

Head of Internal Audit Annual Report 2017/18

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1. Introduction

1.1 The Annual Reporting Process

The Public Sector Internal Audit Standards (Performance Standard 2450) state that the Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual report is required to incorporate the opinion; a summary of the work that supports the opinion and a statement on conformance with the Public Sector Internal Audit Standards and the result of the quality assurance and improvement plan.

2. Chief Internal Auditor Opinion 2017/18

2.1 Performance Standard 2450 states that 'the Chief Audit Executive must deliver an annual audit opinion and report that can be used by the organisation to inform its governance statement'. This must be based on risk management and control and include an evaluation of the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems.

2.2 My opinion is derived from an assessment of the range of individual opinions arising from assignments contained within the risk-based Internal Audit Plan. This assessment has taken account of the relative materiality of these areas, and managements progressing in addressing control weaknesses.

2.3 In 2017/18, the Internal Audit service has operated with an adequate level of resource to deliver an annual audit opinion. This included the engagement of a third party provider to deliver the specialist ICT audit program. Internal Audit operates independent of the organisation and there have been no compromises of Internal Audit's independence in its operation this year.

On the basis of the audit and counter fraud work undertaken during 2017/18 financial year, it is my opinion that I can provide **reasonable assurance** that the authority has adequate systems of internal control and that this has been operating effectively during 2017/18. The internal control environment (including the key financial systems, risk and governance) is in the main well established and operating effectively in practice.

The assurance opinion is considered consistent with the ongoing transformation activities and the continued implementation of the Best Value Improvement Plan actions.

However, no systems of control can provide absolute assurance

against material misstatement or loss, nor can Internal Audit give this assurance.

The level of assurance therefore remains at a similar level as provided for 2016/17.

3. Review of Internal Control

3.1 How Internal Control is Reviewed

- 3.1.1 In order to support the annual Internal Audit opinion on the internal control environment, each year Internal Audit develops a risk-based Audit Plan. This includes a comprehensive range of work to confirm that all assurances provided as part of the system of internal audit can be relied upon by stakeholders.
- 3.1.2 The changing public sector environment and emergence of new risks increasingly necessitates re-evaluation of the audit plan throughout the year. During 2017/18, regular reports have been presented to the Audit Committee to highlight progress made towards the delivery of the audit plan, along with details of any significant amendments to the plan. Whilst there were no significant amendments and number of planned audits were deferred and moved into the 2018/19 audit plan.
- 3.1.3 Each audit review has three key elements. Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables Internal Audit to give an assurance on the control environment.
- 3.1.4 However, controls are not always complied with, which will in itself increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This enables Internal Audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.
- 3.1.5 Finally, where there are significant control environment weaknesses or where key controls are not being complied with, further substantive testing is undertaken to ascertain the impact these control weaknesses are likely to have on the organisations control environment as a whole.
- 3.1.6 Currently a combined assurance opinion is provided at the conclusion of each audit. To ensure consistency in reporting, the following definitions of audit assurance are used:

Control Environment Assurance	
Level	Definition
Full	There is a sound system of control designed to achieve the system objectives and from our testing the controls

	are being consistently applied.
Substantial	While there is basically a sound system there are weaknesses which put some of the control objectives at risk and from our testing there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited	Weaknesses in the system of controls are such as to put the systems objectives at risk and from our testing the level of non-compliance puts the systems objectives at risk.
Nil	Control is generally weak leaving the system open to significant error or abuse and from our testing there were significant non-compliance with basic controls leaves the system open to error or abuse.

3.2 The Basis of Assurance

3.2.1 The findings and assurance levels provided by the reviews undertaken throughout 2017/18 by Internal Audit form the basis of the annual opinion on the adequacy and effectiveness of the control environment.

3.2.2 In 2017/18, the Audit Plan has been based on assurance blocks that each give an opinion on the key control environment elements, targeted towards in-year risks, rather than a more traditional cyclical approach that looks at each system over a number of years. The audit plan is designed to be flexible and reflects the environment in which the public sector operates. This approach further recognises changes to the operating environments of public sectors organisations over the past few years, with more focus on, for example, better assurance, safeguarding and making every penny count.

4. Internal Audit 2017/18

4.1 Overview and Key Findings

4.1.1 This section provides a summary of the audit reviews completed during 2017/18, highlighting any specific areas of concern.

