London Borough of Tower Hamlets

Risk, Internal Audit and Control Plan: 2013/14

Foreword

The role of internal audit is important in supporting organisations achieve their goals and outcomes. For internal audit to contribute towards the overall goals of the organisation, effective planning of audit activity is essential, whether planned or unplanned. The annual audit plan for 2013-14 is devised using a risk based methodology, and focuses on areas where Tower Hamlets needs to be sure its risks are being properly managed. The plan also recognises the wider role audit has in supporting management, who strive to deliver excellent public services to residents living in, and people working in the borough, by including for example, corporate reviews, value for money, contract and ICT audits. A large part of the annual plan rightly focuses on providing independent assurance over the systems of control for managing risks across the authority. There is also some flexibility within the plan for risks that will arise over the next financial year.

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

Minesh Jani
Head of Risk Management and Audit

Context

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.

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.

CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 defines internal audit as:

"an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources."

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
2013/14 Internal Audit Plan

	Audit Days	Pages
Corporate systems and Council–wide reviews	60	5
Chief Executives'	10	6
Resources	315	7-11
Development and Renewal	115	12-13
Education, Social Care and Wellbeing	275	14-17
Communities, Localities & Culture	105	18-19
Tower Hamlets Homes	135	20-21
Information technology audits	90	22
Follow up, management and reactive fraud provision	300	23
Total Provision	**1405**	

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Corporate systems and Council–wide reviews					
Management and Control of CRB checks	This audit will examine systems for management and control of CRB checks.	H	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council.
Declaration of Staff Interests	This audit will provide assurance over the Council's systems for declaration of staff interests.	H	10	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council.
Review of Timesheet Approval	This will be a general review of processing and approval of timesheets.	M	10	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council.
Management and control of Home Working	We will examine systems and controls over home working arrangements.	H	10	Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council.
Establishment Mapping and Control	The objective is to review the systems for effective management and monitoring of Establishments levels.	H	15	Audit needs Analysis	**One Tower Hamlets.** Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2013/14

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Chief Executive's					
Management of Freedom of Information requests	The objective is to review systems for managing Freedom of Information requests.	H	10	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council.

