East Herts Council
Audit and Governance Committee
2017/18 Internal Audit Plan Report
22 March 2017

Recommendation

Members are recommended to approve the
proposed East Herts Council Internal Audit
Plan for 2017/18

Contents

1. Introduction and Background

<u>Purpose of Report</u>

1.1 To provide Members with the proposed East Herts Council 2017/18 Internal Audit Plan.

<u>Background</u>

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 July 2016 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 first meeting of the Audit and Governance Committee in the 2017/18 Civic year 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

<u>Planning Principles</u>

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 2017/18 has been characterised by:

a)   Detailed discussions with senior 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 2017/18 plans for all SIAS partner councils are then scrutinised and cross-partner audits highlighted;

d)   Proposed draft plans are presented to Leadership Team for discussion and agreement;

e)   The plan is shared with external audit.

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

<u>The Planning Context</u>

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 continues to develop 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 remains 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.

<u>Internal Audit Plan 2017/18</u>

2.7   The draft 2017/18 audit plan is included at Appendix A and contains a high level proposed outline scope for each audit; Appendix B details the agreed start months. The table below shows the estimated

allocation of the total annual number of purchased audit days for the year.

Purchased audit days	2017/18	%
Key Financial Systems	101	25
Operational audits	152	38
Joint Reviews	10	2
Procurement / Contracts	25	6
IT Audits	30	8
Strategic Support*	53	13
Risk Management	6	2
Anti-Fraud	5	1
Follow Ups	3	1
Completion of 2016/17 Work	15	4
Total allocated days	**400**	**100%**

* This covers supporting the Audit Committee, monitoring, client liaison and audit planning for 2018/19.

2.8   The draft plan has been signed-off by EHC Leadership Team. However, in view of the recent arrival of a new S151 Officer (Head of Strategic Finance and Property post), it is recognised that there may be a requirement to flex the plan, particularly in respect of some of the key financial systems audits, to align these to the changing environment. In particular, the impact of the new finance system on both the approach and timings will be considered in-year. For example it may be more beneficial in 2017/18 for audit resources to be spread across the year to provide controls assurance as the project evolves.

Any significant audit plan changes agreed between Management and SIAS will be brought before this Committee for approval through the usual plan update reporting cycle.

2.9   Members will note the inclusion of a provision for the completion of projects that relate to 2016/17. 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

<u>Update Reporting</u>

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 2017/18 and any proposed changes will be reported to this Committee four times in the 2017/18 civic year.

3.2 The implementation of agreed high priority audit recommendations will be reported to the Audit and Governance Committee as part of the update reporting process.

<u>Performance Indicators</u>

3.3 Annual performance indicators were approved at the SIAS Board in September 2011 and are reviewed annually. Details of the targets set for 2017/18 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 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.	95%

3.	**Client Satisfaction** percentage of client satisfaction questionnaires returned at 'satisfactory' level.	100%
4.	**Number of High Priority Audit Recommendations agreed**	95%
5.	**External Auditor Satisfaction**	External Auditors are able to rely upon the range and quality of SIAS' work Not applicable at EHC as External Audit does not currently place reliance on the work of SIAS.
6.	**Annual Plan**	Presented to the March meeting of the Audit and Governance 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 and Governance Committee in the new financial year.

