



Finance Audit and Risk  
Committee

Internal Audit Plan 2014-15 Report

19 March 2014

**Recommendation**

Members are recommended to approve the proposed North Herts  
District Council  
Internal Audit Plan 2014-15

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## **1. Introduction and Background**

### Purpose of Report

- 1.1 To provide Members with the proposed North Herts District Council Internal Audit Plan 2014-15.

### Background

- 1.2 The North Herts District Council Internal Audit Plan sets out the programme of internal audit work for the year ahead, and forms part of the Council's wider assurance framework. It supports the requirement to produce an audit opinion on the overall internal control environment of the Council, as well as a judgement on the robustness of risk management and governance arrangements, contained in the Head of Internal Audit annual report.
- 1.3 The Shared Internal Audit Service (SIAS) Audit Charter which was presented to the June 2013 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 2014 Finance, Audit and Risk 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 revised its approach to planning and for 2014/15 has introduced a standard, methodology for all SIAS partners. This revised methodology contains the following elements:

#### *Local and National Horizon Scanning*

Where SIAS reviews:

- 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

It is anticipated that in future years, local and national horizon scanning will be undertaken in-year on a continuous basis. This will support the achievement of principle f) above, 'Accommodation of new risks and issues as they emerge.'

#### *Consideration of risk management arrangements*

Where 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*

Where 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 2014-15 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*

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

### *Other sources of Assurance*

Where 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*

Where the manager is asked to assess how significant the auditable area is in terms of the achievement of corporate or service objectives and priorities.

### *Timings*

Where the manager is asked to identify when an audit should be undertaken to add most value.

- b) Proposed plans are based on the information obtained from the planning meetings. A contingency allocation is included to allow flexibility to respond to in-year changes in organisational risk and priorities. 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 2014-15 plans for all SIAS partner councils are then scrutinised and cross-partner audits highlighted;
- d) Proposed draft plans are presented to Senior Management Board for discussion and agreement;
- e) The views of both: Members of the FAR Committee; and the council's external auditor are sought to confirm that their requirements are adequately addressed.

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

### The Planning Context

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

- Austere public finances will last well into the next parliament, meaning that previous expenditure levels are not sustainable and public leaders expect serious financial difficulty ahead
- Demand continues to rise, driven by complex needs, an ageing population and higher service expectations from citizens

- Technology ranging from use of mobile devices and applications, to Big Data and predictive analytics, is developing rapidly and offers opportunities along with significant risks
  - Major, national programmes in areas like welfare reform and business rate reform, and structural changes such as the introduction of Police and Crime Commissioners, Clinical Commissioning Groups and Local Enterprise Partnerships mean the environment has been relatively unstable.
- 2.5 The resultant efficiency and transformation programmes that councils are in the process of implementing and developing are profoundly altering each organisation's nature. Such developments are accompanied by potentially significant governance, risk management and internal control change.
- 2.6 The challenge of giving value in this context, means that Internal Audit needs to:
- Meet its core responsibilities, which are to provide appropriate assurance to Members and senior management on the effectiveness of governance, risk management and control arrangements in delivering the achievement of Council objectives;
  - Identify and focus its effort on areas of significance and risk, assisting the organisation in managing change effectively, and ensuring that core controls remain effective;
  - Give assurance which covers the control environment in relation to new developments, using leading edge audit approaches such as 'control risk self assessments' or 'continuous assurance' where appropriate;
  - Retain flexibility in the audit plan and ensure the plan remains current and relevant as the financial year progresses.

#### Internal Audit Plan 2014-15

- 2.7 The draft plan for 2014-15 is included at Appendix A and contains a high level proposed outline scope for each audit and a suggested quarter for delivery. The table below shows the estimated allocation of the total annual number of purchased audit days for the year.

	<b>14-15</b>	<b>%</b>
<b>Purchased audit days</b>		<b>100%</b>
Key Financial Systems	104	26%
Operational audits	194	48.5%
Joint Reviews	2	0.5%
Anti-Fraud	10	2.5%
IT Audits	27	6.75%
Strategic Support*	48	12%
Contingency and other	10	2.5%
Completion of 13/14 Work	5	1.25%
<b>Total allocated days</b>	<b>400</b>	<b>100%</b>

\* This covers supporting the Finance, Audit & Risk Committee and External Audit liaison.

