



Watford Borough Council  
Audit Committee  
11 March 2021

2021/22 Internal Audit Plan Report

## Recommendation

Members are recommended to approve the proposed Watford Borough Council and Shared Services 2021/22 Internal Audit Plans

# Contents

## 1. Introduction and Background

## 2. Audit Planning Process

- 2.1 Planning Principles
- 2.2 Approach to Planning
- 2.4 Planning Context
- 2.7 Internal Audit Plan 2021/22

## 3. Performance Management

- 3.1 Update Reporting
- 3.2 Performance Indicators

## Appendices

- A Proposed Watford Borough Council 2021/22 Audit Plan
  - B Proposed Watford and Three Rivers Shared Services 2021/22 Audit Plan
  - C Audit Start Dates Agreed with Management
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# 1. Introduction and Background

- 1.1 Internal Audit is an independent and objective assurance and consulting activity designed to add value and improve the organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The role of internal audit is to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively. (Chartered Institute of Internal Auditors – Internal audit definition and purpose)
- 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 Assurance annual report.
- 1.3 The Shared Internal Audit Service's (SIAS) Audit Charter which was presented to the July 2020 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 and revised on 1 April 2017. An updated version of the SIAS Audit Charter will be brought to the first meeting of Audit Committee in the 2021 civic year 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:



2.3 The approach to audit planning for 2021/22 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*

Senior Managers and SIAS agree the level of risk associated with an identified auditable area and prioritise this (high, medium and low).

### *Other sources of Assurance*

Senior 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*

Senior Managers assess how significant the auditable area is in terms of the achievement of corporate or service objectives and priorities.

### *Timings*

Senior 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 2021/22 plans for all SIAS partner councils are then scrutinised and cross-partner audits highlighted.

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:

- The impact of Covid-19 may not fully be known and will continue to have significant impact on the Council's operations in future years. Whilst the longer-term impacts of the pandemic remain speculative, the current challenges and risks relate to economic impacts, growth, public health and equality for local authorities.
- From 1 January 2021, the UK entered into new trading arrangements with the EU ending 11 months of transition arrangements. The result of the changes to trading with EU based companies will have an impact on Council services with additional risks needing to be considered that include compliance with customs rules, continuity of supply / services and workforce pressures related to the right to work in the UK.
- Latest forecasts show a cloudy outlook for the UK economy, reflecting increasing national and international uncertainties. Local authorities will need to be attuned to the impact on their local economies and any direct investments of their own.
- Demand continues to rise, driven by complex needs, an ageing population and challenges in the healthcare system. With reduced financial support, local authorities will have to continue to become more innovative and commercial.
- Digital transformation continues to offer opportunities along with significant risks. The innovative use of technology is helping to reduce costs, as well as be more efficient and transparent. However, factors such as security, privacy, ethical and regulatory compliance are a recognised concern.
- Major national programmes in areas like business rates, public health and housing mean the overall financial environment remains relatively unstable.

- 2.5 The resultant efficiency and transformation programme that councils are in the process of implementing and developing continues to profoundly alter 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 use of technology to achieve 'whole population testing' and new insights over sampling or 'continuous assurance' where appropriate.
  - Retain flexibility in the audit plan and ensure the plan remains current and relevant as the financial year progresses, this is particularly key given the current challenges and risks of COVID-19 and the impact this has had on audit activity.

Internal Audit Plan 2021/22

- 2.7 The draft 2021/22 audit plans are included at Appendix A and B and contain a high-level proposed outline scope for each audit; Appendix C details the agreed start months. The total number of days purchased in 2021/22 has been reduced from 402 to 362 days across the Watford Borough Council, Shared Services and Three Rivers District Council audit plans. The table below shows the estimated allocation of the total annual number of purchased audit days for the year for the Watford and Shared Services Plans.

|                                   | <b>WBC</b> | <b>Shared Services</b> | <b>Total</b> |
|-----------------------------------|------------|------------------------|--------------|
| Key Financial Systems             | 0          | 65                     | 65           |
| Operational audits                | 71         | 10                     | 81           |
| Procurement / Contract Management | 16         | 0                      | 16           |
| Shared Learning / Joint Reviews   | 4          | 0                      | 4            |

|                                       |            |            |            |
|---------------------------------------|------------|------------|------------|
| Counter Fraud                         | 0          | 0          | 0          |
| Risk & Governance                     | 0          | 0          | 0          |
| IT Audits                             | 0          | 15         | 15         |
| To Be Allocated                       | 0          | 0          | 0          |
| Follow Ups                            | 9          | 0          | 9          |
| Strategic Support*                    | 34         | 0          | 34         |
| 2020/21 Projects Requiring Completion | 5          | 10         | 15         |
| <b>Total audit days 2021/22</b>       | <b>139</b> | <b>100</b> | <b>239</b> |

\* This covers supporting the Audit Committee, monitoring, client liaison and planning for 2022/23.

