


<p style="text-align: center;"><i>Non-Executive Report of the:</i></p> <p><b>Audit Committee</b></p> <p>21<sup>st</sup> March 2017</p>	 <b>TOWER HAMLETS</b>
<p><b>Report of:</b> Zena Cooke - Corporate Director - Resources</p>	<p><b>Classification:</b> Unrestricted</p>
<p><b>Internal Audit Plan 2017/18</b></p>	

<b>Originating Officer(s)</b>	<i>Minesh Jani and Bharat Mehta</i>
<b>Wards affected</b>	<i>All wards</i>

## **1. Introduction**

- 1.1. This report presents the proposed Annual Internal Audit Plan for 2017/18. The plan was compiled using the Internal Audit Strategy approved by the Audit Committee in December 2010 and endorsed each year thereafter as part of the annual planning process.
- 1.2. The internal audit strategy details the methodology for developing the annual audit plan and sets out the role of internal audit and the process by which to direct the work of audit. The first step in this methodology is to obtain information about the population from which audit activity is to be selected. This was achieved by consulting with key officers, reviewing the authority's corporate plan and risk registers and meeting with external audit. By gathering information and assessing the risks affecting each auditable system, resources have been directed at those areas with the highest risk significance. Details of the strategy are attached at Appendix 2 for information.

## **2. Recommendation**

- 2.1. That the Audit Committee considers the proposed Annual Internal Audit Plan for 2017/18 at Appendix 1.
- 2.2. That Members may wish to consider other additional audits listed at Appendix 1.1, which have been drawn from the Audit Universe on the basis of Audit Needs Analysis.

### 3. Background / Methodology

- 3.1 The methodology for developing the Internal Audit Plan focuses upon the quantification of the risks associated with achieving corporate and departmental objectives.
- 3.2 This process uses four assessment categories to produce a risk index for each auditable area. The auditable area is scored in each category using assessment criteria to gauge the degree of risk or materiality associated with the particular area. The table below summarises the four assessment categories and what each is intended to measure.

Assessment Category			Measure
A	Corporate Importance Objectives/Priorities	–	Corporate materiality
B	Corporate Sensitivity – Impact		Reputational materiality
C	Inherent Risk		Inherent vulnerability
D	Control Risk		Control effectiveness

- 3.3 Following this assessment, those systems with the highest score were added to the proposed audit plan based on the resources available. In addition to the above assessment, auditable areas that have a medium or low score, but in order to support the work of external audit or to provide assurance to key officers, also feature in this audit plan. These include areas such as the reviews of key financial systems, governance arrangements, grant audits, cash income and regularity/probity audits.

### Resources

- 3.4 The table below shows how provisionally the plan will be resourced between the in-house staff and our strategic internal audit partner, Mazars through the L.B of Croydon Framework Agreement.

Audit Resources 2016/17		Days	Days
In-house	5 auditors @ 195 days	975	
	Management	150	
			1125
Mazars	Core Audits	250	
	Computer Audit	100	
TOTAL			350
PLAN TOTAL			1,475

Please note – the analysis shown in the table above is subject to review. The Head of Audit and Risk Management will assess the audit plan and profile the plan in consultation with the Council's S151 officer and the Audit Manager.

## Annual Audit Plan

- 3.5 Appendix 1 shows the annual audit plan and provides a brief summary of the scope of each review. The plan also shows the source of the auditable area and its link to the authority's Strategic Plan Themes. The proposed plan will be presented at directorate DMTs and the CMT. Appendix 1.1 contains additional audits coming up for review which could potentially be factored into the plan subject to resource availability.
- 3.6 In summary, for 2017/18, the Internal Audit Plan comprises of 1,475 days across all directorates. In line with the established protocols, all changes to the agreed 2017/18 plan will be reported to the Audit Committee in December 2017.

	<b>Original plan 2016/17</b>	<b>Revised Plan 2016/17</b>	<b>Audit Plan 2017/18</b>
Corporate systems	185	195	115
Governance	40	0	25
Children's	230	260	285
Adults	85	85	-
Health, Adults and Community	-	-	85
Communities, Localities and Culture	150	172	-
Development & Renewal	115	120	-
Place			230
Tower Hamlets Homes	130	145	130
Resources	236	256	225
Computer audit	100	100	100
Follow-up, management and reactive fraud provision	250	188	280
<b>Total</b>	<b>1,521</b>	<b>1,521</b>	<b>1,475</b>

- 3.7 It should be noted the reviews planned for Tower Hamlets Homes are subject to further consultation with the Executive Management Team.

#### **4. Comments of the Chief Finance Officer**

- 4.1. The Chartered Institute of Public Finance and Accountancy's (CIPFA) document which sets out the role of the Chief Finance Officer states that; "Internal audit is an important independent internal scrutiny activity. Internal audits remit does not necessarily end within the organisation boundary but can extend to a partnership and alternative delivery model. The CFO must support the authority's internal audit arrangements and ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively."

This plan accords with the Internal Audit Strategy agreed by the Audit Committee and has been reviewed by Corporate Directors. It is presented to the Audit Committee for approval

#### **5. Legal Comments**

- 5.1. The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness by virtue of section 3 of the Local Government Act 1999. This is known as its Best Value Duty.
- 5.2. Under sections 15(5) and 15(6) of the Local Government Act 1999 the Secretary of State for Communities and Local Government issued legally enforceable directions in order to ensure that the Council complies with its obligations under part 1 of the Local Government Act 1999. Action 1 to be taken by the Council in respect of the Directions (as stated in Annex A to the Directions) the Council is to agree a plan with the Commissioners to ensure the compliance by the Council with the remainder of the directions. In preparing the Audit Plan, due consideration has been given to the Directions and Best Value Plan presented to the Commissioners.
- 5.2 Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required by Regulation 5 to maintain an effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

## **6. One Tower Hamlets**

- 6.1. There are no specific one Tower Hamlets considerations.
- 6.2. There are no specific Anti-Poverty issues arising from this report

## **7. Best Value Implications**

- 7.1. This report highlights areas where internal control, governance and risk management can be improved to meet the Best Value Duty of the Council.

## **8. Risk Management Implications**

- 8.1. This report highlights risks arising from weaknesses in controls that may expose the Council to unnecessary risk. The risks highlighted in this report require management responsible for the systems of control to take steps so that effective governance can be put in place to manage the authority's exposure to risk.

## **9. Sustainable Action for a Greener Environment (SAGE)**

- 9.1. There are no specific SAGE implications.

## **10. Crime and Disorder Reduction Implications**

- 10.1. By having sound systems of controls, the Council can safeguard against the risk of fraud and abuse of financial resources and assets.