- 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 13/14. 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 North Herts District 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 2014-15 and any proposed changes will be reported to this Committee four times in the 2014-15 civic year.
- 3.2 The implementation of agreed high priority recommendations will be monitored by Internal Audit and progress will be reported as part of the update reporting process.

#### Performance Indicators

- 3.3 Annual performance indicators were approved at the SIAS Board meeting on the 7 September 2011. Details of the targets set for 2014-15 are shown in the table below. Actual performance against target will be included in the update reports to this Committee.

Performance Indicator	Performance Target
<b>1. Planned Days</b> percentage of actual billable days against planned chargeable days completed	95%

<p><b>2. Planned Projects</b> percentage of actual completed projects to draft report stage against planned completed projects Note: To be based on the judgement of the SIAS management team and representing the best estimate as to a reasonable expectation of progress on the audit plan.</p>	<p>95%</p>
<p><b>3. Client Satisfaction</b> percentage of client satisfaction questionnaires returned at 'satisfactory' level</p>	<p>100%</p>
<p><b>4. Number of High Priority Audit Recommendations agreed</b></p>	<p>95%</p>
<p><b>5. External Auditor Satisfaction</b></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><b>6. Annual Plan</b></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><b>7. Head of Assurance's Annual Report</b></p>	<p>Presented to the first meeting of each Audit Committee in the new financial year.</p>



**APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2014/15**

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Month
<b>KEY FINANCIAL SYSTEMS</b>			
Main Accounting	Key financial system	12	Q3
Debtors	Key financial system	12	Q3
Creditors	Key financial system	12	Q3
Treasury Management	Key financial system - CRSA pilot year 1	8	Q3
Payroll	Key financial system	12	Q4
Council Tax	Key financial system	12	Q4
NDR	Key financial system	10	Q4
Benefits & Rent Allowances	Key financial system	14	Q4

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Asset Management	Key financial system	12	Q4
<b>OPERATIONAL AUDITS</b>			
Data Protection / Freedom of Information Requests	<p>A two part review encompassing:</p> <ul style="list-style-type: none"> <li>• Data Sharing protocols with partners and how the Authority obtains assurances from external data processors</li> <li>• How Freedom of Information requests are processed and prioritised with emphasis on the resources applied to them</li> </ul>	15	Q2
Localism (Planning Reforms)	A review looking at the governance arrangements relating to the new Neighbourhood Planning Process including the extent of the involvement for the various stakeholders	15	Q2
Overarching Risk Mgt	Looking at the controls to ensure that there is a consistent approach to the use of the Corporate Risk Register including communication of the corporate view on approaching risk; the application of independent scrutiny e.g. internal peer review; the management of risks where possible and identification of any associated opportunities.	15	Q1

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<p>Customer Service Centre</p> <p>(including Complaints, Compliments and Comments)</p>	<p>A two part review encompassing:</p> <ul style="list-style-type: none"> <li>• How the efficiency of the routing of enquiries within the CSC is maintained and how potential vulnerabilities and further risks are identified and progressed</li> <li>• Following the introduction of the new Customer Relationship Management System, work to establish how it facilitates adherence to the agreed procedures for recording customer feedback including logging, management and reporting to identify trends / issues.</li> </ul>	<p>15</p>	<p>Q3</p>
<p>Contractors Statutory Requirements</p>	<p>Looking at the controls that ensure that contractors employed by the Authority are discharging their responsibilities with regard to both, Health &amp; Safety matters, and other related quality mechanisms e.g. the library of standard maintenance specifications for building engineering services.</p>	<p>15</p>	<p>Q1</p>
<p>Business Continuity</p>	<p>Building on the disaster recovery work in 13/14 a wider review looking at the Authority's preparedness for a major incident that threatens part or all of its operations including defined responsibilities for staff, existence of formal plans that both reflect current business objectives and seek to prioritise service provision.</p>	<p>15</p>	<p>Q2</p>
<p>Homelessness</p>	<p>Looking at controls that ensure responsible Officers comply with statutory requirements in this area</p>	<p>12</p>	<p>Q4</p>
<p>The Way We Do Things – Project Streams</p>	<p>Looking at the Programme and project Governance associated with the Authority's transformation work-streams.</p>	<p>15</p>	<p>Q2</p>

