



Finance Audit and Risk  
Committee

Internal Audit Plan 2015-16 Report

18 March 2015

Recommendation

<p>Members are recommended to approve the proposed North Herts District Council Internal Audit Plan 2015-16</p>
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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 for 2015-16.

### 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 2014 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 2015 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 2014-15 in order to comply with the requirements of the PSIAS, SIAS revised its approach to planning and for 2015-16 has continued with a methodology for all SIAS partners which 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 2015-16 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 2015-16 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 2015-16

- 2.7 The draft plan for 2015-16 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>15-16</b>	<b>%</b>
<b>Purchased audit days</b>		
Key Financial Systems	92	23%
Operational audits	184	46%
Joint Reviews	5	1%
Procurement / Contracts	32	8%
IT Audits	15	4%
Strategic Support*	52	13%
Contingency and other	10	2.5%
Completion of 14/15 Work	10	2.5%
<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 14/15. 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 2015-16 and any proposed changes will be reported to this Committee four times in the 2015-16 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 originally approved at the SIAS Board meeting on the 7 September 2011 and are reviewed annually. Details of the targets set for 2015-16 are shown in the table below. Actual performance against target will be included in the update reports to this Committee.

<b>Performance Indicator</b>	<b>Performance Target</b>
<b>1. Planned Days</b> percentage of actual billable days against planned chargeable days completed	95%
<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.	95%
<b>3. Client Satisfaction</b> percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%
<b>4. Number of High Priority Audit Recommendations agreed</b>	95%
<b>5. External Auditor Satisfaction</b>	Annual Audit Letter formally records that the External Auditors are able to rely upon the range and quality of SIAS' work
<b>6. Annual Plan</b>	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
<b>7. Head of Assurance's Annual Report</b>	Presented to the first meeting of each Audit Committee in the new financial year.



**APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2015/16**

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
<b>KEY FINANCIAL SYSTEMS</b>		
Main Accounting	Key financial system - Control Risk Self-Assessment (CRSA) approach - year 1	8
Debtors	Key financial system - CRSA year 1	8
Creditors	Key financial system - CRSA year 1	8
Treasury Management	Key financial system - CRSA year 2	8
Payroll	Key financial system	12
Council Tax	Key financial system	12
NDR	Key financial system	10
Benefits & Rent Allowances	Key financial system	14

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Asset Management	Key financial system	12
<b>OPERATIONAL AUDITS</b>		
Ongoing Financial Viability of Contractors	This review will look at all contractors and the controls and actions associated with early warnings of potential issues with their ongoing financial stability.	15
Community Halls and Centres	Looking at how the maintenance responsibility issues relating to the renewal of leases on Community Hall and Centres are being taken forward and the possible use of formal tenancy arrangements. Will also look at how other SIAS clients deal with similar issues.	15
Careline Expansion Initiative	Examination of governance arrangements in place for the development of the relationship between NHDC and HCC / Herts Community Meals and the expansion of business relating to the provision of community alarms across the County	12
Social Media	Review arrangements for the use of social media (e.g. Facebook, Twitter,) by the Council in areas such as business continuity and in promotional ways. Review policy and governance arrangements.	10
Insurance	Examining the procurement of insurance services and the processing of claims	15

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District Museum Project	Examining whether the benefits expected from the project have been realised (including the mechanisms that allow them to be measured) as well as the ongoing operation of the Museum.	15
Elections Payroll	Reviewing the controls around payments to those participating in the various elections within the District; will include the mechanism for recharging the appropriate bodies.	15
DCO Refurbishment Project	Looking at the project to refurbish the District Council Offices and the plans to ensure that service provision continues through the life of the project. Will also look at project governance and the arrangement with Stevenage BC.	7
Section 106 Payments	Review of how the Council monitors the calculation, justification and spend of new contributions received to ensure there is sufficient clarity over the use of funds received and minimise the risk of repayment	10
Use of Agency Staff	Examining the adherence to contracts in place for the supply of temporary staff and the cost effectiveness around the extended use of these staff.	15
Safer Staffing (incl. Partner Organisations)	Review will look at the arrangements in place to ensure the adequate protection of the authority's staff as well as the users and recipients of NHDC services.	15

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Officers & Members Allowances	Looking at the controls around payments and receipt of evidence of expenditure etc.	15
Profit Share Arrangements	Looking at the controls which ensure that the profit share agreed between the Authority and Stevenage Leisure are correctly calculated. Similar exercises with other clients have found issues around the quality of information provided by the contractor.	10
Neighbourhood Plans	Provision of independent review around the processes for dealing with changes in planning legislation.	15
<b>JOINT REVIEWS</b>		
Shared Learning	Shared Learning Newsletters and Summary Themed Reports -2 days Audit Committee Workshop – 1 day Joint Review – Risk Management Benchmarking Workshop – 2 days	5
<b>PROCUREMENT / CONTRACTS</b>		
Waste Contract – Mgmt. & Renewal	Review covering the management of the existing contract and the initial stages to prepare for its renewal (starts 1/4/17) incl. looking at the specification of the service and the assessment of need around use of specialist resources.	20
		12

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Procurement Cards	Review will look at the governance around the use of existing cards and the potential for extending their usage and increasing transaction limits	
<b>IT AUDITS</b>		
Data Network (Access & Resilience etc.)	Examining Network controls, including access at appropriate level; rescinding of access on time etc. Also looking at network resilience and continuity of service.	15
<b>CONTINGENCY &amp; OTHER</b>		
Contingency	As required	5
Election Support	As required	2
Review of FAR	In order that North Hertfordshire District Council complies with the requirement in the Code of Practice for Internal Audit in Local Government 2006 that an audit committee reviews its own remit and effectiveness.	3
<b>STRATEGIC SUPPORT</b>		
Head of Internal Audit Opinion 2014/15	To prepare and agree the Head of Internal Audit Opinion for 2014/15	5

**APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2015/16**

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.	9
Liaison with External Audit	As required	1
Progress Monitoring	Audit plan monitoring and reporting	10
SIAS Development	Included to reflect the Council's contribution to developing the partnership	5
2016/17 Audit Planning	To provide services in relation to preparation and agreement of the 2016/17 Audit Plan	10
2014/15 Projects	Completion of outstanding work from 2014/15	10
<b>TOTAL AUDIT PLAN DAYS</b>		<b>400</b>

## APPENDIX B – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2015 / 16 – RESERVE LIST

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Reserve List		
Cemeteries	Looking at how the Authority meets its statutory obligations in this area.	12
Commercialisation Agenda	Scope to be confirmed with Management	15

**APPENDIX C - AUDIT START DATES AGREED WITH MANAGEMENT – AUDIT PLAN 2015-16**

Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Insurance	Procurement Cards	Ongoing Financial Viability of Contractors	Review of FAR	Elections Payroll	Community Halls & Centres	Key Financial Systems (8)	Officers & Members Allowances	Profit Share Arrangements	Asset Mgt	Data Network	District Museum Project
Social Media	Section 106			Careline Expansion Initiative	Safer Staffing	Waste Contract Mgt & Renewal	Neighbourhood Plans		DCO Refurbishment	Use of Agency Staff	