## Appendix 1



# London Borough of Tower Hamlets

Risk, Internal Audit and Control – Audit Plan 2017/18

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# Foreword

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The role of internal audit is important in supporting the Council achieve its goals and outcomes. For internal audit to contribute towards the overall goals of the organisation, effective planning of audit activity is essential, whether planned or unplanned. The annual audit plan for 2017/18 is devised using a risk based methodology, and focuses on areas where Tower Hamlets needs to be sure its risks are being properly managed. The plan also recognises the wider role audit has in supporting management, who strive to deliver excellent public services to residents living in, and people working in the borough, by including for example, consultancy audits, corporate reviews, value for money, contract and ICT audits. A large part of the annual plan rightly focuses on providing independent assurance over the systems of control for managing risks across the authority. There is also some flexibility within the plan for risks that will arise over the next financial year.

In preparing the plan, it is important to recognise the contributions made by officers at the Departmental and Corporate Management Teams, the S151 Officer, and the Chair of the Audit Committee for which I am grateful.

Minesh Jani  
Head of Risk Management and Audit



# Context

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Risk taking is vital to the success of any business; it is inherent in everything we do. All too often, however, risks are regarded only as hazards despite the fact they can present significant opportunities for organisations to innovate and gain short and long-term competitive advantages. Risk and opportunity are, in essence, a duality – like two sides of the same coin.

The Good Governance Standard for Public Services identifies that ‘Good governance means “taking informed, transparent decisions and managing risk”. This implies creating a framework of enterprise-wide risk management that is embedded in the ‘business as usual’ operations and viewed as an integral component of how the organisation is governed.

Risk management is not about avoiding or eliminating risk. It is about understanding what risks are and the potential impact upon the organisation should the risks materialise and also about controlling risks when they arise.

Embedding good, enterprise-wide risk management systems will facilitate the achievement of our strategic objectives.

Internal Audit and their evaluation of controls provide an important part of the tool kit that the Corporate Management Team and the Audit Committee have in evaluating the risks being faced by the organisation, and the controls that are in place to mitigate these risks.

# Key Risks

The Audit Plan is based on three principal sources of information – Risk Registers (Strategic Risks and Directorate based service risks), our own risk analysis and management request. In formulating the Audit Plan, the key corporate risks and Directorate based risks have been considered. There are 13 corporate risks currently facing the Council which are being monitored by the CMT and the Audit Committee and are summarised below. These risks have been referenced within the Audit Plan, where applicable.

Risk Ref..	Risk
ASD0015	Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.
CSDR0002	Council's inability to meet demand for school places
CSD0016	Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency.
LPGSE0001	Failure to achieve community cohesion, Radicalisation of young people and gangs.
LPGSE0001	Non-compliance with corporate governance procedures.

No.	Risk
RSB0019	Maintaining and strengthening financial viability/balance in 2016/17 to 2017/18.
LPGSE0001	Failure to achieve community cohesion, Radicalisation of young people and gangs.
DR0029	Council is unable to identify a viable exit route from Mulberry Place that ensures staff are decanted by September 2019.
DRCPCCD0029	Failure to confirm the stage 2 Civic Centre client brief leads to the programme stalling and failing to meet business case objectives.
CLSCEI0008	There is a risk that, should a major incident take place affecting Council services, there may be a failure to implement an effective response.
REV0007	Impact on local income from appeals on the new local rating effective from 1/4/17.
CSDSC0004	Incidents of serious violence where young people known to or in the care of the Local Authority are harmed or perpetrate harm in a community setting.
CLB0019	The Council may be challenged in Court for making a formal decision under the 1967 Act, to retain for educational purposes the newly constructed school at Christchurch Primary School.

# The Role of Internal Audit

The role of Internal Audit is to provide an independent 'assurance' to the organisation that its systems of internal control are sound and adequate, and are being complied with by staff and management.

Internal Audit is a review function, which independently reviews and reports upon the organisation's internal control, governance and risk management arrangements. It critically evaluates the entire internal control framework and where necessary, makes recommendations for improvement and the introduction of best practice.

**The public sector internal audit stands defines internal audit as:**

***“an independent, objective assurance and consulting activity designed to add value and improve an organisation's 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 findings emerging from internal audit reviews provide a basis for an Annual Audit Opinion in the Statement of Internal Control within the Annual Governance Statement.

# London Borough of Tower Hamlets 2017/18 Internal Audit Plan

	<b>Audit Days</b>	<b>Pages</b>
Corporate systems and Council-wide reviews	115	8-9
Corporate Director - Governance	25	10
Corporate Director - Health, Adults and Community	85	11-12
Corporate Director - Children's Services	285	13-15
Corporate Director - Place	230	16-18
Corporate Director - Resources	225	19-21
Tower Hamlets Homes	130	22-23
Information technology audits	100	24
Follow up, management and reactive fraud provision	280	24
<b>Total Provision</b>	<b>1475</b>	-

## Internal Audit Plan 2017/18

### Corporate and Council-Wide Reviews

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Control and Monitoring of Agency Staff	To review controls and procedures for procuring, recruiting, vetting, controlling and paying for temporary agency staff across all the Directorates of the Council.	20	Audit Needs Analysis and Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Health and Safety at Work	To provide assurance that the Council's Health and Safety at Work policy and procedures are sound and are being complied with.	15	Audit Needs Analysis Corporate risk CLSCEI0008	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Attendance Management, including Annual Leave	To review the Council's arrangements for managing, controlling and monitoring of staff attendance and annual leave.	20	Audit Needs Analysis and Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Performance Management	To provide assurance that the Council's performance management scheme is sound and secure to achieve its key priorities and business objectives.	15	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Control, Monitoring and Reporting of Executive Decisions Under Management Scheme of Delegation	This audit will examine the Council's procedures for reviewing and monitoring compliance with its Management Scheme of Delegation to ensure that Executive decisions taken by officers are within the scope of their delegated limits.	15	Audit Needs Analysis  Corporate Risk LPGLS0001	<i>A transformed council, making best use of resources and with an outward facing culture.</i>

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Programme and Project Management	This audit will review the Council's Corporate arrangements for ensuring that there are sound procedures and tools for managing and monitoring major change and savings programmes and projects.	15	Audit Needs Analysis  Corporate Risk RSB0019	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Declaration of Interests	This will be stage 2 of the review of staff declaration of interests following a full systems review in 2016/17 (stage 1). The objective of the audit will be ensure that declaration of interests by staff are in accordance with Council policy and procedures.	15	Management Request  Corporate Risk LPGSE0001	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
<b>Total</b>		<b>115</b>		