INTERNAL AUDIT PLAN – 2013/14

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Resources					
In-house Temporary Resources Service	This audit will examine systems and controls over the effective operation of the in-house temporary resources service.	H	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council.
Management of Business Rate Retention Scheme	To provide assurance over the soundness and adequacy of the business rate retention scheme.	H	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council.
Implementation testing of the new Financial Information System	We will carry out a series of tests over the effectiveness of the Agresso Financial system.	H	20	Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Post completion review of the new Financial Information System	This will be a complete post-implementation review of the new financial information system.	H	15	Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council.
Management of Council Tax Support Scheme	To provide assurance of the systems for management and control of the new Council Tax Support system.	H	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council.
Bank Reconciliation	We will examine the arrangements for the bank reconciliation of Council 's various bank accounts.	H	10	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council.
Debtors incl. Recovery and write-offs	This audit is a part of a review of key financial systems to provide assurance to management in preparing the annual statement of accounts and to support the authority's "managed" audit approach.	H	15	Annual Audit	**One Tower Hamlets** Working efficiently and effectively as One Council.
Treasury Management	Review of key financial system.	H	15	Annual Audit	**One Tower Hamlets** Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
HR/payroll	Review of key financial system.	H	15	Annual Audit	**One Tower Hamlets** Working efficiently and effectively as One Council.
General Ledger	Review of key financial system.	H	10	Annual Audit	**One Tower Hamlets** Working efficiently and effectively as One Council.
Budgetary control	Review of key financial system.	H	10	Annual Audit	**One Tower Hamlets** Working efficiently and effectively as One Council.
Creditors/P2P	Review of key financial system.	H	15	Annual Audit	**One Tower Hamlets** Working efficiently and effectively as One Council.
NNDR	Review of key financial system.	H	10	Annual Audit	**One Tower Hamlets** Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Council Tax	Review of key financial system.	H	10	Annual Audit	**One Tower Hamlets** Working efficiently and effectively as One Council.
Capital Programme and Accounting	Review of key financial system.	H	10	Annual Audit	**One Tower Hamlets** Working efficiently and effectively as One Council.
Management of cash and deposit income	Review of key financial system.	H	15	Annual Audit	**One Tower Hamlets** Working efficiently and effectively as One Council.
Pensions	Review of key financial system.	H	10	Annual Audit	**One Tower Hamlets** Working efficiently and effectively as One Council.
Housing and Council Tax Benefit	Review of key financial system.	H	15	Annual Audit	**One Tower Hamlets** Working efficiently and effectively as One Council.
Housing rents	Review of key financial system.	H	10	Annual Audit	**One Tower Hamlets** Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Reconciliation of Feeder systems with GL	Review of key financial system.	H	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council.
HR Improvement - Systems development and advice	This audit will be part of the systems development review and advice.	H	15	Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council.
Recruitment Processes	We will examine controls over pre-recruitment processes.	H	10	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council.
Management of Social Fund	This audit will review the soundness of the administration and control of the new hardship payments managed through the Social Fund.		15	Management Request	**One Tower Hamlets.** Working efficiently and effectively as One Council.
Management and control of Mobile Phones	This review will examine systems and controls for managing mobile phones provided to Council staff.	H	10	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Development and Renewal					
Management and control of Planning Decisions	The objective is to provide assurance over the soundness of systems and controls in place for planning permissions.	H	15	Risk Register DRP0002	**One Tower Hamlets**. Working efficiently and effectively as One Council.
Repairs and maintenance of Administrative buildings	This audit will examine the council's arrangements for managing repairs and maintenance of its administrative buildings.	M	15	Risk Register RSE0002	**One Tower Hamlets.** Working efficiently and effectively as One Council.
Management and Delivery of Homeless Strategy	This audit will examine the council's arrangements for managing and delivering its Homelessness Strategy.	H	15	Risk register DRDH0001	**One Tower Hamlets. Great Place to Live** Working efficiently and effectively as One Council.
Management of Mainstream Grants	This audit will review systems and controls for managing and monitoring the award of mainstream grants to voluntary organisations.	H	15	Management Request	**One Tower Hamlets.** Working efficiently and effectively as One Council.
Development Control	The objective is to provide assurance over the soundness of systems and controls in place for building development control.	H	10	Audit Needs Analysis	**One Tower Hamlets.** Working efficiently and effectively as One Council

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Management of Archiving and Retrieval contract	We will examine the arrangements for managing the archiving and retrieval contract.	M	10	Audit Needs Analysis	**One Tower Hamlets.** Working efficiently and effectively as One Council.
Building Schools for the Future Programme - Post contract	To review post contract systems and controls for the programme.	H	10	Audit Needs Analysis	**One Tower Hamlets.** Working efficiently and effectively as One Council.
Photocopying and Printing contracts	We will examine the arrangements for managing the photocopying and printing contract.	H	15	Audit Needs Analysis	**One Tower Hamlets.** Working efficiently and effectively as One Council.
Management of HRA account and MTFS	To review the management of the HRA account and its Medium Term Financial plan to ensure that financial risks are managed effectively.	M	10	Audit Needs Analysis	**One Tower Hamlets.** Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Education, Social Care and Wellbeing					
Youth Offending team	This will be a review of the management and control around the Youth Offending service.	H	15	Management Request	**A Safe and Supportive Community** Focus on Early Intervention
Emergency Duty Team (Adults and Children's)	This audit will examine systems in place for planning, controlling and managing the work of the Emergency Duty team for Adults and Children's.	H	15	Management Request	**A Safe and Supportive Community** Focus on Early Intervention
Budgetary Control	This review will provide assurance over the effective budgetary control of the newly formed Directorate of Education, Social Care and Welfare.	H	15	Audit Needs Analysis	**One Tower Hamlets.** Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
End of Year School Accounts Reconciliation	This audit will examine systems and controls for end of year reconciliation of school accounts.	H	15	Audit Needs Analysis	**A Prosperous Community** Support lifelong learning opportunities for all.
Excluded Children	We will examine the soundness and adequacy of the Councils' systems and support for excluded children	H	15	Audit Needs Analysis	**A Prosperous Community** Support lifelong learning opportunities for all.
Schools Probity audits	This will be a programme of regularity audits to primary, secondary, special and nursery schools.	H	90	Audit Needs Analysis	**A Prosperous Community** Support lifelong learning opportunities for all.
Management and control of Direct Payments for Adults	This audit will examine systems and controls for managing and monitoring direct payments for social care provision for the Adults.	H	15	Management Request	**A Safe and Supportive Community** Empower Older and Vulnerable People
Review of the Commissioning Lifecycle	We will examine the effectiveness of the commissioning lifecycle for a sample of recent social care contracts let out to a range of providers.	H	20	Audit Needs Analysis	**A Safe and Supportive Community** Empower Older and Vulnerable People

