

<p><i>Non-Executive Report of the:</i></p> <p><b>Audit Committee</b></p> <p><i>29th March 2018</i></p>	 <p><b>TOWER HAMLETS</b></p>
<p><b>Report of:</b> Zena Cooke - Corporate Director - Resources</p>	<p><b>Classification:</b> Unrestricted</p>
<p><b>Internal Audit Plan 2018/19</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 outline of Internal Audit Plan for 2018/19 detailed in Appendix 1. 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. The Council is required under the Accounts and Audit Regulations 2015 to maintain an adequate and effective system of internal audit. This plan demonstrates the planned utilisation and coverage of internal audit resources to discharge this responsibility and conforms to Public Service Internal Audit Standards. The 2018/19 Audit Plan has a planning total of 1260 days for the provision of various audits within the 2018/19 Audit Plan. In addition, Appendix 1.1 identifies other audits which members may wish to consider.
- 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 Governance based audit assessment methodology, Internal Audit Mission and Charter, Internal Audit strategy, Internal Audit Process and Risk Management Framework are attached at Appendices 2 to 8 for information.
- 1.3. The outcomes from the 2018/19 plan will provide those charged with Governance:
- An overall opinion and assurance to support the Annual Governance Statement.
  - Assurance against the mitigation of key Directorate and Corporate risks.
  - Coverage of critical systems of the Council including finance, procurement, contract management and ICT systems.
  - Assurance around best value and efficiency opportunities.

- On-going advice and information on controls to management.
- Follow up on the progress on the implementation of audit issues.

1.4. For 2018/19, the Internal Audit Plan will focus on the following key themes:-

- Assurance around controls for Safeguarding vulnerable Adults, Young People and Children from serious harm and injury.
- Assurance around the delivery of efficiency savings from selected transformation and efficiency programmes and projects.
- Review of key governance arrangements for members and staff.
- Review of the effectiveness over the management of financial, people and other resources.
- Checking on officer compliance with key Council policies, plans and procedures.
- Review of key strategies and priorities of the Council.
- Review of selected services, Procurement projects, Strategic Commissioning and Contract Monitoring arrangements.
- Review of delivery of ICT contract.

## **2. Recommendations**

- 2.1. That the Audit Committee considers the proposed Annual Internal Audit for 2018/19 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.
- 2.2. That Members consider the Internal Audit Mission and Charter at Appendix 3.

### 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 Objectives/Priorities	Importance –	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 an audit partner, which would need to be procured as soon as possible.

Internal Audit Resources 2018/19		Days	Days
In-house	4 auditors @ 195 days	780	
	Management	150	
			930
Audit Partner	Core and ICT Audits	330	330
<b>PLAN TOTAL</b>			<b>1,260</b>

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 DLTs and the CLT. 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 2018/19, the Internal Audit Plan comprises of 1260 days across all directorates. In line with the established protocols, all changes to the agreed 2018/19 plan will be reported to the Audit Committee in December 2018.

	<b>Original plan 2017/18</b>	<b>Revised Plan 2017/18</b>	<b>Audit Plan 2018/19</b>
Corporate systems	115	140	145
Governance	25	15	50
Children's	285	275	230
Health, Adults and Community	85	50	125
Place	230	145	140
Tower Hamlets Homes	130	130	120
Resources	225	240	200
Computer audit	100	100	100
Follow-up, management and reactive fraud provision	280	155	150
<b>Total</b>	<b>1,475</b>	<b>1,250</b>	<b>1260</b>

- 3.7 It should be noted that audits deferred from 2017/18 could be considered subject to resource availability. The reviews planned for Tower Hamlets Homes are subject to further consultation with the THH Executive Management Team.

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

- 4.1. The Internal Audit Service currently has a gross budget of £1.2m. The audit plan detailed within this report will be delivered within this budget. A contingency provision exists to allow for an element of unplanned audit work to be undertaken should that be necessary in response to an urgent issue that would not otherwise be resourced.

## **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 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 consider the Audit Plan and review the performance of Internal Audit against this target. 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.