- 2.8 Members will note the inclusion of a provision for the completion of projects that relate to 2020/21. 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.
- 2.9 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 Watford Borough 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 2021/22 and any proposed changes will be reported to this Committee four times in 2021/22. The implementation of agreed audit recommendations will be reported to Audit Committee as part of the update reporting process.

## Performance Indicators

- 3.2 Annual performance indicators are reviewed annually by the SIAS Board and details of the 2021/22 targets are shown 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><br>percentage of actual billable days against planned chargeable days completed.  | 95%   |
| <b>2. Planned Projects</b><br>percentage of actual completed projects to draft report stage against planned completed projects.<br>Note: 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><br>percentage of client satisfaction questionnaires returned at 'satisfactory' level.  | 100%  |
| <b>4. Number of High Priority Audit Recommendations agreed</b>   | 95%   |
| <b>5. Annual Plan</b>  | Presented to the March meeting of each Audit Committee.                           |
| <b>6. Head of Assurance's Annual Report</b>  | Presented to the first meeting of each Audit Committee in the new financial year. |

Watford Borough Council  
Audit Committee  
11 March 2021

Watford Borough Council 2021/22 Draft Internal Audit Plan

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| Audit                                | Proposed Outline Scope / Reason for Inclusion  | Proposed Days | Target Quarter |
|--------------------------------------|--|---------------|----------------|
| <b>KEY FINANCIAL SYSTEMS</b>         |  |               |                |
|                                      | See Shared Services Audit Plan   |               |                |
| <b>OPERATIONAL AUDITS</b>            |  |               |                |
| Development Management (enforcement) | Review to provide assurance over enforcement of planning regulations.  | 8             | 3              |
| CIL Spend                            | Review to provide assurance that processes and controls are effective over spend proposals for contributions received, including the existence of and compliance with policies and procedures and monitoring and reporting of spend. | 8             | 3              |
| Housing Nomination Policy            | The Council is due to review the policy by September 2021. The review may be undertaken in two stages.   | 10            | 2              |
| Operational Buildings Compliance     | Review of compliance with statutory requirements for the Council's operational buildings.  | 10            | 3              |

| Audit  | Proposed Outline Scope / Reason for Inclusion   | Proposed Days | Target Quarter |
|--|---|---------------|----------------|
| Asset Management System Data                 | Review of data in the new asset management system.  | 10            | 2              |
| Safeguarding                                 | A review of the Council's role in promoting the welfare of children and vulnerable adults and protecting them from harm – to include policy statements, training, record keeping, using and referring information received to stakeholders and / or the police for further investigation and working with partners (multi-agency response). | 8             | 4              |
| Customer Services Digitalisation – follow up | Review of progress since original audit in 2020/21  | 7             | 1              |
| Project Management – Oxhey Activity Park     | Review of the Oxhey Activity Park project.  | 10            | 3              |
| <b>PROCUREMENT</b>                           |   |               |                |
| Veolia Contract Payments                     | Review of the financial management of the Veolia contract, including payment mechanisms, records of checks and inspections (including annual insurance requirements), budget variations and authorisation of payments.  | 8             | 2              |

| Audit                                  | Proposed Outline Scope / Reason for Inclusion  | Proposed Days | Target Quarter   |
|--|--|---------------|------------------|
| Contract Spend                         | Review of the Council's arrangements for monitoring contract spend and maintaining the contract register.  | 8             | 1                |
| <b>SHARED LEARNING / JOINT REVIEWS</b> |  |               |                  |
| Shared Learning / Joint Reviews        | Shared Learning publications providing opportunities for shared learning across the partnership.<br><br>Joint reviews as determined by the SIAS Board. | 4             | Through the year |
| <b>RISK MANAGEMENT AND GOVERNANCE</b>  |  |               |                  |
|  | No audits identified for 2021/22   |               |                  |
| <b>IT AUDITS</b>                       |  |               |                  |
|  | See Shared Services Audit Plan.  |               |                  |
| <b>TO BE ALLOCATED</b>                 |  |               |                  |

| Audit                                     | Proposed Outline Scope / Reason for Inclusion   | Proposed Days | Target Quarter |
|---|---|---------------|----------------|
| To Be Allocated                           | See Shared Services Audit Plan.   |               |                |
| <b>FOLLOW-UP OF AUDIT RECOMMENDATIONS</b> |   |               |                |
| Follow-up of audit recommendations        | Obtaining quarterly updates on the status of internal audit recommendations from action owners and reporting outcomes to Audit Committee.                         | 9             | Quarterly      |
| <b>STRATEGIC SUPPORT</b>                  |   |               |                |
| Head of Internal Audit Opinion 2020/21    | To prepare and agree the Head of Internal Audit Opinion for 2020/21.  | 3             | Q1             |
| Audit Committee                           | To provide services linked to the preparation of Audit Committee reports and presentation of reports / participation at Audit Committee.                          | 10            | Quarterly      |
| Monitoring and Client Meetings            | To produce and monitor performance and billing information, work allocation and scheduling, and to meet with the Council's Audit Champion and other key officers. | 9             | Through year   |
| 2022/23 Audit Planning                    | To provide services in relation to preparation and agreement of the 2022/23 Audit Plan in conjunction with senior officers of the Council.                        | 6             | Q4             |