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
KEY FINANCIAL SYSTEMS		
General Ledger	SIAS will conduct an audit on the General Ledger. Areas of coverage may include systems access controls, journals and virements, feeder system reconciliations, bank reconciliations, control accounts, suspense accounts and year-end processes. The impact of the implementation of the new financial accounting system planned for 2017/18 will be considered when scoping this audit.	10
Debtors	SIAS will conduct an audit on the Debtors system. Areas of coverage may include the raising of sales ledger invoices, accounting of payments received, refunds, credit notes, recovery processes (including write-off's), reconciliations, and systems access. The impact of the implementation of the new financial accounting system planned for 2017/18 will be considered when scoping this audit and is the rationale behind the return to a full audit (in 2017/18), mid-way through the Control Risk Self- Assessment (CRSA) cycle.	14
Creditors	SIAS will conduct an audit on the Creditors system. Areas of coverage may include the set-up and amendment of supplier records, ordering, goods receipting, invoicing, payment runs, reconciliation of the creditors system to the general ledger and systems access. The impact of the implementation of the new financial accounting system planned for 2017/18 will be considered when scoping this audit and is the rationale for the return to a full audit in 2017/18, mid-way through the Control Risk Self- Assessment (CRSA) cycle.	14
Treasury Management	SIAS will conduct an audit on the Treasury Management system and associated records. Areas of coverage may include investment policies and procedures, systems access, cashflow	8

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
	forecasting, placing and authorisation of investments, capital and interest payments, reconciliations, external service providers / contracts, and performance monitoring.	
Council Tax	SIAS will conduct an audit on the Council Tax system. Areas of coverage may include reconciliation of records with the Valuation Office Agency, application of discounts reliefs and exemptions, billing, collection, refunds and recovery of unpaid council tax debts including write-offs and reconciliation of the council tax system to the general ledger.	10
NDR	SIAS will conduct an audit on the NDR system. Areas of coverage may include reconciliation with Valuation Office Agency records, reliefs and exemptions, liability, billing, collection, refunds, recovery including write-off of unpaid debts and reconciliation to the general ledger.	10
Housing Benefits and Rent Allowances	SIAS will conduct an audit on the Benefits system. Areas of coverage may include the set-up of standing data, processing of new and amended assessments including backdating, payments to claimants, recovery and write-off of overpayments, reconciliation of the benefits system to the general ledger, system access controls and data retention.	10
Payroll	SIAS will conduct an audit on the Payroll system. Areas of coverage may include starters and leavers, transfers and amendments, payroll payments, application of pension contribution rates, payroll deductions and third party payments, reconciliations, management exception reports, systems access / security and management of the external Payroll contract. The impact of the implementation of the new payroll system (due to go live 1 April 2017) will be considered when scoping this audit.	14

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
Asset Management	SIAS will conduct an audit on the Asset Management system and associated records. Areas of coverage may include systems access, asset management plans, acquisitions and disposals, lease transactions, rent reviews and condition surveys.	10
Payroll Annual Pension Certificate	Annual pension certificate verification.	1
OPERATIONAL AUDITS		
Development Management (pre-application process)	To provide assurance in relation to changes to the planning pre-application process including implementation of the planned new charging regime.	6
Section 106 (application of revised charging)	To provide assurance that the revised charges (as per the Supplementary Planning Document) are applied in practice.	8
Old River Lane Development	To provide assurance during development of the Old River Lane site – actual scope to be determined by rate of progress but likely to focus on project management activities.	14

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
Accommodation Project (challenge assumptions)	To provide assurance during the lifecycle of the Accommodation Project - actual scope to be determined by rate of progress but likely to focus on project management activities.	12
Business Continuity Planning	To provide assurance that business continuity arrangements are fit for purpose. Scope likely to include review of business impact assessments, roles and responsibilities, testing and review programmes.	10
Communications	To provide assurance that internal and external communications are subject to appropriate oversight and approval.	10
3 Cs	To provide assurance that complaints, comments and compliments are logged on a central electronic database, responses are managed and management information is available and utilised to identify trends / issues.	12
Hertford Theatre - Income	To provide assurance that processes and controls over income collection are robust following introduction of the new digital ticketing system (Ticketsolve).	10
Play Safety Inspections	To provide assurance that the inspection programme is risk assessed, evidenced and responsive work is undertaken as required.	10