# London Borough of Tower Hamlets

Risk, Internal Audit and Control – Audit Plan 2018/19

# Contents

---

Context	2
Key Strategic Risks	3
The Role of Internal Audit	5
2018/19 Internal Audit Plan	6
Governance Based Audit Assessment Methodology	Appendix 2
The Internal Audit Charter	Appendix 3
The Internal Audit Strategy	Appendix 4
The Internal Audit Process	Appendix 5
The Monitoring Process	Appendix 6
Summary	Appendix 7
Risk Management Framework	Appendix 8

# Context

---

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 CLT and the Audit Committee and are summarised below. These risks have been referenced within the Audit Plan, where applicable.

<b>Risk Ref..</b>	<b>Risk</b>
<b>ASD0015</b>	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.
<b>ASD0017</b>	Risk that should a major incident take place affecting Council services, there may be a failure to implement an effective response. The risk is increased if there was to be more than one incident at the same time.
<b>CSA0002</b>	Community Unrest.
<b>CSD0016</b>	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.
<b>LPGLS0001</b>	Non-compliance with corporate governance procedures.

Risk Ref..	Risk
<b>RSB0019</b>	Maintaining and strengthening financial viability/balance in 2016/17 to 2017/18.
<b>DRCPCD0022</b>	Failure to have in place a lease extension for Mulberry Place (or alternative temporary office location) one year prior to the end of the current lease (June 2019)
<b>REV0007</b>	Impact on local income from appeals on the new local rating effective from 1/4/17.
<b>CSDSC0004</b>	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.
<b>CSDR0011</b>	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.
<b>CSDSC0005</b>	Loss of resources as a result of a failure to reach target Payment by Results claims, resulting in loss of capacity to deliver the Troubled Families programme. Reputational risk of being the only Local Authority in England to be withdrawn from the programme.
<b>ICT-CT0010</b>	That Agilisys are unable to perform as a strategic supplier with significant and consistent failures to meet SLAs
<b>PLC0013</b>	Following the Grenfell Fire tragedy residents of tower blocks in the borough are not safe or do not feel safe from fire following reassurance, advice, interim measures and completed, in progress or scheduled remedial actions to improve fire safety.

# 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 2018/19 Internal Audit Plan

	<b>Audit Days</b>	<b>Pages</b>
Corporate systems and Council-wide reviews	145	7-8
Corporate Director - Governance	50	9
Corporate Director - Health, Adults and Community	125	10-11
Corporate Director - Children's Services	230	12-13
Corporate Director - Place	140	14-15
Corporate Director - Resources	200	16-18
Tower Hamlets Homes	120	19-20
Information technology audits	100	21
Follow up, management and reactive fraud provision	150	21
<b>Total Provision</b>	<b>1260</b>	-

## Internal Audit Plan 2018/19

### Corporate and Council-Wide Reviews

<b>Audit Title and Type of Audit</b>	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Fire Safety of Council owned buildings <b>Strategic</b>	To provide assurance that the Council's systems for planning, controlling and monitoring of fire safety risks and checks are sound and secure	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Control and Monitoring of Agency Staff <b>Strategic</b>	The Council has procured a new contract for the provision of Agency Staff for temporary resources. This audit will review and test the procedures for controlling and monitoring the new Agency Staff contract with Addeco.	20	Audit needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Management of Security Incidents and Breaches and protocols <b>Compliance</b>	This audit will review the Council's systems and procedures for reporting, logging and investigating security and other incidents.	15	Audit needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
LBTH Corporate Governance <b>Strategic</b>	A review of the Council's overall Corporate Governance Framework to support the Annual Governance Statement.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Delivery of Efficiency Savings <b>Strategic</b>	To provide assurance around the delivery of efficiency savings from selected transformation and efficiency programmes and projects.	15		<i>A transformed council, making best use of resources and with an outward facing culture</i>

