SIAS
Shared Internal Audit Service
Hertfordshire in Partnership

Watford Borough Council
Audit Committee

2014/15 Internal Audit Plan Report

12 March 2014

Recommendation

Members are recommended to approve the proposed Watford Borough Council and Watford / Three Rivers Shared Services Internal Audit Plan for 2014/15

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1. Introduction and Background

<u>Purpose of Report</u>

1.1 To provide Members with the proposed Watford Borough Council and Shared Services 2014/15 Internal Audit Plans.

<u>Background</u>

1.2 The 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 2013 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 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

<u>Planning Principles</u>

2.1 SIAS audit planning is underpinned by the following principles:

a) Focus of assurance effort on the council's key issues, obligations, outcomes and objectives, critical business processes and projects and principal risks. This approach ensures coverage of both strategic and key operational issues.

b) Maintenance of an up-to-date awareness of the impact of the external and internal environment on the council's control arrangements.

c) Use of a risk assessment methodology to determine priorities for audit coverage based, as far as possible, on management's view of risk;

d) Dialogue and consultation with key stakeholders to ensure an appropriate balance of assurance needs. This approach includes recognition that in a resource constrained environment, all needs cannot be met.

e) Identification of responsibilities where services are delivered in partnership.

f) In-built flexibility to ensure that new risks and issues are accommodated as they emerge;

g) Capacity to deliver key commitments including work undertaken on behalf of External Audit, governance work and counter fraud activity;

h) Capacity to respond to management requests for assistance with special investigations, consultancy and other forms of advice.

Approach to Planning

2.2 In order to comply with the requirements of the PSIAS, SIAS has revised its approach to planning and for 2014/15 has introduced a standard methodology for all SIAS partners. This revised methodology contains the following elements:

Local and National Horizon Scanning

Where SIAS reviews:
- key committee reports at each client and identifies emerging risks and issues;
- the professional and national press for risks and issues emerging at national level

It is anticipated that in future years, local and national horizon scanning will be undertaken in-year on a continuous basis. This will support the achievement of principle f) above, 'Accommodation of new risks and issues as they emerge.'

Consideration of risk management arrangements

Where SIAS assesses the risk maturity of the council and based on this assessment, determines the extent to which information contained within the council's risk register informs the identification of potential audit areas.

Confirmation of the council's objectives and priorities

Where SIAS confirms the current objectives and priorities of the Council, this information is used to confirm that identified auditable areas will provide assurance on areas directly linked to the achievement of the council's objectives and priorities.

2.3 The approach to audit planning for 2014/15 has been characterised by:

a) Detailed discussions with senior managers and other key officers within the council to confirm auditable areas and elicit high level detail of the scope of audits. This process incorporates the following four steps to assist in the later prioritisation of projects:

Risk Assessment

Where managers and SIAS agree the level of risk associated with an identified auditable area.

Other sources of Assurance

Where managers are asked whether assurance in the auditable area is obtained from other assurance providers e.g. External Audit or the Health and Safety Executive. This approach ensures that provision of assurance is not duplicated.

Significance

Where the manager is asked to assess how significant the auditable area is in terms of the achievement of corporate or service objectives and priorities.

Timings

Where the manager is asked to identify when an audit should be undertaken to add most value.

b) Proposed plans are based on the information obtained from the planning meetings. A contingency allocation is determined to allow flexibility to respond to in-year changes in organisational risk and priorities. Details of audits that have not been included in the proposed draft plan as a result of resource limitations are reported to senior management and the audit committee.

c) The proposed 2014/15 plans for all SIAS partner councils are then scrutinised and cross-partner audits highlighted;

d) Proposed draft plans were presented to Leadership Team for discussion and agreement;

e) The views of the council's external auditor are sought to confirm that their requirements are adequately addressed.

2.4 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

2.5   The context within which local authorities and housing associations provide their services remains challenging:

- Austere public finances will last well into the next parliament, meaning that previous expenditure levels are not sustainable and public leaders expect serious financial difficulty ahead

- Demand continues to rise, driven by complex needs, an ageing population and higher service expectations from citizens

- Technology ranging from use of mobile devices and applications, to Big Data and predictive analytics, is developing rapidly and offers opportunities along with significant risks

- Major, national programmes in areas like welfare reform and business rate reform, and structural changes such as the introduction of Police and Crime Commissioners, Clinical Commissioning Groups and Local Enterprise Partnerships mean the environment has been relatively unstable.

2.6   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.

2.7   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 2014/15

2.8 The draft plans for 2014/15 are included at Appendices 2 and 3 and contain a high level proposed outline scope for each audit and a suggested quarter for delivery. The plans also include a reserve list detailing audits which may feature in the event that an audit in the main plan cannot be conducted. Plan changes are brought before this Committee for approval.

2.9 The table below shows the estimated allocation of the total annual number of purchased audit days for the year.

	WBC	Shared Services	Total
Key Financial Systems	13	88	101
Operational audits	47	8	55
Procurement	20	0	20
Joint Reviews	2	8	10
Counter Fraud	0	5	5
Risk & Governance	10	0	10
Ad-Hoc Advice	3	0	3
IT Audits	0	42	42
Contingency	5	0	5
Follow Ups	10	0	10
Strategic Support*	34	0	34
2013/14 Projects Requiring Completion	5	8	13
Total audit days 2014/15	**149**	**159**	**308**

* This covers, for example, supporting the Audit Committee, Monitoring and Liaison and Planning for 2015/16.

2.10   Members will note the inclusion of a provision for the completion of projects that relate to 2013/14. 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.

2.11   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.

2.12   During audit planning discussions with senior managers, Health Campus was identified as an audit that would feature (in addition to the annual key financial systems audits) in the Audit Plan for 2015/16 and beyond. This audit will be formally risk assessed for inclusion in the 2015/16 Audit Plan as part of the planning process for that year.

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 2014/15 and any proposed changes will be reported to this Committee four times in the 2014/15 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. Details of the targets set for 2014/15 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	95%
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**	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.