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
Digital East Herts	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.	12
Off-Payroll Payments	To provide assurance that the treatment of contractors, agency workers and employees is in accordance with IR35 requirements.	5
Licensing - processing of applications and issue of licences	To provide assurance that the licence application and issue processes are administered in an effectively controlled manner. Scope to cover all licence types.	15
Taxi Licensing Enforcement	To provide assurance that the taxi licence revocation process is subject to appropriate and proportionate controls, including sign-off and appeals.	8
Food Safety Inspections	To provide assurance that the performance monitoring of the inspection regime for new food businesses is reliable and robust.	10
New Payroll System – rollout of self-service	To provide assurance that the rollout of new self-service functionality within the payroll system provides efficiency for end-users and control enhancements.	8

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
DFG Capital Grant Certification	To provide Head of Internal Audit sign-off on the annual Disabled Facilities Capital Grant return, due at the end of September each year. .	2
JOINT REVIEWS		
Shared Learning	. For the provision of Shared Learning Newsletters and Summary Themed Reports.	5
Joint Reviews	Topics to be determined by the SIAS Board.	5
PROCUREMENT / CONTRACTS		
Local Authority Serious and Organised Crime Checklist	The Serious and Organised Crime Agency (SOCA) has developed resources that allow local authority Internal Audit teams to scrutinise business operations to establish where there may be vulnerabilities to serious and organised crime. The methodology includes: • A Serious and Organised Crime Checklist - to assess serious and organised crime risks; • A Serious and Organised Crime Audit - to scrutinise business operations to establish where there may be vulnerabilities; and • Non-involvement with Serious and Organised Crime Statement – for use in Invitation to Tenders and Official Journal notices. It is proposed that the Serious and Organised Crime Checklist (covering Governance & Strategy, Operations and Insider Threat) is utilised initially to identify any weaknesses or	10

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
	vulnerabilities, which may later form the basis for more detailed audit work using the Serious and Organised Crime Audit Framework.	
Procurement and Contract Management	Procurement – to provide assurance that roles and responsibilities are defined, contract documentation is consistent, waivers and exemptions are correctly applied, tendering procedures are robust and a spend analysis is undertaken. Contract Management – to provide assurance that corporate policies and procedures are in place, corporate training is provided, performance and financial management of contractors is maintained, contractual and supplier risk is managed and governance, relationship management and contract administration is robust.	15
IT AUDITS		
Mobile Device Management	This audit will consider a variety of mobile device security policies, password policies, encryption policies, data classification policies, acceptable use policies, antivirus software policies, wireless access policies, incident response policies, remote working policies, privacy policies and others in analysing effective risk management of mobile devices (Council and personal). This audit is not about data centre security.	6
IT Procurement	To provide assurance that the Council replicates successes and learns the lessons from events where things did not go well. Consideration will be given to capacity, skills and knowledge to lead and manage IT procurement as a specialised and critical area of procurement.	6

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
IT Shared Service Agreement	The IT Shared Service was established in 2013 and the partnership agreement expires in August 2018, with the option to extend for a further two years. After four years of operation, it is deemed to be an opportune time to review the shared service and the partnership agreement. This will include a review and assessment of successes, hurdles, failures and benefits of the shared service, governance, the current position and direction of travel, measuring key deliverables against original business objectives and shifting of focus to meet demands of the changing IT and digital environment, i.e. where does the shared service need to be and is it fit for purpose now. The audit review is not a replacement for a full management review, but it is anticipated to provide insight into where things are and what needs to be done.	6
IT Incident Management	To provide assurance over: a) Policies, protocols, procedures and defined responsibilities, including investment, risk management and identification, vulnerability assessment, documentation and communications, b) Incident identification, logging, categorisation and prioritisation, c) Incident diagnosis, investigation, response and escalation (e.g. major or minor incident), d) Incident resolution and recovery, e) Incident closure, f) Incident monitoring and reporting, not just by individual incident but by period, number and type too. Although incident management featured as an assurance area within the 2016/17 Cyber Risk	6