## Corporate Director - Governance

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Members' Interests and Hospitality and Gifts	The objective of this audit will be review the systems for reporting, recording and monitoring members interests and hospitality and gifts.	5	Audit Needs Analysis  Corporate Risk LPGLS0001	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Procurement and Payment for Legal Advice	This audit will examine systems for procuring and paying for specialist legal advisors, barristers and solicitors to provide assurance that Council procurement procedures are complied with.	15	Audit Needs Analysis  Corporate Risk LPGLS0001	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Member-Officer Protocol	To advise on the development of the protocol to ensure that proper safeguards are built in the interface between members and officers of the Council.	5	Audit Needs Analysis  Corporate Risk LPGLS0001	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
<b>Total</b>		<b>25</b>		



## Corporate Director- Health, Adults and Community

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Social Service Practice Framework Compliance	The Adults Service team has adopted a social work practice framework to guide social workers in their professional practice. This audit will provide assurance that the Practice Framework is being complied with.	15	Management Request  Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Electronic Home Care Monitoring System	To provide assurance that the newly implemented electronic system is operating effectively to ensure that the service users receive the required service and payments are made only for the service/hours provided.	20	Audit Needs Analysis  Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty. A transformed council, making best use of resources and with an outward facing culture.</i>
Contract Monitoring of Commissioned Services	This audit will examine systems and procedures for monitoring a sample of commissioned services to ensure that providers effectively deliver the services to vulnerable service users and that payments are made in line with the rates set out in the contract.	20	Audit Needs Analysis  Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Costing of Care Plans	This audit will provide assurance that Care Plans for service users are developed to meet their service needs and that the plans are costed in accordance with established procedures to provide quality services to vulnerable adults.	15	Audit Needs Analysis  Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
FWi – Payment Control	This audit will select a sample of payments made to a range of service providers, orders for which have been raised on FW-I system, to test that payments are being made only for the services ordered, received and at the agreed rates.	15	Management Request and Audit Needs  Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty. A transformed council, making best use of resources and with an outward facing culture.</i>
<b>Total</b>		<b>85</b>		

## Corporate Director - Children's Services

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Leaving Care Service	This audit will review the management and control of Leaving Care services. The exact scope will be discussed and agreed with the Service Head, Children's Social Care.	15	Management Request  Risk Register CSDSC0004	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Youth Service	This will be a comprehensive review of the present Youth Service Provision to provide assurance that the management and control around youth service is sound and secure to achieve the priorities and objectives of the Council.	20	Management Request  Risk Register CSDSC0004 LPGSE0001	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Contract Audit	We will select a sample of building works in progress and test the effectiveness of contract management and monitoring to ensure that building works are delivered on time and to the agreed budget.	10	Audit Needs Analysis Corporate Risk CSDR0002	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Schools Probity Audit	The school visits will cover areas of Leadership and Governance; Budget Management; Procurement; Income and Expenditure controls; Payroll and Personnel; Asset Management; and other key areas of schools' business.	160	Annual Programme of Audit	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Tower Hamlets Education Partnerships	This review will examine the systems for monitoring the arrangements the Council has with TH Education Partnership to ensure that the Council's priorities and objectives are achieved and that any additional funds paid are approved and scrutinised.	10	Management Request  Corporate Risk LPGSE0001	<i>Creating opportunity by supporting aspiration and tackling poverty. A transformed council, making best use of resources and with an outward facing culture.</i>
School Governance and training/clerking service	This audit will review school governance and clerking services to provide assurance that the Local Authority's priorities and objectives in relation to school governance are achieved.	15	Audit Needs Analysis and Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Compliance with Academy Conversion Protocols	To review the Council's protocols for Academy Conversion and to provide assurance that the protocols are complied with.	10	Audit Needs Analysis and Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Quality of Care audits	This audit will provide assurance that the quality assurance and review systems over child protection cases are sound and secure.	15	Audit Needs Analysis and Management Request Risk CSD0016	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Prevent strategy	This audit will review the arrangements put in place to discharge the requirements of the Council's Prevent Duty and the effectiveness of the delivery and monitoring of the action plan.	15	Risk Register LPGSE0001	<i>Creating and maintaining a vibrant, successful place.</i>

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b><i>Link with Council's Strategic Plan Themes</i></b>
Management and Monitoring of Leisure Contract	This audit will examine systems for monitoring the Leisure contract to provide assurance that services delivered by the contractor and payments made are in accordance with the newly agreed contract terms and conditions.	15	Audit Need Analysis	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
<b>Total</b>		<b>285</b>		

## Corporate Director - Place

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Fixed Penalty Notices	This audit will review the systems for control and monitoring of Fixed Penalty Notices including officers' delegated to charge, collect and monitor income from FPNs across the Directorate.	15	Audit Needs Analysis	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Licensing of Private Landlords	To review the effectiveness of the arrangements for licensing of private landlords to ensure that licenses are issued in accordance with council procedures and that income is collected and banked intact.	15	Audit Needs Analysis	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Contract Procurement and Monitoring	This audit will review the systems and controls in place for procuring and monitoring contracts to ensure that Council procedures are complied with and that payments to contractors and income received from providers of concessionary services are in accordance with agreed rates and contract conditions.	25	Audit Needs Analysis Management Request	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Waste Collection Contract Monitoring	To review systems and controls for effective monitoring of the waste contract ensuring that Council objectives and priorities are achieved.	20	Management request and Audit Needs Analysis	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Management and control of Markets (street trading)	To review the arrangements for managing and monitoring various aspects of Markets. Scope to be agreed with the Divisional Director, Public Realm.	20	Management Request	<i>Creating and maintaining a vibrant, successful place.</i>
Inspections of Parks	To assess the effectiveness of controls in place for regular inspection of Parks and to carry out the remedial works required.	15	Management Request  Corporate Risk CLSCEI0008	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Lettings	This audit will examine systems, processes and controls for assessing applications for housing needs and allocating dwellings to those in high priority needs in accordance with the Council's Lettings policy and procedures.	20	Management request	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Purchase of Properties outside borough for Homeless	This audit will review the controls put in place for purchasing and operating properties for Homeless outside the Borough.	15	Audit Needs Analysis and Management Request.	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Repairs and Maintenance of Administrative Buildings	We will review systems for identifying, ordering, inspecting, paying and monitoring the reactive and planned repairs and maintenance works to Administrative Buildings of the Council.	15	Audit Needs Analysis	<i>Creating and maintaining a vibrant, successful place.</i>

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Homelessness assessment	This audit will provide assurance that systems and controls for carrying out homelessness assessment are sound and secure.	15	Audit Needs Analysis And Management Request	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Community Building Portfolio Management	To review systems and controls for the management and letting of the Council's Community Building Portfolio to achieve the Council's priorities and objectives.	15	Audit Needs Analysis and Management Request.	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
New Town Hall Building Project	To provide assurance that there are sound and secure project management arrangements in place to manage and monitor various contractual agreements for commissioning and building of the new town hall.	15	Audit Needs Analysis  Corporate Risk DRCPCCD0029	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Handy Persons services	This audit will review the newly restructured Handy persons Service to provide assurance that the service is efficient ,effective and meets Council's objectives.	15	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Governance around Alternative Housing Delivery Options	This will be a review of governance arrangements put in place for the delivery models for providing additional housing.	10	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
<b>Total</b>		<b>230</b>		



