



Finance Audit and Risk Committee

2016/17 Internal Audit Plan Report

23 March 2016

Recommendation

Members are recommended to approve the
proposed North Herts District Council
Internal Audit Plan for 2016/17

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1. Introduction and Background

Purpose of Report

- 1.1 To provide Members with the proposed North Herts District Council 2016/17 Internal Audit Plan.

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 2015 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 2016 Audit 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 and governance work and
- 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 2016/17 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 2016/17 plans for all SIAS partner councils are then scrutinised and cross-partner audits highlighted.
- d) Proposed draft plans are presented to Senior Management Team for discussion and agreement.
- e) The views of Members of the Audit 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 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 will continue, 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 following 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 2016/17

- 2.7 The draft plan for 2016/17 is included at Appendix A and contains a high level proposed outline scope for each audit; Appendix C details the agreed start months. The table below shows the estimated allocation of the total annual number of purchased audit days for the year.

| | 2016/17 | % |
|-----------------------------|----------------|-------------|
| Purchased audit days | | |
| Key Financial Systems | 92 | 23% |
| Operational audits | 165 | 41% |
| Joint Reviews | 5 | 1% |
| Procurement / Contracts | 40 | 10% |
| IT Audits | 20 | 5% |
| Strategic Support* | 58 | 15% |
| Contingency and other | 10 | 2.5% |
| Completion of 15/16 Work | 10 | 2.5% |
| Total allocated days | 400 | 100% |

* This covers supporting the Audit Committee, monitoring, client liaison and planning for 2017/18.

- 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 2015/16. 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 2016/17 and any proposed changes will be reported to this Committee four times in the 2016/17 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 and are reviewed annually by the Board. Details of the targets set for 2016/17 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 | 100% |

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| returned at 'satisfactory' level. | |
| 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 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. |

APPENDIX A – PROPOSED NHDC AUDIT PLAN 2016/17

| KEY FINANCIAL SYSTEMS | | |
|-----------------------|---|---------------|
| Audit | Proposed Outline Scope / Reason for Inclusion | Proposed Days |
| Main Accounting | In line with the three-year CRSA approach, the 2016/17 audit will form year two of the current cycle, whereby management will self-evaluate the adequacy of controls, risk management and business processes within the area of main accounting and act on weaknesses identified. SIAS will provide independent validation of evidence to support management assertions around key assurance areas. | 8 |
| Debtors | In line with the three-year CRSA approach, the 2016/17 audit will form year two of the current cycle, whereby management will self-evaluate the adequacy of controls, risk management and business processes within the area of debtors and act on weaknesses identified. SIAS will provide independent validation of evidence to support management assertions around key assurance areas. | 8 |
| Creditors | In line with the three-year CRSA approach, the 2016/17 audit will form year two of the current cycle, whereby management will self-evaluate the adequacy of controls, risk management and business processes within the area of creditors and act on weaknesses identified. SIAS will provide independent validation of evidence to support management assertions around key assurance areas. | 8 |
| Treasury Management | Following a Year 2 CRSA approach, SIAS will be returning to a full audit in 2016/17 for Treasury Management. Areas of coverage may include: a) Treasury Management Practices, Policies and Procedures, | 12 |

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| | <ul style="list-style-type: none"> b) Reporting Arrangements, c) Service Continuity and Training, d) Cash Flow Management, e) Counter-Party Risk, f) Transactions, g) On-line Banking and Investments, h) Capital and Interest Payments, i) Reconciliations, j) Performance Monitoring, and k) External Service Providers | |
| Payroll | <p>SIAS will be conducting a full audit on the Payroll system covering the areas of starters, leavers, transfers and amendments, payroll payments (including scheduling and BACS), pension contribution rates, payroll deductions and third party payments, reconciliations, management exception reports, systems access / security and management of the external Payroll contract.</p> | 8 |
| Council Tax | <p>SIAS will be conducting a full audit on the Council Tax system 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, d) In-year Billing, e) Collection and Refunds, f) Recovery, Enforcement and Write Offs, g) Reconciliation between Council Tax system and General Ledger, h) Performance monitoring and Performance, and i) System access. | 12 |

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| <p>Business Rates (NDR)</p> | <p>SIAS will be conducting a full audit on the Business Rates system 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 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, and j) System access. | <p>10</p> |
| <p>Benefits & Rent Allowances</p> | <p>SIAS will be conducting a full audit on the Housing Benefits system 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 and backdating, c) Payments, d) Recovery of Overpayments, e) Reconciliations, f) Performance Monitoring, and g) Security of Data. | <p>14</p> |
| <p>Asset Management</p> | <p>SIAS will be conducting a full audit on asset management 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) Recording of Assets | <p>12</p> |

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| | <ul style="list-style-type: none"> b) Revaluation/Reclassification c) Acquisitions and Disposal d) Lease Arrangements e) Lettings and Rent Reviews f) Governance, Policies and Procedures. | |
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OPERATIONAL AUDITS

| Audit | Proposed Outline Scope / Reason for Inclusion | Proposed Days |
|----------------------|---|---------------|
| Development Control | Covering the planning application and approval process. To include planning enforcement. | 15 |
| Ethics Policies | To cover all relevant policies, including: whistle-blowing, fraud & corruption & anti-bribery, gifts & hospitality, declarations of interests. Potential for benchmarking with other authorities. | 10 |
| HTH & 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. (Deferred from 15/16) | 15 |
| Careline Operation | To examine the operational aspects of the Careline service, ensuring all necessary controls are in place and operating effectively. | 15 |

