recently introduced changes to the pre-application planning phase.	6
Freedom of Information	To provide assurance that the Council processes FOI requests in accordance with statutory timeframes.	10
Health & Safety	To provide assurance that the Council has a proportionate corporate approach in place to manage health and safety risks, including risk assessments, training etc.	12
Car Parks – New pay and display machines	To provide assurance that a robust internal control environment is maintained for the area of car park income following introduction of the new machines.	10

APPENDIX A – PROPOSED EAST HERTS COUNCIL INTERNAL AUDIT PLAN 2016/17

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
BACS	To provide assurance that a robust internal control environment is maintained for BACS payments.	6
Elections	To provide assurance that a robust internal control environment is maintained for elections management.	10
Land Charges	To provide assurance that the land charges register is maintained in accordance with statutory and best practice requirements and that requests for access / information are handled in line with agreed procedures.	8
Cash and Banking	To provide assurance over the secure, complete and accurate receipting, recording, banking and reconciliation of cash, cheque and card payments through all available payment channels and locations.	12
JOINT REVIEWS		
Shared Learning	<ul style="list-style-type: none"> Shared Learning Newsletters and Summary Themed Reports - 2 days Audit Committee Workshop – 1 day Benchmarking Workshop (tbd) – 2 days 	5
Community Infrastructure Levy	Introduction of the Community Infrastructure Levy as part of the consortium.	2

APPENDIX A – PROPOSED EAST HERTS COUNCIL INTERNAL AUDIT PLAN 2016/17

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
Joint Reviews	To be confirmed.	10
PROCUREMENT / CONTRACTS		
New Payroll Contract – controls assurance	To provide controls assurance during the implementation phase of the new Payroll system.	5
Trade / Clinical Waste	To provide assurance on billing and contract monitoring arrangements for the trade and clinical waste elements of the Veolia contract.	12
Land Drainage Contract Re-tender	To provide assurance over the letting of the contract to provide drainage services to the Council.	8
IT AUDITS		
Internet and Email Usage	The audit coverage may include the following: <ul style="list-style-type: none"> a) Completeness and currency of policies and procedures. b) Relevance and delivery of training and awareness material. c) Monitoring arrangements for the detection of inappropriate usage. 	8

APPENDIX A – PROPOSED EAST HERTS COUNCIL INTERNAL AUDIT PLAN 2016/17

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
	d) Management of breaches.	
Cyber Risk	<p>To provide assurance over the robustness of measures in place to protect the Councils systems and data from unintended or unauthorised access, change or destruction. More specifically, the focus may include some, or all, of the following:</p> <ul style="list-style-type: none"> a) Security Strategy (<i>Setting Direction</i>), b) Security Governance and Control (<i>Creating a sound framework of control</i>), c) Threat and Vulnerability Management (<i>Managing Exposure</i>), d) Architecture network security and identity (<i>Building secure systems and Infrastructure</i>), e) Incident response and forensic investigation (<i>Managing Incidents</i>), f) Mobile Network and Device Security (<i>Deep dive</i>),and g) Business Continuity Management (<i>Building in resilience</i>). 	8
RISK MANAGEMENT		
Risk Management	No audits planned for 2016/17.	0
ANTI-FRAUD		
Anti-Fraud	Follow Up of fraud related themes.	5

APPENDIX A – PROPOSED EAST HERTS COUNCIL INTERNAL AUDIT PLAN 2016/17

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
FOLLOW UP OF AUDIT RECOMMENDATIONS		
Follow Up of Audit Recommendations	Follow Up of High Priority Recommendations.	5
STRATEGIC SUPPORT		
Head of Internal Audit Opinion 2015/16	To prepare and agree the Head of Internal Audit Opinion for 2015/16.	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

APPENDIX A – PROPOSED EAST HERTS COUNCIL INTERNAL AUDIT PLAN 2016/17

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
SIAS Development	Included to reflect the Council's contribution to developing the partnership.	5
2017/18 Audit Planning	To provide services in relation to preparation and agreement of the 2017/18 Audit Plan.	10
COMPLETION OF 2015/16 Work		
Completion of 2015/16 Projects	Completion of outstanding work from 2015/16.	15
TOTAL AUDIT PLAN DAYS		400

*Key:

CRSA = Control Risk Self Assessment (an audit approach which attempts to optimise organisational knowledge by allowing those who are best placed in the organisation to identify risk exposures and to develop mitigating actions, where appropriate).

CSE = Child Sexual Exploitation

APPENDIX B – PROPOSED EAST HERTS COUNCIL INTERNAL AUDIT PLAN 2016/17 – RESERVE LIST

2016/17 Reserve List		
Agency Staff	To provide assurance that the use of agency staff is appropriately managed, including aspects such as safeguarding, performance / quality management and that payment is only made for services delivered.	
Building Control - joint venture - possible shared piece	Scope to be determined in agreement with management.	
Disability Legislation - compliance review	To provide assurance that the Council have appropriate policies and systems to comply with key aspects of disability legislation related to the workforce and residents.	
Environmental Health - risk based inspection / preventative programmes	To provide assurance that Environment Health uses intelligence led and risk based approaches to the allocation of resources and that such plans are delivered in practice.	
Environmental Health use of Uniform / Idox system	To provide assurance that robust systems for record keeping, data security and information sharing are maintained following the introduction of new systems.	
Learning & Development	To provide assurance that learning and development activities are sufficiently aligned to the requirements of the Council and that appropriate monitoring systems are maintained to review the quality of training provided and how this has been used by the recipient.	

APPENDIX B – PROPOSED EAST HERTS COUNCIL INTERNAL AUDIT PLAN 2016/17 – RESERVE LIST

2016/17 Reserve List		
Management and implementation of new legislation across the Council	To provide assurance that the Council have effective systems in place to identify key changes in legislation and implement required changes in accordance with statutory timescales.	
New Financial Management System	To provide assurance that a robust control environment is maintained following the implementation of the new financial system.	
Old River Lane Development	Scope to be determined in agreement with management.	
Volunteers	To provide assurance that the Council has robust policies and processes for engaging and managing volunteers and that business continuity risks in relation to levels of reliance on volunteers are appropriately assessed and managed.	
Waste Partnership with NHDC	Scope to be determined in agreement with management.	
3Cs	To provide assurance that the complaints, comments and compliments processes provide a robust framework for customers to interact with the Council.	

APPENDIX C – 2016/17 AUDIT START DATES AGREED WITH MANAGEMENT

Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Payroll Annual Pension Certificate	Health & Safety	Project Mgmt / Benefits Realisation	Safeguarding	Enviro Crime	Tree Surveying	Council Tax	Treasury Mgmt	Debtors	Creditors	Land Charges	
BACS	Trade / Clinical Waste	Cash and Banking	Consultants	Elections	Development Mgmt (Pre- applications)	Benefits	Payroll	Asset Mgmt	Internet and E- mail Usage		
FOI		Cyber Risk		Payroll System – controls assurance	Car Parks – New Pay & Display Machines	NDR	Digital by Default	Main Accounting			
					Land Drainage Contract Re- tender	Absence Mgmt					