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
	audit, repeated cyber-attacks and incidents make this an area for further in depth coverage.	
Cyber Security	A number of Councils are specifying annual cyber security audits in response to ongoing cyber security threats and vulnerabilities. The UK is one of the world's leading digital nations and the ability to secure technology, data and networks from the many threats is key. Yet cyber-attacks are growing more frequent, sophisticated and damaging when they succeed. The Government's National Cyber Security Strategy 2016-21 was released in November 2016, and it is proposed that the renewed focus on cyber security provided by the Strategy should form the basis for a further audit, with the scope to be determined at the point of delivery.	6
RISK MANAGEMENT		
Risk Management	To provide assurance that the Strategy has been approved, is subject to periodic review, risk is managed in accordance with strategy, roles, responsibilities and accountabilities for risk management are defined, a 'risk aware' culture is maintained through training and other appropriate measures and processes identify new, emerging and changing risks,	6
ANTI-FRAUD		
Anti-Fraud – Controls Review	Provision of support and advice on internal control issues identified during the work of the Shared Anti-Fraud Service.	5

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
FOLLOW UP OF AUDIT RECOMMENDATIONS		
Follow Up of Audit Recommendations	Follow up of high priority internal audit recommendations.	3
STRATEGIC SUPPORT		
Head of Internal Audit Opinion 2016/17	To prepare and agree the Head of Internal Audit Opinion for 2016/17	5
Audit Committee	To provide services linked to the preparation and agreement of Audit Committee reports and presentation of reports / participation at Audit Committee.	12
Client Liaison	To meet with the Council's Audit Champion and other key officers.	10
External Audit Liaison	As required.	1
Plan Delivery	Audit plan monitoring and reporting.	10

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
Monitoring		
2018/19 Audit Planning	To provide services in relation to the preparation and agreement of the 2018/19 Audit Plan.	10
SIAS Development	Included to reflect the Council's contribution to developing the partnership.	5
COMPLETION OF 2016/17 Work		
Completion of 2016/17 Projects	Completion of outstanding work from 2016/17.	15

TOTAL AUDIT PLAN DAYS	**400**

Audit Plan Items (April 2017 to March 2018) – Start Dates Agreed with Management

Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Payroll Annual Pension Certificate	Risk Mgmt	Off-Payroll Payments	Business Continuity Planning	Section 106	Food Safety Inspections	Council Tax	Treasury Management	Debtors	Creditors	Comms	
Licensing	Taxi Licensing Enforcement	Cyber Security	Hertford Theatre – income	Digital East Herts (actual timings tbd)	DFG Capital Grant Sign-Off	Housing Benefits & Rent Allowances	Payroll	Asset Mgmt		Play Safety Inspections	
3C's (complaints, compliments & comments)	Procurement & Contract Mgmt		IT Procurement	Mobile Device Mgmt	Accommodation Project (actual timings tbd)	Development Mgmt (Pre-applications)	NDR	General Ledger			
				Serious & Organised Crime Checklist	IT Shared Service Agreement	Old River Lane (actual timings tbd)	New Payroll System – rollout of self-service (actual timings tbd)				
				IT Incident Management							

2017/18 RESERVE LIST	
Development Management	To provide assurance over controls governing planning applications.
Housing Allocations	To provide assurance over applications to join the housing register and nominations for vacant properties.
Commercialisation	Scope to be determined – typical areas include assessment of opportunities, prioritisation, record keeping and success criteria.
New Financial Management System	To provide assurance that a robust control environment is maintained following the implementation of the new financial system.
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.
Waste Partnership with NHDC	Scope to be determined in agreement with management.
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.

Syrian Refugee Resettlement	To provide assurance over the placement of Syrian refugees.
Grants Management	To provide assurance over the management of grants across the Council.
Economic Development	To provide assurance over the use of discretionary funding.
Customer Service Centre	To provide assurance over the setting and application of customer service standards.