



East Herts Council
Performance, Audit & Governance Scrutiny
Committee

2019/20 Internal Audit Plan Report

12 March 2019

Recommendation

Members are recommended to approve the
proposed East Herts Council Audit Plan for 2019/20

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A Proposed East Herts Council Audit Plan
2019/20

B Audit Start Dates Agreed with
Management

1. Introduction and Background

Purpose of Report

- 1.1 To provide Members with the proposed East Herts Council 2019/20 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 2018 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 and revised on 1 April 2017. An updated version of the SIAS Audit Charter will be brought to the first meeting of Audit Committee in the 2019/20 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, as well as thought leadership 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 2019/20 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 2019/20 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 provide their services remains challenging:
- Latest forecasts show a cloudy outlook for the UK economy, reflecting increasing national and international uncertainties. Local authorities will need to be attuned to the impact on their local economies and any direct investments of their own.
 - Demand continues to rise, driven by complex needs, an ageing population and challenges in the healthcare system. With reduced financial support, local authorities will have to continue to become more innovative and commercial.
 - Digital transformation continues to offer opportunities along with significant risks. The innovative use of technology is helping to reduce costs, as well as be more efficient and transparent. However, factors such as security, privacy, ethical and regulatory compliance are a recognised concern.
 - Major national programmes in areas like business rates, public health and housing mean the overall financial environment remains relatively unstable.
- 2.5 The resultant efficiency and transformation programme that councils are in the process of implementing and developing continues to profoundly alter 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 2019/20

- 2.7 The draft 2019/20 audit plan is included at Appendix A and contains a high-level proposed outline scope for each audit; Appendix B details the planned start months. The number of days purchased has been reduced from 400 days in 2017/18, to 360 days in 2018/19 and to 340 days in 2019/20. A similar reduction has been applied across some 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	75	22
Operational Audits	115	34
Procurement / Contracts	20	6
Shared Learning/Joint Reviews	10	3
Counter Fraud	3	1
Risk & Governance	16	4
IT Audits	24	8
Contingency	10	3
Strategic Support*	57	16
2018/19 Projects Requiring Completion	10	3
Total audit days 2019/20	340	100

* This includes supporting the Audit Committee, monitoring, client liaison and planning for 2020/21.

- 2.8 Members will note the inclusion of a provision for the completion of projects that relate to 2018/19. 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 2019/20 and any proposed changes will be reported to this Committee four times in the 2019/20 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 2019/20 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%

<p>4. Number of High Priority Audit Recommendations agreed</p>	<p>95%</p>
<p>5. External Auditor Satisfaction</p>	<p>Annual Audit Letter formally records that the External Auditors are able to rely upon the range and quality of SIAS work.</p>
<p>6. Annual Audit Plan</p>	<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>
<p>7. Head of Assurance's Annual Report</p>	<p>Presented to the first meeting of each Audit Committee in the new financial year.</p>

East Herts Council 2019/20 Draft Internal Audit Plan

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
KEY FINANCIAL SYSTEMS		
Main Accounting System (General Ledger)	<p>A full assurance audit on the main accounting system to confirm implementation of previous audit recommendations and that existing controls are well designed and operating effectively. Areas of coverage may include:</p> <ul style="list-style-type: none"> a) Policies and procedures b) Creation, deletion and monitoring of general ledger accounts c) Processing of journals and virements d) Reconciliation of bank and control accounts e) Suspense accounts f) Access controls for the general ledger and associated modules. 	10
Debtors	<p>A full assurance audit on the debtor's system to confirm implementation of previous audit recommendations and that existing controls are well designed and operating effectively. Areas of coverage may include:</p> <ul style="list-style-type: none"> a) Policies and procedures b) Raising of debtor accounts c) Payments d) Credit notes and refunds e) Recovery and write offs f) Debtors control account reconciliations. 	10
Creditors	A full assurance audit on the creditors system to confirm implementation of previous	10

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
	<p>audit recommendations and that existing controls are well designed and operating effectively. Areas of coverage may include:</p> <ul style="list-style-type: none"> a) Policies and procedures b) Raising of supplier accounts b) Ordering, goods receipting and invoicing processes c) New suppliers and amendments to existing supplier accounts d) Creditor payment runs e) Credit notes and refunds f) Creditors control account reconciliations. 	
Treasury Management	<p>Treasury Management will have reduced coverage this year to confirm implementation of previous audit recommendations and that existing controls are operating effectively. Areas of coverage may include:</p> <ul style="list-style-type: none"> a) Cash flow management b) Counter-party risk c) Transactions d) On-line banking and investments e) Capital and interest payments f) Treasury management g) Treasury management practices, policies and procedures h) Reporting arrangements. 	6
Payroll	<p>Payroll will have reduced coverage this year to confirm implementation of previous audit recommendations and that existing controls are operating effectively. Areas of coverage may include:</p>	10