## Corporate Director - Resources

	<b>Broad Scope</b>	<b>Audit days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Monitoring of MSG Grant Programme	We will test the system for monitoring the delivery of the 2015-18 MSG grant programme to provide assurance that monitoring visits are effectively carried out and the probity around grant usage is monitored for delivery of projects and for value for money.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Request for Quotation (RFQ) System	This audit will review the controls around the newly implemented RFQ system to ensure that officers comply with the set procedures for procuring works, goods and services under £25,000.	15	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
IR35 - Off-payroll Engagement of Individuals	The IR35 legislation specifically challenges those people who supply their services to Council via their own company, but are not recognised by HMRC, as 'self-employed' and therefore should be taxed s PAYE. This audit will examine controls for identifying individuals who may fall in this category.	10	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Income Maximisation project	This review will provide audit advise and input into the income maximisation project to provide assurance that the project is delivering its key objectives and outputs.	10	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>

	<b>Broad Scope</b>	<b>Audit days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Procurement Compliance	To carry out compliance testing to provide assurance that the Council's Procurement Procedures are fit for purpose and that compliance with procedures are controlled and monitored to achieve the objectives of the Council.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Treasury Management	Annual Review of key financial system	10	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
HR/payroll	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
General Ledger	Annual Review of key financial system	10	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Creditors	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Debtors	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
NNDR	Annual Review of key financial system	10	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>

	<b>Broad Scope</b>	<b>Audit days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Pensions	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Housing and Council Tax Benefit	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Housing Rents	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Council Tax	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Revenue and Capital Budgetary Control	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
<b>Total</b>		<b>225</b>		

## Tower Hamlets Homes

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
New Starters and Leavers	The objective of this audit is to review systems and procedures for controlling new starters and leavers to provide assurance that the controls around new starters and leavers are sound and secure.	15	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Staff Expense Claims	This audit will provide assurance that systems and controls for processing, approving and paying staff expenses are sound and secure.	10	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Temporary Accommodation to Homeless	This review will provide assurance that management and administration processes of the transferred function are sound and secure.	15	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
IR35 - Off-payroll Engagement of Individuals	The IR35 legislation specifically challenges those people who supply their services to Council via their own company, but are not recognised by HMRC, as 'self-employed' and therefore should be taxed s PAYE. This audit will examine controls for identifying individuals who may fall in this category	10	Management Request and Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Management of Housing Disrepairs	This audit will review systems and controls for managing and controlling housing disrepairs.	10	Audit Needs Analysis and Management Request	<i>Creating and maintaining a vibrant, successful place.</i>

<b>Tower Hamlets Homes</b>	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Post Inspections of Major Works	This audit will review systems and controls for planning, identifying, undertaking and reporting the results of the post inspections of works undertaken as part of the Major Works programme.	10	Audit Needs Analysis	<i>Creating and maintaining a vibrant, successful place.</i>
Financial Systems	This audit will review the robustness of key financial systems such as income and expenditure systems, cash flow forecasting, Treasury Management, VAT and reconciliation processes, as part of the annual assurance on the soundness of financial control across THH.	15	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Final Accounts Audit	To carry out final account audits referred to Internal Audit for certification	10	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Follow Up Audits	We will undertake follow up audits to ensure that the agreed internal audit recommendations have been implemented and that the control environment has improved.	15	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Contract Audits	We will review the effectiveness of systems and controls for procuring, managing and monitoring building contracts to ensure effective cost control and programme control.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
<b>Total</b>		<b>130</b>		

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b><i>Link with Council's Strategic Plan Themes</i></b>
<b>Information Technology</b>		<b>100</b>		
<b>Other</b>				
Follow up Audits	We will undertake follow up audits to ensure that the agreed internal audit recommendations have been implemented and that the control environment has improved.	100		<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Management Requests	Contingency set aside to service Management requests during the year.	75		<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Reactive Fraud	Earmarked resource to support the investigation of cases of potential fraud, irregularities, waste of public money and whistle blow inquiries directed to the team.	55		<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Management Time	Provision for management time to direct, control and monitor the work of the team.	50		<i>A transformed council, making best use of resources and with an outward facing culture.</i>
<b>Grand Plan Total</b>		<b>1475</b>		

## Audits to be Considered but not included in the Plan

## Appendix 1.1.

<b>Corporate and Council-wide Reviews</b>	<b>Audit Days</b>	<b>Place Directorate</b>	<b>Audit Days</b>	<b>Governance Directorate</b>	<b>Audit Days</b>
Management of Complaints	15	Control of Public Art, sculptures and valuables	10	Management of FOI requests	10
Scheme of Delegation	15	Display Screen Equipment (DSE) Assessment and Data Quality	10	Management of IT Security breaches and incidents	10
Management of Asbestos and Legionella	15	S 106 Non-financial Obligations	15	Management of Members Enquiries	15
Management of Efficiency Programme	15	LBTH Community Infrastructure Levy	10	Members Allowances and Payments	10
Sickness Management	20	<b>Children's Services Directorate</b>		Members Expense Claims	5
Service Planning	15	Grouped Schools PFI	15		
Management of Mayoral Priorities	15	Pupil Referral Unit	10	<b>Tower Hamlets Homes</b>	
<b>Adults Directorate</b>		Meals on Wheels – Income Collection and Banking	10	Staff Declarations of Interests	15
Day Centres	10	Teachers Pensions - Arrears	10	Management of ICT systems access and control	15
Luncheon Clubs	15	Community Languages	15	Information Security and DPA control	15
Delivery of Substance Misuse services	15	<b>Resources</b>		Policing of ASB	15
Occupation Therapy	15	HB Overpayments and Recovery	10	Management of Conditions Surveys	10
Assessment of Needs	15	Grants Payments System	10	Management of Complaints and Service Failure	15
Court of Protection (receivership)	15	Management and Control of Job Evaluation	10		
Reviews of Care Plans	10	Management of Variable Pay	15		
		Management of Tollgate Reviews	15		

## Governance-based Audit Assessment Methodology

## Appendix 2

### Assessment Categories

The Risk Assessment model takes account four assessment categories to produce a risk index for each auditable area. The auditable area is scored in each category using assessment criteria to gauge the degree of risk or materiality associated with the particular area. The table below summarises the proposed four assessment categories and what each is intended to measure.