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Management of Panel Decisions	We will examine the effectiveness of the management and control of Panel decisions for Adults social care provision.	H	15	Management Request	**A Safe and Supportive Community** Empower Older and Vulnerable People
Electronic Home Care system	This audit will review the controls over the electronic home care system.	H	15	Audit Needs Analysis	**A Safe and Supportive Community** Empower Older and Vulnerable People
Data Quality of Framework-i	This audit will provide assurance over the Data quality and integrity within the Framework-I systems applications.	H	10	Management Request	**A Safe and Supportive Community** Empower Older and Vulnerable People
Management of Telecare services	This audit will examine systems for effective management of the telecare services.	M	10	Audit Needs Analysis	**A Safe and Supportive Community** Empower Older and Vulnerable People
Management of Domiciliary Care Contracts	We will review contract management of the Domiciliary care contracts.	H	15	Audit Needs Analysis	**A Safe and Supportive Community** Empower Older and Vulnerable People

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Troubled Families Programme	This will be a review of the programme and any other work required by the DCLG around this programme.	H	10	Audit Needs Analysis and Management request	**A Safe and Supportive Community** Empower Older and Vulnerable People

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Communities, Locality and Culture					
Management and control of Horticulture works	This audit will examine systems and controls for managing horticulture works.	H	15	Audit Needs Analysis	**A Great Place to Live** Improve the environment and tackle climate change
Food Inspection and Control	We will review the systems and controls over food safety and inspection process.	H	10	Audit Needs Analysis	**One Tower Hamlets.** Working efficiently and effectively as One Council.
Management of Highways Inspection programme	This audit will review the systems and controls for the highways inspection programme.	H	15	Risk Register TDTA0006	**One Tower Hamlets.** Working efficiently and effectively as One Council.
Leisure Management Contract	We will review the systems and controls for effective monitoring of the leisure management contract.	H	15	Audit Needs Analysis	**One Tower Hamlets.** Working efficiently and effectively as One Council.
Pest Control	The objective of this audit is to examine the systems and procedures for pest control in the borough.	M	10	Audit Needs Analysis	**One Tower Hamlets.** Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Management of Youth Service	We will review the arrangements for delivering an effective and efficient youth service within the council.	H	15	Management Request	**One Tower Hamlets.** Working efficiently and effectively as One Council.
Bulk Rubbish Collection service	This audit will examine systems and controls for managing bulk rubbish clearance within the Council.	M	10	Audit Needs Analysis	**One Tower Hamlets.** Working efficiently and effectively as One Council.
Management of Locality Hubs	The objective of this audit is to provide assurance over the effectiveness of the management and control of locality hubs.	H	15	Management Request	**One Tower Hamlets.** Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Tower Hamlets Homes					
Financial Systems	This annual review will provide assurance over the soundness of the key financial systems in place within THH.	H	10	Risk Register THH FN0003	**One Tower Hamlets.** Working efficiently and effectively as One Council.
S. 20 Major Works Consultation.	This audit will examine the soundness and adequacy of the systems in place for managing the s. 20 consultation process with leaseholders for major works.	H	15	Audit needs analysis.	**One Tower Hamlets.** Working efficiently and effectively as One Council.
Tenancy Successions and Exchanges	This audit will review systems in place for managing and controlling tenancy successions and exchanges.	H	10	Management request	**One Tower Hamlets.** Working efficiently and effectively as One Council
Management of Decent Homes works	To provide assurance that the decent Homes programme for year 3, is sound, secure and achieve key objectives.	H	15	Audit Needs Analysis	**One Tower Hamlets**. Working efficiently and effectively as One Council.