| Audit  | Proposed Outline Scope / Reason for Inclusion  | Proposed Days | Target Quarter |
|--|--|---------------|----------------|
| SIAS Development                             | Included to reflect the Council's contribution (as with all partners) to developing the partnership.                   | 3             | Q1             |
| Annual Governance Statement                  | To assist the Council in the preparation of the Annual Governance Statement for 2020/21.                               | 3             | Q1             |
| <b>2020/21 PROJECTS REQUIRING COMPLETION</b> |  |               |                |
| 2020/21 Projects to be completed             | Additional time, if required for the completion of 2020/21 audit work carried forward into the 2021/22 financial year. | 5             | Q1             |
| <b>TOTAL AUDIT PLAN DAYS</b>                 |  | <b>139</b>    |                |

| <b>2021/22 RESERVE LIST</b><br><b>(For consideration in the main audit plan should audit days become available during the year. Plan changes are reported to Audit Committee)</b> |  |  |  |
|---|--|--|--|
| Rough Sleepers  |  |  |  |
| Ways of Working   |  |  |  |

Watford Borough Council  
Audit Committee  
11 March 2021

Watford Borough Council and Three Rivers District Council  
Shared Services 2021/22 Draft Internal Audit Plan

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| Audit                        | Proposed Outline Scope / Reason for Inclusion   | Proposed Days | Estimated Target Quarter |
|------------------------------|---|---------------|--------------------------|
| <b>KEY FINANCIAL SYSTEMS</b> |   |               |                          |
| Revenues & Benefits          | Review of Council Tax, NDR, Housing Benefits and Sundry Debtors systems to confirm that controls are adequate and effective. Scope to be agreed with management at the time and may involve a detailed review of a restricted number of areas to provide additional assurance over those aspects of these systems. Testing will cover the 2020/21 financial year for both Councils. | 30            | Q2/3                     |
| Finance                      | Review of Finance systems to confirm that controls are adequate and are effective. Scope to be agreed with management at the time and may involve a detailed review of a restricted number of areas to provide additional assurance over those aspects of these systems. Testing will cover the 2020/21 financial year for both Councils.   | 25            | Q3/4                     |
| Payroll                      | Review of the Payroll system to confirm that controls are adequate and effective. Testing will cover 2021/22 and include starters and leavers, additional payments, statutory deductions and payroll period end checks.   | 10            | Q3                       |
| <b>OPERATIONAL AUDITS</b>    |   |               |                          |
| Payroll System               | Review of the implementation of the new payroll system.   | 10            | Q1                       |

| Audit   | Proposed Outline Scope / Reason for Inclusion  | Proposed Days | Estimated Target Quarter |
|---|--|---------------|--------------------------|
| <b>IT AUDITS</b>                                    |  |               |                          |
| Cyber Security                                      | To provide assurance that cyber security strategies and arrangements are appropriately designed and operated to manage the risk of a cyber attack. | 15            | Q4                       |
| <b>TO BE ALLOCATED</b>                              |  |               |                          |
|   | No budget set at outset.   |               |                          |
| <b>2020/21 PROJECTS REQUIRING COMPLETION</b>        |  |               |                          |
| Outstanding 2020/21 audits                          | Time for completion of 2020/21 audits carried forward into 2021/22 (unused time will be reallocated).  | 10            | Q1                       |
| <b>TOTAL AUDIT PLAN DAYS – SHARED SERVICES PLAN</b> |  | <b>100</b>    |                          |

| <b>Apr</b> | <b>May</b>         | <b>June</b>    | <b>July</b>              | <b>August</b>             | <b>September</b>             |
|------------|--------------------|----------------|--------------------------|---------------------------|------------------------------|
|            | New Payroll System | Contract Spend | Veolia Contract Payments | Housing Nomination Policy | Revenues and Benefits Audits |
|            |                    |                |                          |                           | Asset Management System Data |

| <b>October</b> | <b>November</b>                          | <b>December</b>                              | <b>January</b> | <b>February</b> | <b>March</b> |
|----------------|--|--|----------------|-----------------|--------------|
| Finance Audits | Payroll                                  | Customer Services Digitalisation – follow up | Cyber Security | Safeguarding    |              |
| CIL Spend      | Operational Building Compliance          | Development Management (enforcement)         |                |                 |              |
|                | Project Management – Oxhey Activity Park |  |                |                 |              |