Assessment Category		Measure
A	Corporate Importance – Objectives/Priorities	Corporate materiality
B	Corporate Sensitivity – Impact	Reputational materiality
C	Inherent Risk	Inherent vulnerability
D	Control Risk	Control effectiveness

The full definition for each category and the scoring criteria are described below.

### Assessment Process

Assessment was based on professional judgement after careful consideration of the key risks to the authority with the Executive Directors and other key officers, a review of current and previous audit plans and strategic issues facing the authority. The following steps were followed in performing the risk assessment:

Step	Action
1	Select the System and Corporate Controls to be risk assessed, to ensure a clear and unambiguous understanding of the area under review. This is normally called the Auditable Area
2	Select the most appropriate assessment criterion and therefore the score in each assessment category
3	Record the scores.
4	Compute the risk index by reference to the following section

### Calculation of the Audit Risk Index

Internal Audit risk is the product of risk and materiality. In valuing materiality it is appropriate to add the constituent assessments of Corporate Importance and Corporate Sensitivity to generate a Materiality Factor on a scale of 100.



Total Risk is the product of inherent and control risk. For the purposes of simplicity in this model Inherent Risk is assessed on a scale of 5-10 and Control Risk on a scale of 2-10. The minimum Risk Factor is produced by multiplying these components is therefore 10% (2 x 5).

The Audit Risk Index for each auditable area is, therefore, the Materiality Factor multiplied by the Risk Factor.

### Results of the Audit Risk Assessment

The structured list of auditable areas with illustrative assessment scores is recorded and the summarised scores used to give the Risk Factor and Materiality Factor and the resultant Audit Risk Index.

The list of auditable areas is then ranked by reference to the Audit Risk Index and grouped as high, medium or low priority. The top third are considered to be high priority, the next medium priority, and the bottom third low priority.

## Internal Audit Risk Assessment Matrices

A CORPORATE IMPORTANCE This aspect considers the effect on an organisation of any inability to achieve management defined service objectives should the system or process fail. This aspect also takes into account the financial exposure or materiality of the area. The consequential impact, either directly or indirectly, on other systems and processes is also relevant to the assessment. Overall it is a measure of the extent to which the organisation depends on the correct running of the system to achieve its strategic objectives.					
Score	Risk to Department, Corporate and/or Service Objectives		Operational Risk Exposure		Financial Risk Exposure
10	Negligible impact on achievement of service objectives. This would still be achieved with minimum extra cost or inconvenience.	or	Minor inconvenience	or	Under 2% of total operating income or net assets.
20	Service objectives only partially achievable without compensating action being taken or reallocation of resources.	or	Difficult to recover	or	Between 2% and 10% of operating income or net assets.
30	Unable to achieve service objectives without substantial additional costs or time delays or adverse effect on achievement of national targets / performance indicators.	or	Permanent loss of data	or	Between 10% and 30% of operating income or net assets.
40	Unable to achieve service objectives resulting in significant visible impact on service provision such as closure of facilities.	or	Unable to restore system	or	Between 30% and 50% of operating income or net assets.
50	Unable to achieve service objectives, resulting in inability to fulfil corporate obligations.	or	Organisation unable to function	or	Over 50% of total operating income or net assets

## Internal Audit Risk Assessment Matrices

B Corporate Sensitivity This aspect takes into account the sensitivity / confidentiality of the information processed, or service delivered by the system, or decisions influenced by the output. It also assesses any legal and regulatory compliance requirements. The measure should also reflect any management concerns and sensitivities.

Score	Risk to Public Image		Risk of Adverse Publicity		Risk to Accountability		Risk of non-legal Compliance
10	Negligible consequences					or	No regulatory requirements
20	Some public embarrassment but no damage to reputation or standing in the community	or	Information would be of interest to local press			or	Minimal regulatory requirements and limited sensitivity to non-compliance
30	Some public embarrassment leading to limited damage	or	Information would be of interest to local MPs			or	Modest legal and regulatory requirements
40	Loss of credibility and public confidence in the service concerned	or	Incident of interest to National Press	O r	Incident potentially leading to the dismissal or resignation of the responsible functional manager	or	Extensive legal and regulatory requirements with sanctions for non-compliance
50	Highly damaging with immediate impact on public confidence	or	Incident of interest to the Audit Commission, government agencies	O r	Incident potentially leading to the resignation or dismissal of a Chief Officer	or	Possible court enforcement order for non-compliance

## Internal Audit Risk Assessment Matrices

C Inherent Risk This aspect considers the inherent risk of the system, service, process or related assets to error, loss, irregularity, inefficiency, illegality or failure. The particular service sector, nature of operations and the pace of change will also affect the level of inherent risk. Similarly the relative complexity of the system will influence the inherent risk or error. The inherent vulnerability of a system, service or process cannot be altered, only mitigated by the quality of controls considered in section D.

Score	Inherent Risk – Vulnerability		Risk of Error due to System Complexity		Risk resulting from Pace of Change		Risk to Asset Security
5	Low vulnerability		Simple system with low risk of error	or	No changes planned	or	Undesirable low value assets not at risk of fraud or loss
6	Medium or low inherent risk	or		or	Limited changes planned with reasonable timescale		
7	Medium vulnerability	or	Moderately complex system with medium risk of error	or	Moderate level of change over medium term		
8	Medium to high inherent risk	or		or	Significant level of change with restricted timescale		
10	Highly vulnerable	or	Complex system with high risk of error	or	Extensive changes planned with short timescale	or	Highly desirable assets exposed to high risk of fraud or loss

## Internal Audit Risk Assessment Matrices

D Control Risk This aspect assesses the level of control risk based upon the results of past audits of the control environment under review. This aspect also takes into account of the operating history and condition of systems and processes and knowledge of management controls to minimise exposure to risk. CRSA and extensive Control Risk Workshops under the leadership of the Council's Risk Manager could support evaluation.

Score	History of Risk Management Success		Management Risk and Control Environment		Condition of Risk Management Controls
2	No history of control weakness	or	There is effective risk management in place and adequate controls operated by risk-aware management	or	Effective controls and robust attitude to the management of all material risks. Embedded risk management culture
4	No history of significant weakness	or	Good management risk and control environment	or	Stable system with history of reliability and controls. Risk management issued considered regularly.
6	No high risk issues outstanding from the previous audit/investigation/best value/external review	or	No knowledge of management risk and control environment	or	Risk management and system controls not validated.
8	Some significant problems were identified and are known to be outstanding from the previous audit/review	or	Some significant concerns have been expressed by management (through Controls Risk Workshops)	or	Technical health of system of risk management and controls in doubt.
10	Major weaknesses in risk management and controls were identified and are known to be outstanding	or	Major concerns have been expressed by management (through Controls Risk workshops)	or	Obsolete system with history of problems and ineffective control. Little or no work undertaken on risk management.