APPENDIX A – PROPOSED NHDC AUDIT PLAN 2016/17

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| Homelessness | To include, control systems, value for money, incentivising landlords and RSLs and issues around housing homeless families with rent arrears. | 10 |
| Grants | To examine the processes for the awarding and authorisation of grants, contractual relationships and monitoring. | 15 |
| Business Continuity / Disaster Recovery | New BCP arrangements (Resilience Plan) due to be put in place 16/17. IT disaster recovery now in-house - evaluate effectiveness and potential impact of office move. | 15 |
| Absence Management | Policy reviewed recently, audit to examine how the policy is operated in practice and whether it attains its objectives. | 10 |
| Office Accommodation 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 - following on from the audit work of the initial project stages carried out in 2015/16. | 10 |
| Appraisal Process | Policy due to be reviewed in April 2016. A review in Q3/4 would be useful to provide assurance on successful implementation and to ensure consistency of application. | 10 |
| Risk Management | To ensure the continuance of adequate and effective arrangements and coverage. | 10 |
| Car Parking Operations | To examine the operational policies and procedures within the parking service. | 10 |

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| Green Space Strategy | To examine the operation and sustainability of the strategy | 10 |
| Data Retention & Storage | A new retention and destruction module has been installed - evaluate effectiveness. The office move could see pressure on retention of documents - need to ensure policy is up to date and staff aware. | 10 |
| PROCUREMENT / CONTRACTS | | |
| Audit | Proposed Outline Scope / Reason for Inclusion | Proposed Days |
| Use of Consultants | To carry out an analysis of the use of consultants by departments. To ascertain the reasons for use, whether it is cost-effective and to ensure that the correct procedures have been followed and that Contract Procedure Rules, EU procurement regulations and HMRC requirements have been complied with. | 10 |
| Corporate Project Management | To provide assurance that the Council has robust processes in place governing the project lifecycle, specifically creation and approval of business cases, project governance and benefits realisation. | 15 |
| Contract Management | To examine high-spend and high risk contracts across the Council and ascertain and evaluate the procedures for contract management. | 15 |

APPENDIX A – PROPOSED NHDC AUDIT PLAN 2016/17

| JOINT REVIEWS | | |
|-----------------------|---|---------------|
| Audit | Proposed Outline Scope / Reason for Inclusion | Proposed Days |
| To be confirmed | Topics to be agreed by the SIAS Board | 5 |
| Shared Learning | Shared Learning Newsletters and Summary Themed Reports -2 days Audit Committee Workshop – 1 day Joint Review –benchmarking workshop tbc – 2 days | 5 |
| IT AUDITS | | |
| Audit | Proposed Outline Scope / Reason for Inclusion | Proposed Days |
| Data Protection / FOI | A follow up of the 2014/15 audit review including: <ul style="list-style-type: none"> • How Freedom of Information requests are processed and prioritised with emphasis on the resources applied to them • Data Protection policies and procedures, including data sharing. | 10 |
| IT Asset Management | To include controls around the acquisition, recording, control and disposal of both hardware and software assets. | 10 |

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| Contingency & Other | | |
|--|---|----|
| Contingency | To provide for adequate response to risks emerging during the course of the financial year | 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 |
| STRATEGIC SUPPORT & CONTINGENCY | | |
| Head of Internal Audit Opinion 2015/16 | To prepare and agree the Head of Internal Audit Opinion for 2015/16 | 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 Meetings | To meet with the Council's Audit Champion and other key officers. | 10 |
| Liaison with External Audit | As required | 1 |
| Progress Monitoring | Audit plan monitoring and reporting | 10 |

APPENDIX A – PROPOSED NHDC AUDIT PLAN 2016/17

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| SIAS Development | Included to reflect the Council's contribution to developing the partnership | 5 |
| 2017/18 Audit Planning | To provide services in relation to the preparation and agreement of the 2017/18 Audit Plan | 10 |
| 2015/16 Projects | Completion of outstanding work from 2015/16 | 10 |
| TOTAL AUDIT PLAN DAYS | | 400 |

APPENDIX B – PROPOSED NHDC AUDIT PLAN 2015 / 16 – RESERVE LIST

| Reserve List | | |
|---------------------------------------|---|---|
| Utility Payments | To examine the processes for the payment of the Authority's utility bills, to include accuracy and value for money. | 5 |
| Business Improvement Districts (BIDS) | In preparation for the re-ballot, to examine benefits and transparency. | 5 |
| Asset Management System | To examine the implementation of the new asset management system | 5 |

APPENDIX C - AUDIT START DATES AGREED WITH MANAGEMENT

| Apr | May | Jun | July | Aug | Sept | Oct | Nov | Dec | Jan | Feb | Mar |
|------------------------|--------------------------|---------------------|--------------|------------------------------|-----------------|----------------------|---------------------|---------------------|------------------------------|------------------|-----|
| Car Parking Operations | Absence Management | Contract Management | Homelessness | Office Accommodation Project | HTH & Museum | Treasury Management | Payroll | Benefits | Use of consultants | Asset Management | |
| Review of FAR | Data Retention & Storage | Ethics Policies | DP / FOI | | Risk Management | Main Accounting | NDR | Appraisal Process | Corporate Project Management | | |
| | Business Continuity | | | | | Debtors | Council Tax | Development Control | Grants | | |
| | | | | | | Creditors | Careline Operation | | | | |
| | | | | | | Green Space Strategy | IT Asset Management | | | | |