



**East Herts Council
Performance, Audit & Governance Scrutiny
Committee**

2018/19 Internal Audit Plan Report

13 March 2018

Recommendation

**Members are recommended to approve the
proposed East Herts Council Audit Plan for 2018/19**

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1. Introduction and Background

Purpose of Report

- 1.1 To provide Members with the proposed East Herts Council 2018/19 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 July 2017 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 Audit Committee in the 2018/19 Civic year.
- 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, including 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 2018/19 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 2018/19 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 the External Auditor.

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

2.4 The context within which local authorities and housing associations provide their services remains challenging:

- Austere public finances are likely to continue into the next decade, 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 predictive analytics is now key to service delivery 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.

Internal Audit Plan 2018/19

2.7 The draft 2018/19 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 number of days purchased in 2018/19 has reduced by 10% which equates to a reduction from 400 days (in 2017/18) to 360 days (in 2018/19). A similar reduction has been applied across all other SIAS partner Councils and was agreed by the

SIAS Board. The table below shows the estimated allocation of the total annual number of purchased audit days for the year:

	Days	%
Key Financial Systems	77	21
Operational audits	129	36
Procurement / Contracts	29	8
Shared Learning/Joint Reviews	8	2
Counter Fraud	3	1
Risk & Governance	0	0
IT Audits	30	8
Contingency	10	3
Follow Ups	3	1
Strategic Support*	51	14
2017/18 Projects Requiring Completion	20	6
Total audit days 2018/19	360	100

* This covers supporting the Audit Committee, monitoring, client liaison and planning for 2019/20.

- 2.8 Members will note the inclusion of a provision for the completion of projects that relate to 2017/18. 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.
- 2.9 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 2018/19 and any proposed changes will be reported to this Committee four times in the 2018/19 civic year.

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

Performance Indicators

- 3.3 Annual performance indicators were approved at the SIAS Board in September 2011 and are reviewed annually. Details of the targets set for 2018/19 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	Annual Audit Letter formally records that the External Auditors are able to rely upon the range and quality of SIAS' work.

6. Annual Audit 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.

Audit	Proposed Outline Scope	Proposed Days
KEY FINANCIAL SYSTEMS		
Asset Management	To provide assurance over 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
Benefits	To provide assurance over 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.	6
Council Tax	To provide assurance over 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.	6
Creditors	To provide assurance over 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 April 2018 will be considered when scoping this audit.	10

Audit	Proposed Outline Scope	Proposed Days
Debtors	To provide assurance over 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 April 2018 will be considered when scoping this audit.	10
Main Accounting	To provide assurance over the Main Accounting system. 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 April 2018 will be considered when scoping this audit.	10
NDR	To provide assurance over 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.	6
Payroll	To provide assurance over 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.	12
Treasury Management	To provide assurance over the Treasury Management system and associated records. Areas of coverage may include investment policies and procedures, systems access, cashflow forecasting, placing and authorisation of investments, capital and interest payments,	6

Audit	Proposed Outline Scope	Proposed Days
	reconciliations, external service providers / contracts, and performance monitoring.	
Payroll Annual Pension Certificate	Annual pension certificate verification.	1
OPERATIONAL AUDITS		
Development Management	<p>To provide assurance over the planning application process. The scope will typically cover the following areas, to be confirmed with officers at the time the audit commences:</p> <ul style="list-style-type: none"> a) Planning Cycle (Including Pre-planning Application) for Major Projects b) Fees and Income c) Appeals d) Enforcement e) PS1 and PS2 Statutory Returns 	12
Section 106 (spend arrangements)	To provide assurance over spend arrangements for S106 contributions collected.	10
Business Grants Scheme	To provide assurance over the allocation of grants under the Business Grants scheme. Scope likely to cover governance arrangements over the decision making process.	8

Audit	Proposed Outline Scope	Proposed Days
Performance Management / Data Quality	<p>To provide assurance over the accuracy of reported data. As increasing reliance is placed on this information in performance management and assessment regimes, the need for reliable data has become more critical.</p> <p>Coverage to typically include the following:</p> <ul style="list-style-type: none"> a) Management arrangements, b) Completeness checking, and c) Data quality spot checks. 	10
Land Charges	<p>To provide assurance over the operation of the land charges service. Typical coverage to include:</p> <ul style="list-style-type: none"> a) Land charge searches b) Charging for Environmental Information c) Procedures d) Cost of Service e) Insurance 	10
Freedom of Information (FOI)	<p>To provide assurance over the prioritisation and processing of FOI requests, including:</p> <ul style="list-style-type: none"> a) Policies, procedures and responsibilities regarding FOI requests. b) Recording of and responding to FOI requests (inc. exemptions and charges) in compliance with FOI legislation. c) Responding to complaints and appeals in compliance with FOI legislation and the Council's internal controls. 	8