<b>Audit Title and Type of Audit</b>	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Infrastructure Delivery Framework <b>Strategic</b>	To provide assurance over the governance and delivery framework for utilisation of CIL and S106 planning obligations monies to ensure that Council's objectives and priorities are met.	20	Management Request and Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture</i>
GDPR Readiness <b>Strategic</b>	This audit will review the Council's implementation of the GDPR requirements providing assurance that the data processes and data governance arrangements are sound and secure.	15	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture</i>
Emergency Planning <b>Strategic</b>	This audit will review the Council's arrangements for planning, testing and responding to Civil Emergencies. The role of the Council and various agencies is defined within the Civil Contingencies Act 2004.	20	Management request and Audit needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture</i>
<b>Total</b>		<b>145</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>
Management of Members' Enquiries <b>Strategic</b>	To provide assurance that members' enquiries are managed and addressed efficiently and effectively in accordance with the established procedures and protocols.	20	Management requests and Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture</i>
Members' Induction and Training <b>Strategic</b>	To provide assurance that Members receive an appropriate level of training and new Members are inducted into the Council to ensure they have the right skills and knowledge to discharge their functions.	15	Audit needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture</i>
Electoral Registration <b>Compliance</b>	To provide assurance that there are sound and secure systems in place for management of electoral registration, new registrations and any subsequent changes.	15	Audit needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture</i>
<b>Total</b>		<b>50</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>
Electronic Home Care System <b>Compliance</b>	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.	15	Audit Needs Analysis	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Contract Monitoring of Commissioned Services <b>Strategic</b>	This audit will examine systems and procedures for monitoring a sample of commissioned services for Adults and Public Health to ensure that providers effectively deliver the services to vulnerable service users, that payments are made in line with the rates set out in the contract and key outcomes are delivered.	20	Audit Needs Analysis  Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Deprivation of Liberty Safeguards <b>Compliance</b>	This audit will review processing of applications, assessments of applications and authorisation of Deprivation of Liberty.	20	Audit Needs Analysis  Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Quality Assurance systems <b>Strategic</b>	To provide assurance over the adequacy of the Quality Assurance systems and framework in place for Adults social care to ensure that it is consistently applied and that any findings from quality reviews are addressed and followed up.	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>
Adults Safeguarding  <b>Strategic</b>	This review will examine the governance arrangements for safeguarding vulnerable adults to ensure that the council has sound and secure policy and procedures for safeguarding vulnerable adults from neglect, harm , abuse and injury.	20	Audit Needs Analysis  Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Rapid Response Team – Service Review  <b>Strategic</b>	The Council's Rapid Response team works in conjunction with internal and external partners in specific geographical locations to decrease crime and antisocial behaviour. This audit will review the governance arrangements of the service to provide assurance that the service achieves the objectives and priorities of the council.	20	Management Request	<i>Creating opportunity by supporting aspiration and tackling poverty. A transformed council, making best use of resources and with an outward facing culture.</i>
FWi – Payment Control  <b>Compliance</b>	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>125</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>
Commissioning and Monitoring of Accommodation for Care Leavers  <b>Strategic</b>	This review will examine policy and procedures for commissioning living accommodation for Care leavers. We will also review the procedures for monitoring of commissioned contracts and for making payments to the providers.	20	Management Request  Risk Register CSD0016	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Contract Audit  <b>Compliance</b>	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.	15	Audit Needs Analysis Corporate Risk	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Schools Probity Audit  <b>Compliance</b>	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.	130	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>
Leisure Services Contract <b>Strategic</b>	To provide assurance that the contract extension has achieved the objectives and priorities of the council and that contract terms and conditions are complied with and monitored	15	Audit Needs Analysis and Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Home Schooling <b>Strategic</b>	We will review the soundness of arrangements for supporting and monitoring the quality of education provided through home schooling.	20	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Troubled Families Grant <b>Strategic</b>	This will be a review of controls to produce Trouble Families pay by result return for grant certification and validation.	15	Management Request Corporate RiskCSDSC0005	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Outdoor Education Provision <b>Strategic</b>	To provide assurance over the governance and management of the outdoor education service transferred from Youth service	15	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 - Place

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Transport Service Review  <b>Strategic</b>	To carry out a service review the governance and operational aspects of the Council's transport services provision.	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>
Enforcement Service Review  <b>Strategic</b>	To carry out a service review of the Council's Enforcement service to ensure that council objectives, priorities and legislative requirements are met.	20	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>
Dangerous Structures  <b>Compliance</b>	This audit will provide assurance over the systems and procedures for managing and monitoring dangerous structures reported to the council by various agencies and members of public.	15	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>