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
	<ul style="list-style-type: none"> a) Systems access b) Policies and procedures c) Statutory parameters d) Starters, leavers and amendments e) Contract variations f) Additional payments, overtime and expenses g) Payroll runs h) Third party payments. 	
Council Tax	<p>Council Tax will have reduced coverage this year to confirm implementation of previous audit recommendations and that existing controls are operating effectively. Areas of coverage may include:</p> <ul style="list-style-type: none"> a) Policies, procedures and legislation b) Amendment to council tax records c) Discounts and exemptions, e.g. single person discount d) In-year billing e) Collection and refunds f) Recovery, enforcement and write offs g) Performance monitoring and performance h) System access. 	6
Business Rates (NDR)	<p>Business Rates will have reduced coverage this year to confirm implementation of previous audit recommendations and that existing controls are operating effectively. Areas of coverage may include:</p>	6

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
	<ul style="list-style-type: none"> a) Policies, procedures and regulatory compliance b) Reconciliation between NDR system and valuation lists c) Multiplier setting d) Voids and reliefs e) In-year billing f) Collection and refunds g) Recovery, enforcement and write offs h) Reconciliation between NDR system and general ledger i) Performance monitoring and management j) System access. 	
Housing Benefits	<p>Housing Benefits will have reduced coverage this year to confirm implementation of previous audit recommendations and that existing controls are operating effectively. Areas of coverage may include:</p> <ul style="list-style-type: none"> a) Policies, procedures and set-up of standing data b) Assessments, including reductions and backdating c) Payments d) Recovery of overpayments e) Reconciliations f) Performance monitoring g) System access, security and retention of data. 	6
Asset Management	<p>A full assurance audit on the asset management system to confirm implementation of previous audit recommendations and that existing controls are well designed and operating effectively. Areas of coverage may include:</p>	10

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
	<ul style="list-style-type: none"> a) Asset management plans b) Asset management system and associated records c) Acquisitions and disposals d) Lease transactions e) Rent reviews f) Condition surveys 	
Payroll Annual Pension Certificate	Annual pension certificate verification.	1
OPERATIONAL AUDITS		
Health and Safety	The audit will provide assurance that the Council has appropriate controls in place to help meet its statutory obligations under the Health and Safety at Work Act and associated legislation. It may also cover whether the Council has good health and safety systems and practice.	10
Recruitment Process	The audit will provide assurance in respect of recruitment to vacancies, specifically including establishment control and the whole end to end recruitment process.	10
Land Charges	The audit will provide assurance over the operation of the land charges service. Areas of coverage may include policy and procedures, land charge searches, charging arrangements and insurance.	10

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
Members Allowances and Expenses	<p>The audit will provide assurance over the administration of allowances and expenses to Members of the Council. Areas of coverage may include:</p> <ul style="list-style-type: none"> a) Policies and procedures c) Statutory parameters d) Starters, leavers and amendments e) Additional payments e.g. travel and expenses f) Payroll runs 	8
Recycling	<p>The audit will provide assurance over the receipt of grants and contributions, income from dry recyclables and from other associated income streams.</p>	10
Homeless Reduction Act / Temporary Accommodation	<p>The audit will provide assurance that the Council is adequately responding to the Homelessness Reduction Act. In addition, the audit will provide assurance on temporary accommodation spending and rough sleeping.</p>	10
Community Grants Programme / Lottery	<p>The audit will provide assurance on the process for awarding and paying community grants. In addition, a review of systems and procedures relating to the new EHC lottery will be undertaken.</p>	8
Herts Home Improvement Agency	<p>A review of the arrangements for granting disabled facility grants as hosted by HCC, with contributions from all SIAS councils who are in the partnership.</p>	2

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
Consultation and Engagement	Following the 2018 Peer Review, an audit of consultation and engagement arrangements with the aim of helping consistency and building on existing practice.	10
Business Continuity Planning	The audit will provide assurance on business continuity policy and procedures, planning arrangements (including business impact assessment) and arrangements relating to supplier resilience.	10
Budgetary Control	A review of new arrangements for periodic budget monitoring, reporting and managing variances, and the role and responsibilities of budget holders and managers.	10
Complaints Policy and Procedure	The audit will provide assurance on the policy requirements for handling complaints, the operational systems and procedures, lessons learnt and monitoring/reporting arrangements.	10
S106 Spend Arrangements (follow up)	The follow up review will provide a status update on the recommendations made in the S106 Spend Arrangements audit carried out in 2018/19.	6
CCTV – joint review (follow up)	The follow up review will provide a status update on the recommendations made in the CCTV audit carried out in 2018/19. This was a joint review resourced by contributions from the various partner councils.	1

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
PROCUREMENT, CONTRACT MANAGEMENT AND PROJECT MANAGEMENT		
Procurement	The audit will provide assurance that the Council is complying with legislation; there is effective corporate policy, procurement guidance/procedures and appropriate training.	10
Contract Management (review of a sample of contracts from across the Council)	The audit will provide assurance from a sample of contracts across the Council over the robustness of contract management activities, specifically including the leisure contract.	10
SHARED LEARNING		
Joint Reviews	The SIAS Board traditionally agree a topic (or topics) for consideration as joint reviews across the SIAS partners in-year. This is likely to include a review of the Shared Anti-Fraud Service. Others have yet to be determined. Where no further topic is specified, the audit days will be returned to contingency for use on emerging audits / risks, applied to other audits in the plan or used on audits in the reserve list.	6
Shared Learning	Shared Learning Newsletters and Summary Themed Reports – 2 days Audit Committee and Joint Review Workshops – 2 days	4