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Final Accounts	This will be audit certification of contractors final account statements.	H	15	Audit Needs Analysis	**One Tower Hamlets**. Working efficiently and effectively as One Council.
Information Governance	We will review the soundness of the arrangements for information governance within THH.	H	10	Risk Register THH CF0015 and THH CG0007	**One Tower Hamlets.** Working efficiently and effectively as One Council.
Management and Control of Planned Maintenance works	This audit will review systems and controls over the management of planned maintenance works on Council residential dwellings.	H	15	Audit Needs Analysis	**One Tower Hamlets**. Working efficiently and effectively as One Council.
Follow Up audits	We will carry out follow up audits to ensure that recommendations made are progressed and implemented.		20	Audit Needs Analysis	**One Tower Hamlets**. Working efficiently and effectively as One Council**.**
Management Requests	To service special requests from THH management to carry out any other high priority work.		25		

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Information Technology Audits	A separate computer audit plan will be devised following the review of the computer audit strategic plan.		90	Audit Needs Analysis	**One Tower Hamlets.** Working efficiently and effectively as One Council

Other

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Follow Up Audits	Follow up review of recommendations raised during 2012/13 audit plan.		100		**One Tower Hamlets**. Working efficiently and effectively as One Council.
Provision for Contract Audits	We will carry our pre-contract, current contract and post contract audits on some key building construction projects.		50		**One Tower Hamlets**. Working efficiently and effectively as One Council
Management Requests	A provision for servicing various management requests for advice and other systems development work.		50		**One Tower Hamlets.** Working efficiently and effectively as One Council.
Reactive Fraud	A provision for work carried out on investigating and reporting upon reported irregularities and fraud.		50		**One Tower Hamlets.** Working efficiently and effectively as One Council.
Management Time	This is a provision for management time to direct, control and monitor the work of the team.		50		**One Tower Hamlets.** Working efficiently and effectively as One Council.

Governance-based Audit Assessment Methodology

Assessment Categories

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

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

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

Assessment Process

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

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

Calculation of the Audit Risk Index

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

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

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

Results of the Audit Risk Assessment

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

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

Internal Audit Risk Assessment Matrices

A CORPORATE IMPORTANCE
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	Or	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	Or	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.

I Internal Audit Strategy

Introduction

What is Internal Audit?

Internal Audit is a review function within an organisation. Essentially it exists to perform the following roles:

ı   review systems of risk management, internal control and governance to ensure that these are sound and effective.

ı   to provide an assurance opinion on the soundness of the organisation's risk management and internal control frameworks.

ı   to add value to the organisation's operational activities by recommending enhancements to systems and identifying potential efficiencies.

Perhaps the most succinct definition of Internal Audit is provided by the Institute of Internal Auditors – UK and Ireland (IIA-UK), as follows:

Internal auditing is 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 Authority's Internal Audit Charter defines the function of Internal Audit, with specific reference to its role within the Authority, in the following way:

Internal Audit is an independent review function established as a service to Members, the Audit Committee and all levels of management. The Internal Audit Service is responsible for the independent assessment of the adequacy and effectiveness of the procedures and controls within systems operating within all of the Council's activities. It also has a responsibility to provide assurance to management that the Authority's risk management and corporate governance arrangements are satisfactory.

Why do we need an Internal Audit Strategy?

An Internal Audit Strategy outlines the means by which Internal Audit seeks to achieve its stated aims and objectives. The strategy is the plan for the effectively delivery of the Internal Audit service.

This document sets out Internal Audit's strategic approach, which should facilitate:

ı   on an annual basis, the provision to the S151 officer of an overall opinion on the Authority's risk management, control and governance, to support the preparation of the Statement of Internal Control;

ı   audit of the Authority' risk management, control and governance processes through periodic audit plans in a way which affords suitable priority to the Authority's objectives and risks;

ı   improvement of the Authority's risk management, control and governance by providing line management with recommendations arising from audit work;

ı   the identification of audit resources required to deliver an audit service which meets the CIPFA Code of Practice 2006 for Internal Audit in Local Government;

ı   effective co-operation with external auditors and other review bodies functioning in the Authority; and

ı   provision of assurance and consultancy services by Internal Audit.

The Role and Purpose of Internal Audit

The role of Internal Audit is to understand the Authority's key risks, and to review and evaluate the adequacy and effectiveness of the systems of internal control, risk management and corporate governance that are in operation at the Council, to ensure that they are sufficient for the purposes of mitigating risk.

It is a statutory requirement for Local Authorities to have an internal audit function, under S151 of the Local Government Act 1972. The Act also stipulates that Internal Audit should have unrestricted access to all information and records retained by the Authority. This enables Internal Audit to comprehensively review, appraise and report on the authority's functions as outlined in the Audit Charter.

