



Finance, Audit and Risk
Committee
North Hertfordshire District Council

2017/18 Internal Audit Plan Report

22 March 2017

Recommendation

Members are recommended to approve the
proposed North Herts District Council
Internal Audit Plan for 2017/18

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1. Introduction and Background

Purpose of Report

- 1.1 To provide Members with the proposed North Herts District Council (the Council) 2017/18 Internal Audit Plan.

Background

- 1.2 The Council's 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's (SIAS) Audit Charter which was presented to the June 2016 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 2017 FAR Committee meeting for Member approval.
- 1.4 The PSIAS require that the audit plan incorporates or is 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 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 governance work.
- 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 applies a methodology at all its 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 2017/18 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 2017/18 plans for all SIAS partner councils are then scrutinised and cross-partner audits highlighted.
- d) The views of the Chair 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, focussing on those areas of highest risk, and supports the Council in achieving its objectives.

The Planning Context

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

- Austere public finances are likely to continue into the next decade, meaning that previous expenditure levels are unsustainable 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, from use of mobile devices to the applications of predictive analytics, is now key to service delivery and offers opportunities along with significant risks.
 - Major, national programmes in areas like welfare reform and business rate reform, increased reliance on partnership working and the vote to leave the EU, mean the environment in which councils operate is uncertain.
- 2.5 The resultant efficiency and transformation programmes, that councils are developing and implementing, 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 audit approaches such as 'control risk self assessments' or 'continuous assurance' where appropriate
 - Retain flexibility in the audit plan and ensure it remains current and relevant as the financial year progresses

Internal Audit Plan 2017/18

- 2.7 The draft plan for 2017/18 is included at Appendix A and contains a high level proposed outline scope for each audit. The table below shows the estimated allocation of the total annual number of purchased audit days for the year.

	2017/18 Days	%
Key Financial Systems	90	22.5
Operational audits	125	31.25
Joint Reviews	10	2.5
Procurement / Contracts	44	11
IT Audits	20	5
Anti-Fraud and Governance	5	1.25
Strategic Support*	53	13.25
Contingency and other	13	3.25
Carry forward work from 16/17	40	10.0.
Total allocated days	400	100%

* This covers supporting the Audit Committee, monitoring delivery of the audit plan, client liaison and planning for 2018/19.

- 2.8 A list of reserve audits that will be considered as a substitute for an agreed planned review that is cancelled in-year, is presented at Appendix B.
- 2.9 Actual start dates for all audits will be confirmed with management by the end of April 2017. This helps smooth delivery of the plan across the year, gives regular assurance to the Committee, and maintains awareness of the timing of reviews to support partnership working between the Council and SIAS.
- 2.10 The Council is scheduled to implement a new financial system during 2017/18. It is acknowledged that this will potentially impact on both the approach and timings of key financial systems audits. The plan includes, therefore, an entry to provide consultancy during the course of the implementation process. The outcomes of this activity will be considered when determining the scope and timings of the key financial systems audits and the allocation of the budget agreed for key financial systems work.
- 2.11 Any significant audit plan changes agreed between Management and SIAS will be brought before this committee for approval through the usual plan update reporting cycle.
- 2.12 Members will note the inclusion of a provision for the completion of projects that relate to 2016/17. 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.
- 2.13 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 SIAS is required to report its work to a Member Body so that the 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 2017/18 and any proposed changes will be reported to this Committee four times in the 2017/18 civic year.
- 3.2 SIAS will report on the implementation of agreed high priority recommendations 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 2017/18 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	95%

expectation of progress on the audit plan.	
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	External Auditors are able to rely upon the range and quality of SIAS' work Not applicable at NHDC as External Audit does not currently place reliance on the work of SIAS
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 – INTERNAL AUDIT PLAN 2017/18

KEY FINANCIAL SYSTEMS		
Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
Key Financial Systems		90
General Ledger	<p>Areas of coverage to be determined in the light of the implementation of the new system but may include:</p> <ul style="list-style-type: none"> a) Systems access b) Setting up, deletion and monitoring of general ledger accounts in line with an established delegation of authority, c) Processing of journals and virements, ensuring that only authorised transactions with appropriate justification documented can be entered, d) Reconciliation of financial and non-financial systems where significant income is received, e) Regular review and clearance of suspense accounts, f) Reconciliation of the asset register to the accounting system, g) Examination of preparedness for earlier closure of the accounts. 	
Debtors	<p>Areas of coverage to be determined in the light of the implementation of the new system but may include:</p> <ul style="list-style-type: none"> a) Policies and procedures, b) Customer account creation and amendment, c) Raising of debtor accounts, d) Credit notes and refunds, e) Accounting for income received, f) Write offs, and g) Debtors control account reconciliations. 	
Creditors	<p>Areas of coverage to be determined in the light of the implementation of the new system but may include:</p> <ul style="list-style-type: none"> a) Policies and procedures, b) Raising of supplier accounts, c) Ordering of goods, works and services, d) Receipt of goods, works and services, e) Payment of suppliers' invoices, f) Credit notes and refunds, g) Creditors control accounts. 	
Treasury Management	<p>A full audit is scheduled with areas of coverage potentially including:</p> <ul style="list-style-type: none"> a) Treasury Management Practices, Policies and Procedures, b) Reporting Arrangements, 	

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	<ul style="list-style-type: none"> 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. 	
Council Tax	<p>A full audit is scheduled with areas of coverage potentially including:</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. 	
NDR	<p>A full audit is scheduled with areas of coverage potentially including:</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. 	
Benefits & Rent Allowances	<p>A full audit is scheduled with areas of coverage potentially including:</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. 	