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Disabled Facilities	A review to establish whether the benefits to be derived from the decision to utilise a single agent for the processing of work to contractor's have been realised	15	Q2
New Banking Contract	Looking controls relating to signatory limits; transfers of funds; mitigations against collusion.	15	Q1
Vacancy Management	Consultancy piece looking at use of agency staff and achievement of value for money; how current policies allow managers to maximise use of time and resources when dealing with vacancies.	15	Q4
Procurement (to include fraud mitigation)	<p>A four part review encompassing:</p> <ul style="list-style-type: none"> <li>• A review looking at the controls to mitigate procurement fraud (following presentation at HCFOs conference)</li> <li>• Taking forward of outcomes from procurement challenge exercise</li> <li>• Recent review of fraud related policies by NHDC Legal (including potential for uniformity of documentation across SIAS clients)</li> <li>• Outcomes from Audit Commission report</li> </ul>	20	Q1
Payroll Contract Management	Looking at management of the contract & levels of service received under the newly outsourced payroll arrangements	12	Q2

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JOINT REVIEWS			
Risk Mgt & AGS	Scope to be confirmed at SIAS Board	2	TBC
COUNTER FRAUD			
NDR Avoidance	Following the HCFO conference it is considered that there could be value in reviewing NDR anti-avoidance arrangements across all authorities in 14/15 and comparing approaches. This would be in addition to the standard NDR control review undertaken as part of main financial system audits.	10	Q1
IT AUDITS			
IT Change Control	To provide assurance that NHDC has a process in place to ensure that the scheduling of any task or action that can alter the organization's IT live production environment is carried out in a controlled manner; to include approach to emergency changes, reporting and tracking.	15	Q4
Electronic Planning Register	Looking at management of the project to introduce this new IT System	12	Q4

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CONTINGENCY & OTHER			
Contingency	As required	8	
Election Support	As required	2	Q1
STRATEGIC SUPPORT			
Head of Internal Audit Opinion 2013/14	To prepare and agree the Head of Internal Audit Opinion for 2013/14	2	Q1
Audit Committee	To provide services linked to the preparation and agreement of Audit Committee reports and presentation of reports / participation at Audit Committee.	8	Q1-4
Client Liaison	To meet with the Council's Audit Champion and other key officers.	12	Q1-4
Liaison with External Audit	As required	1	Q1-4
Progress Monitoring	Audit plan monitoring and reporting	10	Q1-4

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SIAS Development	Included to reflect the Council's contribution to developing the partnership	5	Q1-4
2015/16 Audit Planning	To provide services in relation to preparation and agreement of the 2015/16 Audit Plan	10	Q3/4
2013/14 Projects	Completion of outstanding work from 2013/14	5	Q1
<b>TOTAL AUDIT PLAN DAYS</b>		<b>400</b>	

## APPENDIX B – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2014/15 – RESERVE LIST

Reserve List			
Profit Share Arrangements	Looking at the correct distribution of profits resulting from applicable capital projects e.g. Operation of Hitchin Swim Centre	15	TBC
Community Centre Leases	A consultancy piece looking at how the issues relating to the renewal of leases on Community Centres are being taken forward including the possibility of utilising formal tenancy arrangements. To potentially include coverage relating to how other SIAS clients are dealing similar asset issues.	15	TBC
Recharges	Covering the methodology for the distribution of internal recharges and giving assurance over their correct application.	10	TBC
Procurement Cards	With the use of procurement cards now firmly embedded within the Authority there is potential for extending their usage and increasing transaction limits. Therefore this review will examine the effectiveness of the related monitoring and feedback mechanisms.	12	TBC