4.1.2 For the reviews undertaken during 2017/18, there were 15 audits completed and previously reported to the Audit Committee as part of the progress update reports, where an assurance opinion of Nil / Limited has been provided. These related to our audits on:

Audit Description	Assurance
Purchase Cards	Limited
Attendance Management, including Annual Leave	Limited
Programme and Project Management	Limited

Members' Interests and Hospitality and Gifts	Limited
Contract Monitoring of Domiciliary Care Services	Limited (Draft)
Care Plans	Limited
Leaving Care Service	Nil
School Governance and Training / Clerking Service	Limited
Child Protection Case Conference Compliance	Limited (Draft)
Playground Inspections – Mile End and Victoria Parks	Limited (Draft)
Waste Collection Contract Monitoring	Limited
Inspection of Parks	Limited
Client Monitoring of ICT Contract	Limited
IT Asset Management	Limited

4.1.3 In each instance where it has been identified that the control environment was not strong enough, or was not complied with sufficiently to prevent risks to the organisation, Internal Audit have obtained agreed management actions to address the weaknesses identified, to improve the system of control and compliance. Where these management actions are considered to have significant impact on the system of internal control, the implementation of actions is followed-up by Internal Audit and is reported to the Audit Committee in accordance with the reporting timetable. An overview of the implementation of actions is summarised in Table 1, below:

Table 1 – Implementation of Agreed Management Actions 2017/18

	High Priority Recommendations	Medium Priority Recommendations
Number of Agreed Management Actions	46	41
Number of Management Actions Implemented	36	30
Number of Management Actions Outstanding	10	11
% Implemented	78%	73%

4.2 Financial and Other Key Systems

4.2.1 This is the 2017/18 suite of annual core system reviews, undertaken to provide assurance to management and External Audit that expected controls are in place for key financial systems; that these controls are adequately designed and are routinely complied with in practice. The work is focused on the systems that have the highest financial risk;

these are agreed in advance with External Audit and assist in providing assurance to External Audit that systems recording transactions within the 2017/18 financial year are free from material misstatement. These reviews also give an opinion as to the effectiveness of financial management procedures and the arrangements to ensure the integrity of accounts.

4.2.2 Audit coverage during the year has provided sufficient evidence to conclude that the key financial control systems are sound and that these controls continue to work well in practice, although there were some areas where improvements, particularly in respect of the Purchase to Pay (Creditors) system have been recommended.

4.2.3 Table 2 below details the assurance levels of all key systems audits undertaken in 2017/18.

Table 2 – Key Financial Systems Audits 2017/18

Key Financial System	Assurance Opinion
Housing Rents	Substantial
Council Tax	Substantial
Payroll	Substantial
General Ledger	Substantial
Debtors	Substantial
NNDR	Substantial
Creditors	Limited

4.3 ICT Audit

4.3.1 During 2017/18 a number of planned specialist ITC based reviews have been delivered. Due to the specialist nature of these audits, these were completed by an external third party organisation (BDO) commissioned to support the delivery of the wider 2017/18 audit plan. The specific reviews completed and the assurance ratings provided are as detailed in Table 3 below:

Table 3 – ICT Audits

Audit Title	Assurance Opinion
ICT Infrastructure	Substantial
IT Governance	Substantial
IT Asset Management	Limited
Cyber Security	Limited (Draft)

4.4 Schools

4.4.1 During 2017/18, 20 schools were subject to an internal audit review. A standard audit program is used to ensure consistency with regards to the scope of review for each school visited. The scope of the reviews cover:

- Operation of Governance Processes;
- Financial Planning and Budgetary Control;
- Control and Monitoring of Schools Bank Account(s);
- Procurement and Expenditure (including Large Single Purchases, Tendering & Value for Money),
- Income Collection and Banking;
- Personnel and Payroll Management;
- School Meals and School Journeys;
- Inventory; and
- Security and Risk Management.

4.4.2 For every school report issued an action plan has been agreed with the school. The implementation of these actions will ensure that the control environment at these schools is improved to an appropriate level. Table 4 below details the schools subject to audit during 2017/18 with the assurance opinion provided.

Table 4 – Schools Audits 2017/18

School Name	Assurance
Bishop Challoner (Girls)	Substantial
Bishop Challoner (Boys)	Substantial
Blue Gate Fields (Infant)	Substantial (Draft)
Cayley	Substantial
Children's House Nursery	Substantial (Draft)
Columbia Market	Substantial
Elizabeth Selby	Substantial
Harry Roberts	Substantial
John Scurr	Limited (Draft)
Langdon Park	Substantial
Lansbury Lawrence	Substantial
Lawdale	Substantial
Malmesbury	Limited (Draft)
Manorfield	Limited (Draft)
Morpeth	Substantial
Oaklands	Limited

Seven Mills	Substantial (Draft)
St Edmund's RC	Substantial
St Paul's (Whitechapel)	Substantial
Virginia	Substantial (Draft)

4.5 Tower Hamlets Homes

- 4.5.1 The Internal Audit team deliver a formal plan of audit activity each as agreed under the current management agreement. Summaries of the audit findings are reported to both the Tower Hamlets Homes Finance and Audit Committee and the LBTH Audit Committee. Table 5 below summaries the audits delivered to THH along with the assurance opinions provided.