# Internal Audit Mission and Charter

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**The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organisation.**

**The Mission of LBTH Internal Audit Service is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.**

**The Internal Audit Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards.**

**The Charter will be reviewed annually and presented to the Audit Committee and to Corporate Management Team for final approval.**

## **Purpose**

Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's 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."

Internal audit provides independent and objective assurance to the organisation, its Members, the Corporate Management Team (CMT) and in particular to the Chief Financial Officer to help discharge responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

In addition, the Accounts and Audit Regulations (2011) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council's governance, risk management and internal control systems. Further information around the purpose of Audit is set out in the Council's Financial Regulations (D3) and Financial Procedures (CR4).

## **Authority**

The Internal Audit function has unrestricted access to all Council records and information, both manual and computerised, cash, stores and other Council property or assets it considers necessary to fulfil its responsibilities. Audit may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Council should be set out in the conditions of funding.

The Internal Audit function will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge their responsibilities.

## **Responsibility**

The Council's Head of Internal Audit (The Head of Audit and Risk Management) is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the Audit Committee, on the adequacy and the effectiveness of the internal control system for the whole Council. In order to achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes
- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.
- To provide advice and support to management to enable an effective control environment to be maintained
- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud
- To investigate allegations of fraud, bribery and corruption

Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.

Where appropriate, Internal Audit will undertake audit or consulting work for the benefit of the Council in organisations wholly owned by the Council, such as Tower Hamlets Homes. Internal Audit may also provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

## **Reporting**

The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Strategy and Charter and any amendments to them are reported to the Corporate Management Team (CMT) and the Audit Committee (AC). Both documents must then be presented to these bodies annually.
- The annual Internal Audit Plan is compiled by the Head of Internal Audit taking account of the Council's risk framework and after input from members of CMT. It is then presented to CMT and AC annually for noting and endorsement.
- The internal audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Internal Audit) and the independence of internal audit will be reported annually to the AC. The approach to providing resource is set out in the Internal Audit Strategy.
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to CMT and AC on a quarterly basis.
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the AC.
- Results from internal audit's Quality Assurance and Improvement Programme will be reported to both CMT and the AC.
- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to CMT and the AC and will be included in the annual Head of Internal Audit report. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.



## **Independence**

The Head of Internal Audit (the Head of Audit and Risk Management) has free and unfettered access to the following:

- Chief Financial Officer (Corporate Director, Resources)
- Head of Paid Service
- Chair of the Audit Committee (AC)
- Monitoring Officer
- Any other member of the Corporate Management Team

The independence of the Head of Internal Audit is further safeguarded by ensuring that his annual appraisal is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of the AC contribute to, and/or review the appraisal of the Head of Internal Audit.

All Council and contractor staff in the Governance Service are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the AC. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

## **Due Professional Care**

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- UK Public Sector Internal Audit Standards.
- All Council Policies and Procedures
- All relevant legislation

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. Both the Head of Audit and Risk Management and the Audit Manager are required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

# The Internal Strategy



**This Strategy sets out how the Council's Internal Audit service will be delivered in accordance with the Internal Audit Charter.**

**The Strategy will be reviewed annually and presented to the Audit Committee and to Corporate Management Team for final approval.**

## **Internal Audit Objectives**

Internal Audit will provide independent and objective assurance to the organisation, its Members, the Corporate Management Team (CMT) and in particular to the Corporate Director, Resources to support him in discharging his responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

It is the Council's intention to provide a best practice, cost efficient internal audit service.

## **Internal Audit's Remit**

The internal audit service is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control environment supports and promotes the achievement of the council's objectives.

Under the direction of a suitably qualified and experienced Head of Internal Audit (the Head of Audit and Risk Management), Internal Audit will:

- Provide management and members with an independent, objective assurance and consulting activity designed to add value

and improve the Council's operations.

- Assist the Audit Committee to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered;
- Drive organisational change to improve processes and service performance;
- Work with other internal stakeholders and customers to review and recommend improvements to internal control and governance arrangements in accordance with regulatory and statutory requirements;
- Work closely with other assurance providers to share information and provide a value for money assurance service; and
- Participate in local and national bodies and working groups to influence agendas and developments within the profession.

Internal Audit must ensure that it is not responsible for the agreed design, installation and operation of controls so as to compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice.

### **Service Delivery**

The Service will be delivered by the Council's internal audit team and the Council's strategic internal audit partner (currently Mazars) under the direction of the Council's Head of Internal Audit and Risk Management and supported by the Audit Manager.

To ensure that the benefits of the Internal Audit service are maximised and shared as best practice, Tower Hamlets will participate in the London Audit & Anti-Fraud Partnership to work with other local authorities on a shared service basis. This includes appropriate: resource provision, joint working, audit management & strategy and a range of value added services.

### **Internal Audit Planning**

Audit planning will be undertaken on an annual basis and audit coverage will be based on the following:

- Discussions with the Council's Management Team (CMT) and management
- The Council's Risk Register
- Outputs from other assurance providers
- Requirements as agreed in the joint working protocol with External Audit

The Head of Internal Audit and Risk Management or his deputy will attend all Departmental Management Team meetings as part of the annual planning process to ensure that management views and suggestions are taken into account when producing the audit plan.

The Internal Audit Plan 2017/18 is composed of the following:

- **Risk Based Systems Audit:** Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they operating correctly. The selection of work in this category is driven by Departments' own risk processes and will increasingly include work in areas where the Council services are delivered with other organisations.

Internal Audit planning is already significantly based on the Council's risk register. Internal audit will continue to have a significant role in risk management with audit planning being focused by risk and the results of audit work feeding back into the risk management process.

- **Key Financial Systems:** Audits of the Council's key financial systems where External Audit require annual assurance as part of their external audit work programme.

- **Probity Audit (schools & other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice are confirmed. For schools this includes assessment against the Schools Financial Value Standard.

- **Computer Audit:** The review of ICT infrastructure and associated systems, software and hardware.

- **Contract Audit:** Audits of the Council's procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.

- **Fraud and Ad Hoc Work:** A contingency of audit days are set aside to cover any fraud and irregularity investigations arising during the year and additional work due to changes or issues arising in-year.

- **Knowledge and Insight:** The Head of Audit and Risk Management, in conjunction with the Internal Audit and the Corporate Fraud teams, will use the knowledge and insight gained of the organisation and carry out reviews in specific areas.

### **Follow-up**

Internal Audit will evaluate the Council's progress in implementing audit recommendations against set targets for implementation. Progress will be reported to management and to the Audit Committee on a quarterly basis.

Where progress is unsatisfactory or management fail to provide a satisfactory response to follow up requests, Internal Audit will implement the escalation procedure as agreed with management.