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Repairs and Maintenance of Administrative buildings  <b>Strategic</b>	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.	20	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>
Management of Markets  <b>Strategic</b>	To review the arrangements for managing and monitoring various aspects of Markets. Scope to be agreed with the Divisional Director, Public Realm.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Handy Person's service  <b>Compliance</b>	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>
New Town Hall Building Project  <b>Strategic</b>	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 DRCPCD0022	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Recycling Contract Monitoring  <b>Strategic</b>	To provide assurance around the contract monitoring of the recycling contract.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
<b>Total</b>		<b>140</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>
MSG Grant Programme Follow Up  <b>Strategic</b>	We will follow up the recommendations agreed at the conclusion of the 2017/18 audit.	15	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Income Maximisation project  <b>Strategic</b>	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>
Procurement Compliance  <b>Compliance</b>	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>
Supplier Set Up and Supplier Resilience  <b>Strategic</b>	To provide assurance that due diligence checks including financial stability , insurances arrangements and other regulatory compliance checks are undertaken before engaging with a new supplier. And that during the contract period there are sound systems for assessing and reporting suppliers' resilience to ensure that they can perform the contract as required.	20	Audit Needs Analysis	<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>
Treasury Management <b>Core Financial</b>	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 <b>Core Financial</b>	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>
Tollgate Process <b>Strategic</b>	We will review the soundness of various procurement tollgates to provide assurance that there is an adequate level of scrutiny and challenge over the procurement process.	20	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Creditors <b>Core Financial</b>	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 <b>Core Financial</b>	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>Broad Scope</b>	<b>Audit days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Pensions <b>Core Financial</b>	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 <b>Core Financial</b>	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 <b>Core Financial</b>	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>
ICT Contract Monitoring <b>Strategic</b>	This audit reviewed the arrangements in place for an effective client monitoring of the ICT contract with Agilisys.	15	Audit Needs Analysis Corporate Risk ICT-CT0010	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
<b>Total</b>		<b>200</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>
Right to Buy <b>Compliance</b>	To review the management and administration of Right to Buy process to provide assurance that legislative and other requirements are complied with.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Management of Complaints <b>Strategic</b>	This audit will review the systems and procedures for managing complaints to ensure that the systems are sound and secure and that service failures are addressed.	20	Management Request and Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Management and Control of Security breaches and Incidents <b>Compliance</b>		10	Management Request and Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
THH Governance <b>Strategic</b>	We will review the corporate governance arrangements of the ALMO to ensure that the key components of good governance are in place.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</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>
Financial Systems <b>Core Financial</b>	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>
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 <b>Compliance</b>	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>120</b>		

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</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.	60		<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Management Requests	This is an allocation of days to service management requests for undertaking consultancy related work	40		<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>1260</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	Legal Planning Meetings	20
Management of Asbestos and Legionella	15	S 106 Non-financial Obligations	15	Contract Signing and Sealing	20
Management of Efficiency Programme	15	Planning Decisions and Governance	20	Members Allowances and Payments	10
Sickness Management	20	Licensing of Private Landlords	20	Members Expense Claims	5
Service Planning	15	Fixed Penalty Notices	15	Procurement of Legal advice	15
Management of Mayoral Priorities	15	<b>Children's Services Directorate</b>		<b>Tower Hamlets Homes</b>	
Scheme of Delegation	15	Grouped Schools PFI	25	Staff Declarations of Interests	15
Apprentice Levy	15	Pupil Referral Unit	10	Performance Management	15
Compliance with Prevent Duty	20	Meals on Wheels – Income Collection and Banking	10	Information Security and DPA control	15
Sickness Management	20	Teachers Pensions - Arrears	10	Policing of ASB	15
Efficiency Savings	20	Community Languages	15	Management of Conditions Surveys	10
		Special Education Needs and Disability (SEND)	20	Efficiency savings	10

	<i><b>Audit Days</b></i>		<i><b>Audit Days</b></i>		<i><b>Audit Days</b></i>
<b>Health, Community and Adults Directorate</b>		<b>Resources Directorate</b>			
Day Centres	10	Governance post Re-structure	15		
Luncheon Clubs	15	Business Transformation – Customer Facing	20		
Delivery of Substance Misuse services	15	Grants Payments System	10		
Occupation Therapy	15	Management and Control of Job Evaluation	10		
Brokerage	20	Management of Variable Pay	15		
Assessment of Needs	20	Homeless Income and Arrears	20		
Court of Protection (receivership)	15	General Ledger	10		
Reviews of Care Plans	20	NNDR	10		
Customer Journey	20	Council Tax	15		
		Revenue and Capital Budget Monitoring	15		

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.