Strategic Aims

Internal Audit exists to support the Council in the achievement of its corporate objectives. In particular:

ı   Internal Audit will support the Authority's aim to provide quality public services, by evaluating and reporting on the standard of systems of internal control in Council service areas;

ı   Internal Audit will support the Authority in working to the values set out in its corporate plan by providing the Head of Risk Management, the Director of Resources and the Audit Committee with reports on the extent of compliance with the Authority's Code of Corporate Governance;

ı   Internal Audit will contribute to the delivery of the Authority's community aims through professional audit reviews and effective recommendations for improving systems that support the Council's organisational aims;

ı   Internal Audit will assist the Director of Resources in the discharge of his statutory responsibilities for ensuring the proper administration of the Authority's financial affairs and will contribute to the Authority's aim of maximising and making best use of its financial resources through:

- o Risk based reviews of financial systems;
- o Advice on the adequacy and effectiveness of controls in new and developing systems;
- o Promotion of best practice across the Authority;
- o Advice on the prevention and detection of fraud affecting the Authority and investigation of waste or abuse within the Council systems.

<u>Internal Audit & Risk Management</u>

Risks are potential events or occurrences that may have an adverse effect on the organisation's ability to achieve its objectives. Risk Management is the process of identifying, evaluating and responding to risks in order to mitigate them. Risk Management is not the responsibility of Internal Audit. However, Internal Audit will use the authority's risk management framework to focus its work by concentrating on those areas that are most critical to the authority. Consequently, Internal Audit will review the authority's risk registers on a six monthly basis and where necessary amend the internal audit plan to ensure audit resources are continually focused on areas identified by management where the objectives may not be achieved.

Dimension 4 from the CIPFA/SOLACE report on good governance highlights Risk Management as being an integral part of good governance. Internal Audit will therefore also examine the authority's risk management arrangements annually and in so doing, also fulfil the requirements of the CIPFA Code of Practice 2006 for Internal Audit in Local Government to report formally on the authority's arrangement for Risk Management.

Identifying Audit Coverage

In order to identify the auditable systems and establish the areas of risk or specific importance within the authority, Internal Audit will adopt an approach involving discussion and review of the current position. Information will be gathered by meeting key officers within the authority including Corporate Directors and Finance Managers, the Chief Executive and other key officers within the authority. Internal Audit will also discuss the requirements of the External Auditors and the requirements of the "managed audit" approach to ensure those areas upon which our external auditors would seek to place reliance on the internal audit work are included within the internal audit programme. Details of the "Governance" Based Strategic Planning are attached to this paper for information.

In compiling its work programme, Internal Audit will make use of information available within the authority to identify auditable systems, such as

l   the authority's risk registers, to ensure risks are being managed properly;
l   background information obtained from previous audits and our discussions to date with the authority;
l   experience of issues raised at other public sector organisations after carefully considering key risks to the authority; and
l   current and previous audit plans and strategic issues facing the authority.

For each auditable system, Internal Audit will classify the systems into one of three risk bands according the system's significance to the authority: High (H), Medium (M) or Low (L). It is recognised and appreciated that Internal Audit cannot review all auditable systems within the authority each year as both financial and human resources are limited. Internal Audit will therefore seek to use the resources available to review those auditable systems that are most significant to the authority. Hence, all systems highlighted as being highly significant will always be included within the annual audit plan. A proportion of medium significance audits will also been included in the plan. In deciding which medium-significance auditable system to review, we will use our assessment of the system and discuss with management those areas that will add value. It is highly unlikely the resources will permit the inclusion of auditable units that are of low significance to the authority and therefore these auditable units will feature on the Internal Audit plan unless specifically requested by management.

Delivering the Strategy

The strategic internal audit plan will be compiled annually for each financial year and only comprise those systems due for review in that year. The strategic plan will therefore relate to one financial year and be subject to a formal six monthly review.

Internal audit will primary perform risk based audits, all exceptions to this will require prior agreement from the Head of Risk Management. The risk based approach entails examining the objective of the auditable system, the risks relating to the delivery of those objectives and an assessment of the adequacy and effectiveness of the control framework to achieve the desired objectives.