Table 5 – Tower Hamlets Homes Audit Program

Audit Description	Assurance Opinion
New Starters and Leavers	Limited
Staff Expense Claims including Purchase Cards	Limited
Management of Housing Disrepairs	Limited
Financial Systems	Substantial (Draft)
Major Works Follow Up	Substantial
Unauthorised Occupancy Follow Up	Substantial
Corporate Health & Safety Follow Up	Substantial

4.6 Anti-Fraud and Corruption

- 4.6.1 There continues to be an increasing high risk of fraud across the public sector. The LBTH Counter Fraud specialists undertakes work on anti-fraud and corruption which includes both reactive and proactive elements, along with a number of initiatives to raise awareness of the council's anti-fraud and corruption culture and to report on the arrangements in place, and pro-active fraud strategy work.
- 4.6.2 During 2017/18, 46 corporate / internal referrals in respect of alleged fraud / or code of conduct breaches against LBTH were received. This included 14 referrals received via the Councils Whistleblowing procedure. Of these, 39 investigations have been completed which includes all whistleblowing referrals.

4.6.3 In addition, 370 referrals were received in respect of suspect social housing fraud matters and 264 referrals in respect of Parking / Blue Badge fraud. The positive outcomes achieved following the investigation of the above matters included the following:

- 54 Social Housing properties recovered
- 28 Right to Buy applications stopped
- 40 Parking Control Notices issued
- 28 Vehicles Removed
- 106 Blue Badges seized
- 32 Resident Parking Permits cancelled

4.6.4 The results of the bi-annual National Fraud Initiative (NFI) data matching exercise were received by the Council in February 2017. The 'potential' fraud matches have been reviewed using the recommended prioritisation filters with the recommended cases included within the referral numbers above. Current preparations for data submission for the 2018 data matching exercise are ongoing. The results of this exercise will be received in January / February 2019.

4.7 Policies and Procedures

4.7.1 During 2017/18, Internal Audit has maintained a focus on review of financial and anti-fraud policies and procedures to ensure that these are up to date; fit for purpose; effectively communicated; routinely complied with across the organisation; monitored and routinely improved. Policies have been subject to ongoing review.

4.7.2 In addition the Audit Charter and Manual was subject to review and presented to the Audit Committee for approval at the March 2018 meeting of the committee.

5.0 Internal Audit Performance and Quality Assurance

5.1 Delivery of the 2017/18 Internal Audit Plan

5.1.1 The London Borough of Tower Hamlets Internal Audit plan was agreed in March 2017 with a target of 90% completion to draft report stage by 30th April 2018.

5.1.2 As at 30th April 2018, 86% of the audit plan was complete to at least draft report stage. It should however be noted that all 2017/18 audits have now been delivered.

5.2 Customer Feedback

- 5.2.1 Continuous development in the quality of the internal audit service remains a key objective. In order to obtain feedback from the organisation, when final reports are issued a 'Customer Satisfaction Survey' form is provided to all officers who receive the report.
- 5.2.2 Respondents are requested to provide an opinion as to the effectiveness of the audit and the relevancy of the audit recommendations provided. However during 2017/18 response rates were low and the relevancy rate the overall satisfaction with regards to audit is difficult to establish. In response, the design of the questionnaire and the methods used to obtain feedback is currently being revised. This action will further address on of the assessment conclusions made within the external assessment as detailed in the section below.

5.3 Compliance with Public Sector Internal Audit Standards

- 5.3.1 During 2017, an external assessment of Internal Audit's compliance with the Public Sector Internal Audit Standards (PSIAS) was undertaken and completed by Kent County Council. The peer assessment concluded that out of the 56 areas of compliance, there were 5 standards where the current internal audit practices were not considered to be consistent with the requirements of the standards.
- 5.3.2 The areas of non-compliance identified within the report specifically relate to the following standards:
1. 1300 Quality Assurance and Improvement Programme (the sum of standards 1310-1320)
 2. 1320 Reporting on the Quality Assurance and Improvement Programme
 3. 1321 Use of Conforms with the International Standards for the Professional Practice of Internal Auditing
 4. 2450 Overall Opinions
 5. 2050 Coordination & Resilience
- 5.3.3 An action plan has been developed to address all points of considered non-compliance, which are in the process of being implemented. Progress against the delivery of the improvement activities will be reported to future meetings of the committee.