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Payroll	A full audit is scheduled with areas of coverage potentially including: a) starters, leavers, b) transfers and amendments, c) payroll payments (including scheduling and BACS), d) pension contribution rates, e) payroll deductions and third party payments, reconciliations, f) management exception reports, g) systems access / security, h) management of the external Payroll contract.	
New Integra system implementation - consultancy	Provision of controls advice during implementation phase of the new financial system.	
OPERATIONAL AUDITS		
Business Improvement Districts (BIDs)	Examination of the appropriateness and effectiveness of the processes in place to support the re-ballot.	10
Office Accommodation Project	Evaluation of the project management controls for the project to refurbish the District Council Offices. The review will focus on the delivery phase of the project, building on the assurance work undertaken in 2015/16.	12
HTH & Museum - operation	Provision of assurance over the operation of the establishment. Audit coverage to potentially include systems of income collection, security, staffing, asset management and stock control.	12
Tree Strategy & Management	Provision of assurance in respect of the systems for the inspection and effective management of trees and the maintenance of records and information with regard to trees on NHDC land and on highways under the Agency Agreement.	12
Taxi Licensing	Provision of assurance on the adequacy and effectiveness of internal controls, processes and records in place to mitigate risks in the following areas: a) Fees and charges b) Adherence to official policy when granting and renewing licenses c) Timely renewal of licenses d) Processing and storage of confidential records / data e) Disposal of vehicle license plates and driver identification badges f) Enforcement work.	12
Income Generation	Examination of the Council's income streams including fees and charges, to ensure that income is maximised as far as possible. This review will include a comparison with other authorities.	15
Commercialisation / Council Company	Examination of the governance and reporting issues around establishing a local authority company, with reference to the approaches and experiences of other SIAS clients.	12

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Paperless Committee System	Production of a discussion paper building on other local authority experiences of introducing and implanting a paperless committee system.	10
Telephony System - post implementation review	Evaluation of the project carried out to introduce a new telephony system including an assessment of the extent to which benefits have been achieved.	10
Outbound mail - new system	Examination of the implementation of the selected new system, the benefits achieved and the controls put in place.	10
Member Training	Examination of how members' training needs are identified, training developed to meet identified needs and effectiveness of training assessed. This review will incorporate an assessment of other authorities' approach to Member training to determine whether elements can be adopted by the Council.	10
PROCUREMENT / CONTRACTS		
NHLC Refurbishment	Audit review of the project to refurbish the NHLC.	12
Waste Contract - new arrangements progress	Evaluation of progress made towards letting the new contract.	10
Northgate Contracts	To examine the contract management arrangements for contracts held by Northgate.	12
Serious and Organised Crime Agency (SOCA) Fraud Checklist	<p>The Serious and Organised Crime Agency (SOCA) has developed resources that allow local authority Internal Audit teams to scrutinise business operations to establish where there may be vulnerabilities to serious and organised crime. The methodology includes:</p> <ul style="list-style-type: none"> • A Serious and Organised Crime Checklist - to assess serious and organised crime risks; • A Serious and Organised Crime Audit - to scrutinise business operations to establish where there may be vulnerabilities; and • Non-involvement with Serious and Organised Crime Statement – for use in Invitation to Tenders and Official Journal notices. <p>It is proposed that the Checklist (covering Governance & Strategy, Operations and Insider Threat) is utilised initially to identify any weaknesses or vulnerabilities, which may later form the basis for more detailed audit work.</p>	10
JOINT REVIEWS		
Joint Reviews	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

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IT AUDITS		
Cyber-risks	Evaluation of the controls in place to protect the Council against cyber risks.	10
Asset Management System	Examination of the implementation and use of the new asset management system.	10
ANTI-FRAUD AND GOVERNANCE		
Internal control issues identified by SAFS	Provision of support and advice on internal control issues identified during the work of the Shared Anti-Fraud Service.	5
CONTINGENCY & AD HOC ACTIVITY		
Contingency / Ad hoc	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
DFG Capital Grant certification	To undertake sufficient audit work to enable the Head of Audit to certify the Disabled Facilities Capital Grant form, as required by the Department of Communities and Local Government.	2
King George V Playing Fields	To produce the Independent Examiner's Report for the trust.	1
STRATEGIC SUPPORT & CONTINGENCY		
Head of Internal Audit Opinion 2016/17	Preparation and agreement of the Head of Internal Audit Opinion 2016/17.	5
Audit Committee	Provision of services linked to the preparation and agreement of Audit Committee reports and presentation of reports / participation at Audit Committee.	12
Client Meetings	Meetings with the Council's Audit Champion and other key officers.	10
Liaison with External Audit	Meetings with the Council's external auditor as required	1
Progress Monitoring	Audit plan monitoring and reporting.	10

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SIAS Development	Included to reflect the Council's contribution to developing the partnership.	5
2018/19 Audit Planning	Provision of services in relation to preparation and agreement of the 2017/18 Audit Plan.	10
16/17 Projects requiring completion	Completion of outstanding work from 2016/17.	40
TOTAL AUDIT PLAN DAYS		400

APPENDIX B – INTERNAL AUDIT PLAN 2017/18

RESERVE LIST		
Parking Strategy	Review of the implementation of the revised parking strategy.	10
Green Space - progress / community engagement	Examination of the progress made in the implementation of the Green Space Strategy, with particular reference to progress made on community engagement.	10
Crematorium	Review of progress made to date in respect of the crematorium project.	10
Grounds Maintenance Contract	Review of the contract management arrangements.	12