### **Reporting**

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work and in summary to departmental and corporate management on a quarterly basis. Summary reports are also provided to the Audit Committee four times per year. This includes the Head of Internal Audit's annual report which contributes to the assurances underpinning the Annual Governance Statement of the Council.

# The Internal Audit Process

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## **The Pre-Audit Stage**

Based on the audit timetable, which has previously been agreed, Internal Audit Team will give two weeks notice to the appropriate Corporate Director and Service Head (the Audit Owner) of an impending audit review and issue an Audit Brief. The Audit Brief will also detail how the audit relates to the agreed audit plan. The Audit Owner has an opportunity to comment on the Audit Brief and raise any areas of concern.

The Audit Owner will ensure that Internal Audit is provided with a written agreement or otherwise to the Audit Brief within two weeks following the receipt of the draft by the Audit Owner.

## **During the Audit**

At this stage Internal Audit will keep the Auditee informed of key findings found during the course of the audit. Where an officer has not been able to provide information requested, Internal Audit will refer matters to the Audit Owner.

The Auditee will ensure that the auditor is provided with all the resources and facilities, including information requested, to facilitate the smooth progress of the audit, including responding to any auditor enquiries promptly.

## **Post Audit Stage**

Upon conclusion of the audit field work Internal Audit will present a Draft Audit Report to be discussed at the audit exit meeting with the Audit Owner. At the audit exit meeting, the findings will be discussed, along with any recommendations for improvement.

Following the audit exit meeting, LB Tower Hamlets Internal Audit will issue a formal Draft of the Audit Report which includes a Management Action Plan of Recommendations to the Audit Owner within three weeks following the completion of the audit exit meeting.

The Audit Owner has three weeks to respond to the Draft Audit Report by completing the Management Action Plan of Recommendations, including listing responsible officers and proposed completion dates. Upon receipt of the agreed Action Plan, a Final Report will be issued to all parties concerned.

The Audit Owner will then enter the agreed management actions and target dates into the Audit Tracker System, and monitor the progress in implementing the recommendations.

The LB Tower Hamlets Internal Audit will present a Summary of Findings from recently issued Final Audit Reports to the Audit Committee. The Audit Owner will have the opportunity to add a response to the Summary of Findings before this report is presented to the Audit Committee.



# The Monitoring Process

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**Follow-up audits** will be conducted six months after the issue of the Final Report, and a follow up audit report will be issued showing the progress on implementing the agreed recommendations.

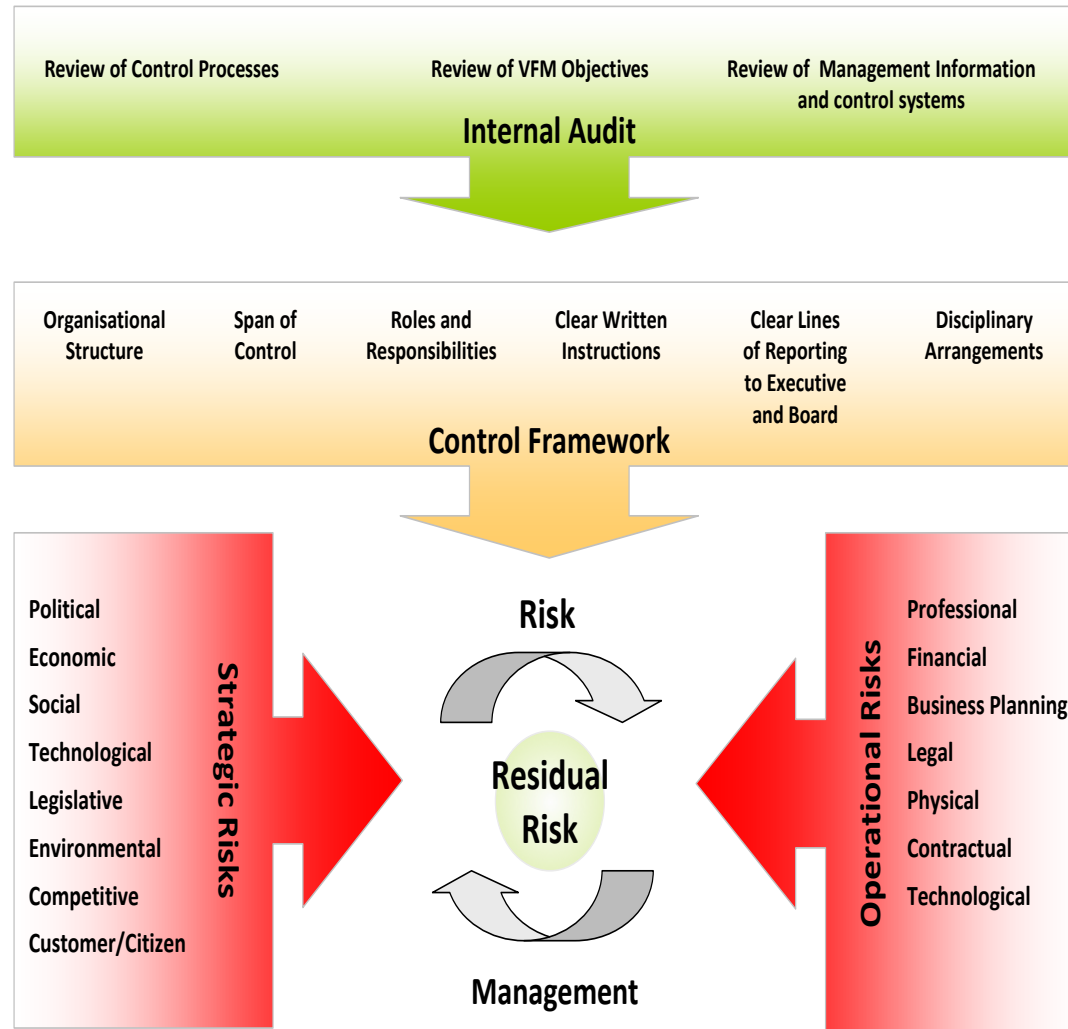
Internal Audit recommendations are classified as follows:

Category 1 – High Priority - 100% of recommendations to be implemented within six months

Category 2 – Medium Priority – 95% of recommendations to be implemented within six months

# Summary

## Appendix 6



**Internal Audit:** Will provide assurance that risk management processes and internal controls are operating effectively, ensure major business risks are being managed effectively, and that governance arrangements are operating effectively.

**Control Framework:** A matrix of control mechanisms will be developed to ensure that every member of staff is aware of their responsibility in managing risk, and a reporting framework will ensure that the Senior Management Team and the Board have a clear view of the effectiveness of the controls in place.

**Risk Management:** The Risk Register will be reviewed on a periodic basis to reassess the residual level of risk for the strategic risks identified in the first year of operation; new risks added as they become evident.