<b>Assessment Category</b>		<b>Measure</b>
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:

<b>Step</b>	<b>Action</b>
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

---

**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 Audit 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 audit partner (currently BDO Binder Hamlyn) 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

---

## **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

---

**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.

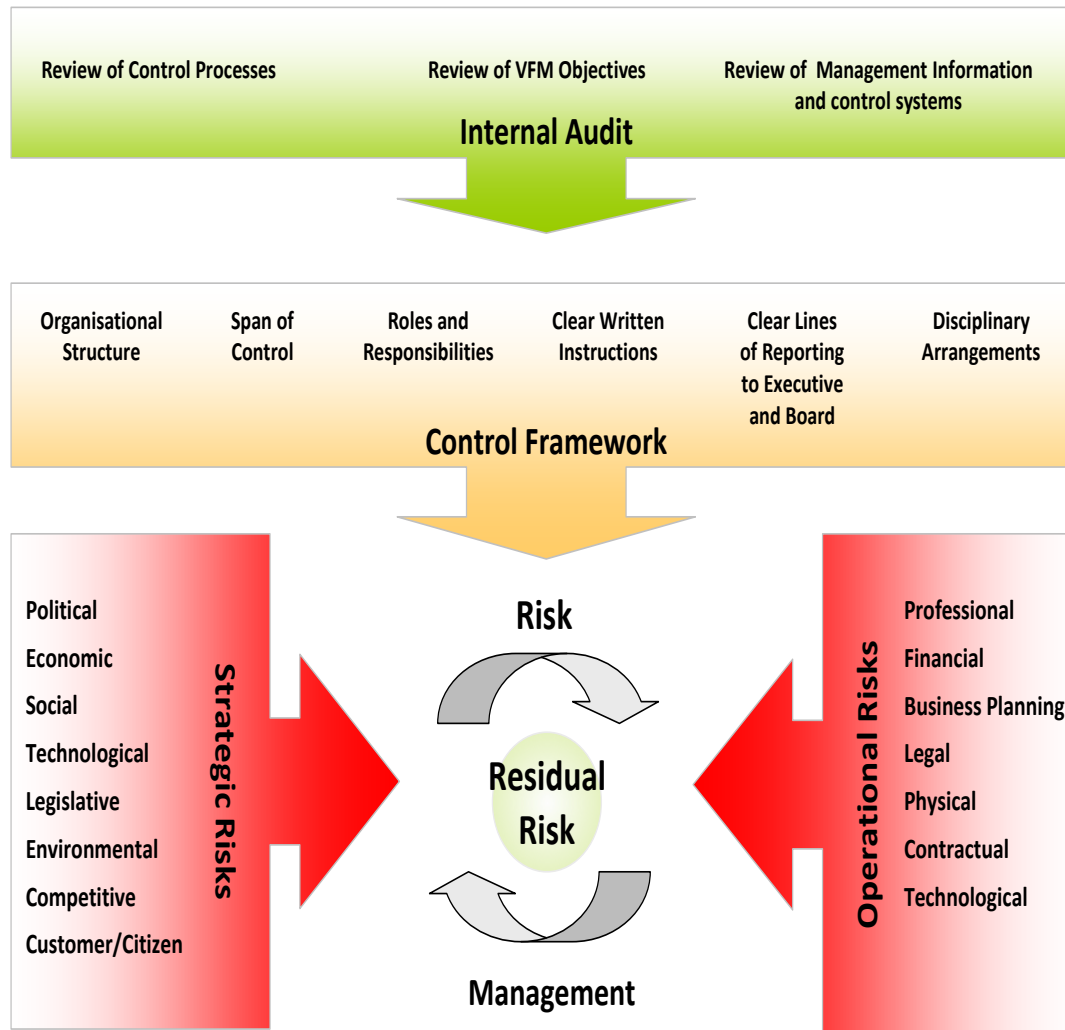
Internal Audit recommendations are classified as follows:

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		
--	---	--	--