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
COUNTER FRAUD		
N/A	The Shared Anti-Fraud Service (SAFS) provides pro-active and reactive counter fraud services. This planned time has been allocated to provide ad hoc advice to management on matters, issues or queries relating to fraud risk, control and governance.	3
RISK AND GOVERNANCE		
Risk Management	The audit will involve a high-level review of strategic and operational risk management arrangements, and whether risk management has been embedded in operational decision-making and activity.	8
Insurance	The audit will provide high level assurance on appropriate cover and limits, claims handling and premiums.	8
IT AUDITS (shared with Stevenage Borough Council)		
IT Shared Service Agreement	The audit will involve a review of whether there are appropriate arrangements in place to manage and resolve any issues relating to the partnership's finances, governance and performance.	6

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
Cyber Security (follow up)	The follow up review will provide a status update on the recommendations made in the Cyber Security audit carried out in 2018/19.	6
Information Management	The audit will provide assurance on whether systems used to create, process and store records are appropriately managed, data is appropriately retained, arrangements are in place for handling any security breaches, and whether any losses can be recovered.	6
Project Management	The audit will provide assurance on preparation and approval of business cases, prioritisation of projects, delivery methods and arrangements for post implementation review.	6
CONTINGENCY		
Contingency	To provide for adequate response to risks emerging during the course of the financial year.	10
STRATEGIC SUPPORT		
Head of Internal Audit Opinion 2018/19	To prepare and agree the Head of Internal Audit Opinion and Annual Report for 2018/19.	5

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
Audit Committee	To provide services linked to the preparation and agreement of Audit Committee reports, meeting with the Audit Committee Chair prior to each Audit Committee (as required) and presentation of reports / participation at Audit Committee.	12
Follow up of Audit Recommendations	Follow up of critical and high priority audit recommendations	4
Client Liaison	This involves meetings and updates with the Council's Audit Champion and other key officers.	10
Liaison with External Audit	To meet with the external auditors and provide information as they require.	1
Plan Monitoring	To produce and monitor performance and billing information, work allocation and scheduling.	9
SIAS Development	Included to reflect the Council's contribution to developing and maintaining the shared service / partnership through its service plans and corporate activities.	5
Ad hoc Advice	This planned time has been allocated to provide for ad hoc advice to management on matters, issues or queries relating to risk, control and governance. Adhoc advice is relevant to activities that typically take less than one day to complete, e.g. advice on	1

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
	new policies or strategies.	
2020/21 Audit Planning	To provide services in relation to preparation and agreement of the 2020/21 Audit Plan.	10
2018/19 projects requiring completion	Additional time, if required, for the completion of 2018/19 audit work carried forward into the 2019/20 year. Any unused days will be returned to contingency for use on emerging risks and audits or allocated to audits in the reserve list.	10
RESERVE LIST (not in priority order)		
Parking	Areas of coverage may include on and off-street parking charges and penalty notices.	To be agreed with management if and when an audit on the reserve list is brought forward.
Hertford Theatre	Areas of coverage may include general sales, hire of facilities, café, redevelopment works.	
Parks and Open Spaces	Areas of coverage may include inspections, miscellaneous income and contract management.	
Street Cleansing	Areas of coverage may contract management of cleansing and fly tipping, abandoned vehicles.	

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
IT Asset Management	Areas of coverage may include hardware inventory, asset traceability and disposal arrangements.	
IT Contract Management	Areas of coverage may include contract registration and renewal, performance management and oversight.	
Capital Programme	Areas of coverage may include programme compilation and approvals, programme monitoring and reporting.	
Large Scale Developments	Areas of coverage may include governance arrangements, project management and oversight.	

Apr	May	Jun	July	Aug	Sept
2018/19 Projects Requiring Completion	Complaints Policy and Procedure	IT Project Management	Land Charges	CCTV (follow up)	IT Shared Service Agreement
Payroll Annual Pension Certificate	Contract Management	S106 (follow up)	Business Continuity Planning	Community Grants/Lottery	Herts Home Improvement Agency
Health and Safety	Insurance	Consultation and Engagement	Members Allowances and Expenses	Procurement	Budgetary Control

Oct	Nov	Dec	Jan	Feb	Mar
Recruitment Process	Council Tax	Payroll	Main Accounting	IT Cyber Security (follow up)	
Recycling	Business Rates	Debtors	Risk Management	Asset Management	
	Housing Benefits	Creditors	Homelessness/Temporary Accommodation		
	IT Information Management	Treasury Management			

At this stage, the above is an indicative spread of audits as not all services have specified a preferred start date.