# Risk Management Framework

## Definitions

**Risk** “Any issue which could impact on an organisation’s ability to meet its objectives”

**Risk Management** Risk management is a planned and systematic approach to the identification, analysis and control of risks that challenge and threaten the achievement of the objectives of the organisation. Risk management makes it possible to determine whether the risks pose a large enough threat and the innovations a big enough opportunity, to implement mitigation techniques.

**Objective** Is to implement an effective risk management framework that ensures that risks are identified and managed to an acceptable level and that opportunities are fully exploited, whilst minimising, financial loss, service disruption, bad publicity, reputation loss, claims for compensation and threats to the public and staff.

**Our Policy:** We believe that by managing risks effectively, we at LB of Tower Hamlets will be in a stronger position to deliver our strategic and operational objectives. By taking advantage of opportunities and managing them well, we will be in a better position to improve services and give our stakeholders better value for money.



## **Objectives of Risk Management:**

- Ensure that systems are in place to identify, track and report upon existing and emerging risks that could damage the interest of our business and our stakeholders.
- Ensure that risk management is embedded throughout the organisation, creating an environment where all staff assumes responsibility for managing risk.

## **These Objectives will be Achieved by:**

- Establishing clear roles, responsibilities and reporting lines within the organisation for risk management;
- Providing opportunities for shared learning on risk management across the organisation;
- Developing and maintaining systems for identifying and evaluating all significant risks;
- Developing and maintaining a framework for allocating resources to identified priority risk areas;
- Reinforcing the importance of effective risk management as part of the everyday work of employees by offering training;
- Incorporating risk management considerations into Best Value and service reviews and business planning;
- Put in place review and monitoring arrangements to assess the effectiveness of our mechanisms and arrangements.

**To Emphasise the Organisation's Working Commitment to Risk Management, the Risk Management Mission Statement is as Follows:**

“London Borough of Tower Hamlets recognises that it has a responsibility to manage opportunities and risks in a structured manner in order that LB Tower Hamlets will better achieve its corporate objectives and enhance the value of services it provides to the Community”.

The Audit Committee, Corporate Management Team (CMT) and the Directorate Management Team (DMT) will have overall responsibility for risk management and will be consulted and kept informed as to the progress of the implementation of the strategy on at least an annual basis.

## Roles and Responsibilities

<b>Audit Committee</b>	The Committee's primary role is to review and conclude upon the adequacy and effectiveness of the Council's overall internal control system. In performing this role the Committee's work predominantly focuses upon the framework of risks, controls and related assurances that underpin the delivery of the Council's objectives.
<b>Corporate Management Team</b>	One of the roles of the CMT is to work on a cross-directorate basis to ensure that the Council has an effective risk management arrangement in place to achieve its objectives and to consider quarterly reports on the key strategic risks faced by the Council and how these risks are being managed and mitigated.
<b>Corporate Director of Resources</b>	As S.151 officer, the Corporate Director of Resources is responsible for the proper administration of the financial affairs of the Council. The requirement to have an Internal Audit function derives from S.151 of the Local Government Act 1972. As such the Corporate Director of Resources supports the Council and its departments in ensuring that the arrangements made for financial management, risk management and internal control systems are sound and secure.
<b>Corporate Directors</b>	The Corporate Directors have the operational responsibility for ensuring that there are sound procedures in place at Directorate level for effective financial management, risk management and internal control systems.

## **Risk Management Action Plans**

One of the key risk management objectives is the effective management of the organisation's risks, both strategic and operational. This has been achieved by the sessions to identify and profile the organisation's significant strategic risks.

Once this task has been compiled, SMT and the Audit Committee will be asked to comment on these risks and the risk assessment process. In relation to the operational risks, each Director has facilitated and co-ordinated a similar risk assessment exercise in order that the significant operational risks have been accurately identified profiled and managed. The aim of such a process is that it will eventually form part of each Division's annual business planning process.

Coming out of this process, will be risk management action plans relating to the most serious significant risks, i.e. those where the existing levels of internal control are seen as inadequate. The above assessments (both strategic and operational) will be a yearly process with tracking and monitoring of risks on an annual basis.

The Director of Resources will receive copies of each Division's operational risk management action plans in order that any cross-departmental risks can be picked up and managed accordingly. The Director of Resources will also monitor the risk improvement strategy to ensure that progress is made against the key significant risks.

Similarly, the same risk assessment programme can be adopted when services are going through the Best Value programme. A risk management pack can be included in the Best Value documentation. It is generally accepted that each Directorate must be seen to be managing its risks in order to demonstrate Best Value.

## Classification of Risk

Strategic Risks		Operational Risks	
<p><b>Political</b></p> <p>Wrong strategic priorities Not meeting Government agendas Too slow to innovate/modernise Decisions based on incomplete information Unfulfilled promises to Council Failure to recruit a suitable CEO</p>	<p><b>Economic</b></p> <p>General economic problems Regional economic problems Treasury risk Missed business or service opportunities</p>	<p><b>Professional</b></p> <p>Failure to recruit/retain staff Lack of training Over-reliance on key officers Inefficient management processes Inability to implement change Lack of employee motivation Bad management of partners</p>	<p><b>Financial and business planning</b></p> <p>Failure of major project(s) Failure to prioritise, allocate appropriate budgets and monitor Failure to implement effective partnering contracts for property and estate services</p>
<p><b>Social</b></p> <p>Failing to meet the needs of disadvantaged Impact of demographic changes Employment challenges Lack of development of staff Failures in partnership working</p>	<p><b>Technological</b></p> <p>Obsolescence of technology Security policies Breach of confidentiality Failure in communications</p>	<p><b>Legal</b></p> <p>Not meeting statutory duties Breach of confidentiality/DPA Failure to comply with European Directives on procurement of works, supplies, and services Failure to implement new legislation</p>	<p><b>Physical</b></p> <p>Attacks on personnel Loss of tangible assets Non compliance with health &amp; safety law Loss of physical assets Local and national emergencies</p>
<p><b>Legislative</b></p> <p>Judicial review Human Rights Act breaches Intervention by regulatory bodies Inadequate response to new legislation Poor response to Audit Commission</p>	<p><b>Environmental</b></p> <p>Impact of sustainability policies Noise, contamination and pollution</p>	<p><b>Contractual</b></p> <p>Over-reliance on key suppliers/contractors Failure of outsource provider Quality issues Non-compliance with procurement policies</p>	<p><b>Technological</b></p> <p>Failure of big technology project IT system crashes affect services Breaches of security of network and data Bad management of intranets and websites</p>



<b>Competitive</b> Failure to show best value Failure of bids for government funds	<b>Customer/Citizen</b> Lack of appropriate consultation Bad public and media relations		
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