



Finance, Audit and Risk  
Committee  
North Hertfordshire District Council

2018/19 Internal Audit Plan Report

21 March 2018

Recommendation

Members are recommended to approve the  
proposed North Herts District Council  
Internal Audit Plan for 2018/19

# Contents

## 1. Introduction and Background

- 1.1 Purpose
- 1.2 Background

## 2. Audit Planning Process

- 2.1 Planning Principles
- 2.2 Approach to Planning
- 2.4 Planning Context
- 2.7 Internal Audit Plan 2018/19

## 3. Performance Management

- 3.1 Update Reporting
- 3.3 Performance Indicators

## Appendices

- A Proposed North Herts District Council Audit Plan 2018/19
- B Proposed North Herts District Council Audit Plan 2018/19 – Reserve List
- C Audit Start Dates Agreed with Management

# 1. Introduction and Background

## Purpose of Report

- 1.1 To provide Members with the proposed North Herts District Council (the Council) 2018/19 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 2017 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 2018 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 2018/19 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 2018/19 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 2018/19

- 2.7 The draft plan for 2018/19 is included at Appendix A and B and contains a high level proposed outline scope for each audit; Appendix C details the agreed start months. The number of days purchased in 2018/19 has reduced by 10%, which for North Herts District Council equates to a reduction from 400 days (in 2017/18) to 360 days (in 2018/19). A similar 10% reduction has been applied across all other

SIAS partner Councils and was agreed by the SIAS Board at its meeting in December 2017.

- 2.8 The table below shows the estimated allocation of the total annual number of purchased audit days for the year and the allocated budgets for 2017/18, as reported to FAR on 22 March 2017, for comparison and to demonstrate where the 10% audit days saving has been achieved.

	<b>2018/19 Days</b>	<b>%</b>	<b>2017/18 Days</b>	<b>%</b>
Key Financial Systems	84	23	90	23
Operational audits	129	36	125	31
Joint Reviews and Shared Learning	5	1	10	3
Procurement / Contracts	30	8	44	11
IT Audits	24	7	20	5
Corporate Governance	12	3	5	1
Strategic Support*	43	12	53	13
Contingency and other	13	4	13	3
Carry forward work from 16/17	20	6	40	10

<b>Total allocated days</b>	<b>360</b>	<b>100%</b>	<b>400</b>	<b>100%</b>
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\* This covers supporting the Audit Committee, monitoring delivery of the audit plan, client liaison and planning for 2019/20.

- 2.9 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.
- 2.10 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.
- 2.11 Members will note the inclusion of a provision for the completion of projects that relate to 2017/18. 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.
- 2.12 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 2018/19 and any proposed changes will be reported to this Committee four times in the 2018/19 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 2018/19 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>
<p><b>1. Planned Days</b> percentage of actual billable days against planned chargeable days completed.</p>	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>	95%



<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>External Auditors are able to rely upon the range and quality of SIAS' work</p> <p>Not applicable at NHDC as External Audit does not currently place reliance on the work of SIAS</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 2018/19

KEY FINANCIAL SYSTEMS		
Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
<b>Key Financial Systems</b>		
Integra 2 - General Ledger, Debtors and Creditors	<p>To provide assurance that the Council's financial system is operating effectively following the upgrade to Integra 2 in Jan 2018 and that the benefits of the upgrade have been realised. The scope will include a review of the key controls relating to the main functions of the system, to be fully scoped as the audit commences, however may include:</p> <ul style="list-style-type: none"> <li>a) Systems access</li> <li>b) Setting up, deletion and monitoring of general ledger accounts in line with an established delegation of authority,</li> <li>c) Processing of journals and virements, ensuring that only authorised transactions with appropriate justification documented can be entered,</li> <li>d) Reconciliation of financial and non-financial systems where significant income is received,</li> <li>e) Regular review and clearance of suspense accounts,</li> <li>f) Customer account creation and amendment,</li> <li>g) Raising of debtor accounts,</li> <li>h) Credit notes and refunds,</li> <li>i) Accounting for income received,</li> <li>j) Write offs,</li> <li>k) Debtors control account reconciliations,</li> <li>l) Raising of supplier accounts,</li> <li>m) Ordering of goods, works and services,</li> <li>n) Receipt of goods, works and services,</li> <li>o) Payment of suppliers' invoices,</li> <li>p) Credit notes and refunds, and</li> <li>q) Creditors control account reconciliations.</li> </ul>	25
Corporate Debt Management	To provide assurance that departments are following the corporate procedures and to ascertain the effectiveness of those procedures. The review will seek to gain a view on the direction of travel of corporate debt movement.	15

## APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2018/19

Treasury Management	<p>A full audit is scheduled with areas of coverage potentially including:</p> <ul style="list-style-type: none"> <li>a) Treasury Management Practices, Policies and Procedures,</li> <li>b) Reporting Arrangements,</li> <li>c) Service Continuity and Training,</li> <li>d) Cash Flow Management,</li> <li>e) Counter-Party Risk,</li> <li>f) Transactions,</li> <li>g) On-line Banking and Investments,</li> <li>h) Capital and Interest Payments,</li> <li>i) Reconciliations,</li> <li>j) Performance Monitoring, and</li> <li>k) External Service Providers.</li> </ul>	6
Council Tax	<p>A full audit is scheduled with areas of coverage potentially including:</p> <ul style="list-style-type: none"> <li>a) Policies, Procedures and Legislation,</li> <li>b) Amendment to Council Tax records,</li> <li>c) Discounts and Exemptions,</li> <li>d) In-year Billing,</li> <li>e) Collection and Refunds,</li> <li>f) Recovery, Enforcement and Write Offs,</li> <li>g) Reconciliation between Council Tax system and General Ledger,</li> <li>h) Performance monitoring and Performance, and</li> <li>i) System access.</li> </ul>	10
NDR	<p>A full audit is scheduled with areas of coverage potentially including:</p> <ul style="list-style-type: none"> <li>a) Policies, procedures and regulatory compliance,</li> <li>b) Reconciliation between NDR system and Valuation lists,</li> <li>c) Multiplier setting,</li> <li>d) Voids and reliefs,</li> <li>e) In-year Billing,</li> <li>f) Collection and refunds,</li> <li>g) Recovery, enforcement and write offs,</li> <li>h) Reconciliation between NDR system and general ledger,</li> </ul>	10

## APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2018/19

	<ul style="list-style-type: none"> <li>i) Performance monitoring and management, and</li> <li>j) System access.</li> </ul>	
Benefits & Rent Allowances	<p>A full audit is scheduled with areas of coverage potentially including:</p> <ul style="list-style-type: none"> <li>a) Policies, procedures and set-up of standing data,</li> <li>b) Assessments and backdating,</li> <li>c) Payments,</li> <li>d) Recovery of Overpayments,</li> <li>e) Reconciliations,</li> <li>f) Performance Monitoring, and</li> <li>g) Security of Data.</li> </ul>	10
Payroll	<p>A full audit is scheduled with areas of coverage potentially including:</p> <ul style="list-style-type: none"> <li>a) starters, leavers,</li> <li>b) transfers and amendments,</li> <li>c) payroll payments (including scheduling and BACS),</li> <li>d) pension contribution rates,</li> <li>e) payroll deductions and third party payments, reconciliations,</li> <li>f) management exception reports,</li> <li>g) systems access / security,</li> <li>h) management of the external Payroll contract.</li> </ul>	8
<b>OPERATIONAL AUDITS</b>		
Green Space Strategy Management	To provide assurance that the Council's Green Space Strategy has been effectively implemented and managed, with particular reference to progress made on community engagement and achievement of benefits.	10
S106	To provide assurance that S106 funds are suitably allocated to appropriate projects, sufficient monitoring of contractor contributions is undertaken to ensure monies are spent before they are at risk of claw back and that charges are accurately applied to developments.	10
Crematorium	To review the progress made to date in relation to the crematorium project. Scope to include a review of project management principles, achievement of key milestones and governance arrangements.	10
Museum Services	To provide assurance that the Council has retained effective records to support the retention and disposal of artefacts held by the Council. The review will also seek to provide the Council with advice regarding retention and disposal of artefacts.	10

## APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2018/19

Learning Management System	To provide assurance that the new eLearning tool (Growzone) has been successful embedded into the Council including usage, accessibility and record keeping and that the new system has achieved its initial objectives and benefits.	10
Overtime and Expenses	Following on from the issue raised in the 2017/18 Payroll audit, to provide assurance that the Council is effectively managing the overtime worked by officers, including compliance with the Working Time Regulations, approval and planning, effective budget management, analysis of overtime (including split between male and female officers) and risk assessment. In addition, to provide assurance that expense claims are appropriately authorised in line with Council policy and sufficient evidence is retained to support claims.	12
Apprenticeship Levy	To provide assurance that the Council is complying with the regulations and guidance relating to payment of the apprenticeship levy, and that this area is being exploited to its full potential by Council managers.	10
Homelessness Reduction Act	To provide assurance that the Council has adequately responded to the new Homelessness Reduction Act legislation and assess the impact the new legislation has on temporary accommodation demands and spending. In addition, this review will seek to provide assurance on the Council's approach to rough sleeping.	12
General Data Protection Regulations	A two part audit, initially to provide assurance that the Council is on track to comply with GDPR by 25 May 2018. The second part to provide assurance that the Council is progressing through the roadmap to full compliance as expected.	15
Disaster Recovery - Careline	To provide assurance that robust disaster recovery procedures are in place, have been subject to sufficient testing and are fit for purpose in view of Careline's relocation to the DCO.	6
Home Improvement Agency	A joint review with other partners of the HIA.	2
Original Documentation - Consultancy Review	To conduct a consultancy review relating to the requirement to view original documents. The review to include horizon scanning with other SIAS partners to establish alternative models of document collection.	6
Capital Programme	To provide assurance that the Council have effectively responded to the updated guidance issued in the CIPFA Code (2018) and the MHCLG Guidance (2018).	10
Health and Safety	To provide assurance that adequate health and safety arrangements are present following the move back to the DCO. This will specifically include a review of the new fire evacuation procedures.	6
<b>PROCUREMENT / CONTRACTS</b>		
Waste Contract - Client Services	To provide assurance that suitable contract management arrangements exist for the monitoring and management of the new Waste Contract, including (but not limited to) access to management information, reporting arrangements and contractor liaison.	10
Markets - Contract Management	To provide assurance that the management of the Churchgate markets has been sufficiently robust.	5

## APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2018/19

Outbound Mail Contract	To provide assurance that the new system has been successfully implemented, benefits have been realised and objectives achieved and adequate controls have been implemented in the new system.	10
Property Compliance Contract	In light of the new shared contract, provide assurance over the arrangements for information sharing and the arrangements the Council has in place to respond to reports of non-compliance.	5
<b>JOINT REVIEWS</b>		
Joint Reviews and Shared Learning	Joint review topics to be agreed by the SIAS Board and production of SIAS Quarterly Shared Learning papers.	5
<b>IT AUDITS</b>		
Software Licence Management	To provide assurance that the Council have a complete inventory of software including licences held, the licence count meets the business need and represents value for money and software contract payments are sufficiently monitored.	12
PSN Accreditation	To provide assurance that the Council has maintained sufficient evidence and embedded appropriate systems to demonstrate compliance with the requirements for continuing PSN accreditation.	12
<b>CORPORATE GOVERNANCE</b>		
Corporate Governance	To provide assurance that the Council's governance structures are sufficient and effective. Scope to include delegated decision making and senior management delegations following SMT restructure. Review to include horizon scanning / benchmarking of the Council's delegation levels and types of decisions delegated to officers against similar Local Authorities.	12
<b>CONTINGENCY &amp; AD HOC ACTIVITY</b>		
Contingency	To provide for adequate response to risks or issues emerging in 2018/19.	5
Election Support	As required.	2
Review of FAR	To confirm that NHDC complies with the requirement in the CIPFA Audit Committee 'Practical Guidance for Local Authorities and Police' 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,	2

## APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2018/19

	as required by the Department of Communities and Local Government.	
King George V Playing Fields	To produce the Independent Examiner's Report for the trust.	1
<b>STRATEGIC SUPPORT &amp; CONTINGENCY</b>		
Head of Internal Audit Opinion 2016/17	To prepare and agree the Head of Internal Audit Opinion for 2017/18	3
Audit Committee	To provide service linked with the preparation, agreement and presentation of Audit Committee reports.	10
Client Liaison	Meetings with the Council's Audit Champion, S151 Officer and other key officers and attendance at corporate groups.	8
External Audit Liaison	Meetings with the Council's External Auditor, as required.	1
Plan Delivery Monitoring	Audit Plan monitoring and reporting.	10
SIAS Development	Included to reflect the Council's contribution to developing the partnership.	5
2019/20 Audit Planning	Provision of services to prepare, agree and report the 2019/20 Annual Audit Plan.	6
17/18 Projects requiring completion	Completion of outstanding work from 2017/18.	20
<b>TOTAL AUDIT PLAN DAYS</b>		<b>360</b>

## **APPENDIX B – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2018/19 – RESERVE LIST**

<b>RESERVE LIST</b>		
Systems Access - Passwords	To provide assurance that adequate controls exist to allow appropriate access to Council systems, including the reasonableness of password expectations for Council systems.	
Office Accommodation - Post Project Review	To complete a post project of the office accommodation project – including realisation of benefits / objectives, budget management and governance.	
Medium Term Financial Planning	To provide assurance that appropriate governance systems exist in relation to budget recovery and efficiency plans. In addition to review the accuracy and relevance of financial information to support monitoring and finally to provide assurance that recovery / efficiency plans are on track in relation to programmed activities / targets.	
Openness Regulations	To conduct a benchmarking exercise to assess the Council's approach to compliance with the Openness Regulations in relation to other Local Authorities. Review designed to identify best practices.	



## APPENDIX C – AUDIT START DATES AGREED WITH MANAGEMENT

April	May	June	July	August	September
General Data Protection Regulations	Museum Service	Original Documentation – Consultancy Review	S106	Green Space Strategy Management	Crematorium
Careline Disaster Recovery	Overtime and Expenses		Software Licence Management		Apprenticeship Levy
Review of FAR	Health and Safety – Fire Evacuation Arrangements				Homelessness Reduction Act
					Property Compliance Contract
					DFG Grant Certification
October	November	December	January	February	March
Integra 2 – General Ledger, Debtors and Creditors	Council Tax	Treasury Management	Capital Programme	Learning Management System	
Corporate Debt Management	NDR	Payroll	Waste Contract – Client Services	Markets – Contract Management	
PSN Accreditation	Benefits	Outbound Mail Contract	King George V Playing Fields	Corporate Governance	

**Home Improvement Agency** – this has been provisionally planned for quarter 2/3, with a start month yet to be confirmed.