Audit	Proposed Outline Scope	Proposed Days
	d) Training and awareness for the completeness of FOI and succession planning.	
GDPR – PIR	Review to examine effectiveness of GDPR arrangements after go-live.	10
Homelessness Reduction Act / Temporary Accommodation	To provide assurance that the Council has adequately responded to the new Homelessness Reduction Act legislation and assess the impact the new legislation has on temporary accommodation demands and spending. In addition, this review will seek to provide assurance on the Council's approach to rough sleeping.	12
Houses in Multiple Occupation (HMOs)	To provide assurance over the monitoring and response arrangements for homes with multiple occupation.	10
Home Improvement Agency	Review of the new arrangements for granting disabled facility grants as hosted by HCC, with contributions from all SIAS councils who are in the partnership.	2
Digital East Herts	Following on from the audit completed in 2017/18, a further review is scheduled to provide ongoing assurance over the programme.	12
Agency Staffing	To provide assurance that the framework contract for agency staffing is operating effectively and delivers best value.	12

Audit	Proposed Outline Scope	Proposed Days
Commercialisation / Income Generation	To provide assurance over the Council's income streams and fees and charges, to ensure that income is maximised as far as possible, to include a comparison with other authorities.	12
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.	1
SHARED LEARNING / JOINT REVIEWS		
Shared Learning / Joint Reviews	Shared Learning Newsletters / Summary Themed Reports / Joint Reviews (topics to be determined by the SIAS Board).	8
PROCUREMENT / CONTRACTS		
Waste Contract	To provide assurance that suitable contract management arrangements exist for the monitoring and management of the new Waste Contract, including (but not limited to) access to management information, reporting arrangements, contractor liaison and trade waste.	15
Contract Management	To provide assurance from a sample of contracts from across the Council over the robustness of contract management activities.	12

Audit	Proposed Outline Scope	Proposed Days
Compliance Monitoring Contract	Review of the new contract for oversight of statutory compliance requirements on council properties as hosted by Stevenage Borough Council, with contributions from all SIAS councils in the partnership.	2
IT AUDITS		
Cyber Security	Following on from the 2017/18 audit, this further review is designed to monitor implementation of recommendations made in that audit and forms part of the IT Implementation Plan. Detailed scope to be agreed at the time.	6
Incident Management / Major Incident Review Follow-up (TSS Improvement Plan Phase 1 - Resilience)	To provide assurance over implementation of agreed actions arising from the 2017/18 audit as part of Phase 1 Resilience. Detailed scope to be agreed at the time.	6
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

Audit	Proposed Outline Scope	Proposed Days
TSS Improvement Plan - Governance	To provide assurance over the governance arrangements for implementing the IT Improvement Plan, including monitoring and reporting.	6
Scope of adoption of ITIL as part of Operational Framework	To provide assurance over the adoption of ITIL as a key factor in delivering the IT Improvement Plan. Detailed scope to be agreed at the time.	6
RISK MANAGEMENT		
	No audits identified	
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.	3
FOLLOW UP OF AUDIT RECOMMENDATIONS		
Follow Up of Audit	Follow up of high priority internal audit recommendations.	3

Audit	Proposed Outline Scope	Proposed Days
Recommendations		
STRATEGIC SUPPORT		
Head of Internal Audit Opinion 2017/18	To prepare and agree the Head of Internal Audit Opinion for 2017/18	4
External Audit Liaison	As required.	1
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
2019/20 Audit Planning	To provide services in relation to the preparation and agreement of the 2019/20 Audit Plan.	10
Plan Monitoring	Audit plan monitoring and reporting.	9

Audit	Proposed Outline Scope	Proposed Days
SIAS Development	Included to reflect the Council's contribution to developing the partnership.	5
CONTINGENCY		
Contingency	To be allocated as required	10
COMPLETION OF 2015/16 Work		
Completion of 2017/18 Projects	Completion of outstanding work from 2017/18.	20
TOTAL AUDIT PLAN DAYS		360

Audit Plan Items (April 2018 to March 2019) – Start Dates Agreed with Management

Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Payroll Annual Pension Certificate	Business Grants Scheme	Freedom of Information	GDPR - PIR	S106	Development Management	Council Tax	Treasury Management	Debtors	Creditors	HRA & Temporary Accomm	
	Contract Management	Agency Staffing	Land Charges	Performance Mgmt / Data Quality	DFG Capital Grant Sign- Off	Benefits	Payroll	Asset Mgmt	Waste Contract		
				HMOs	Home Improvement Agency	Commercialisation / Income Generation	NDR	Main Accounting			
				Digital East Herts			Compliance Monitoring Contract				

** Start dates for the five IT audits to be determined and are therefore not included in the above table.