Audit Reporting

The reporting arrangements for Internal Audit are detailed in the Internal Audit Charter under "Reporting".

Quality

All internal audit work will be subject to rigorous review and quality assurance procedures. This will entail:-

l   planning the scope of the audit to ensure focus on areas of risks and concerns;
l   supervision of audit work by the Audit Managers;
l   a formal review and sign off of the audit report and audit file by the Audit Managers;
l   further formal reviews of all reports and sign off for issue to auditee by the Partnership Manager;
l   obtaining feedback and comments from the auditees and Directors;
l   seeking feedback from the external auditors; and
l   bench marking Internal Audit quality control procedures with other similar organisations.

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.
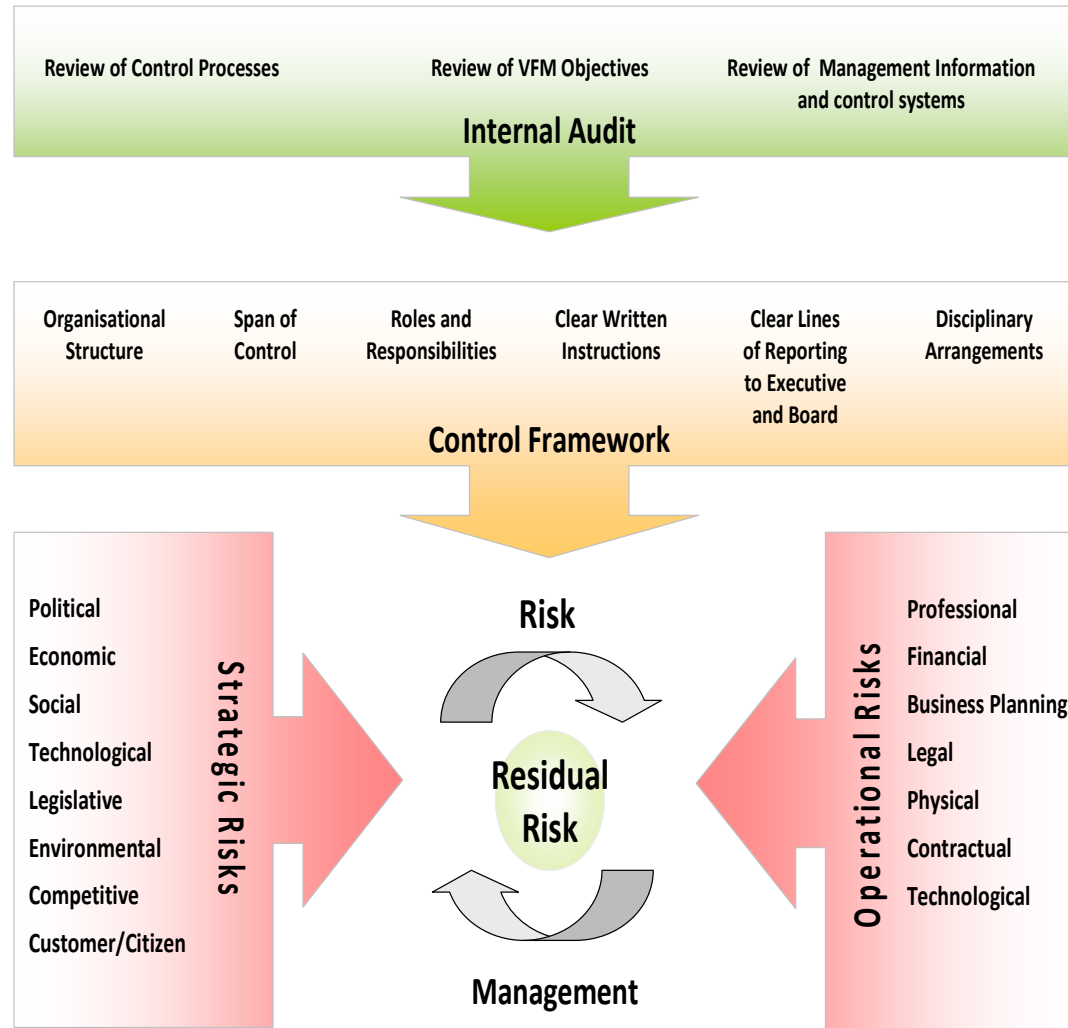
The Monitoring Process

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

Internal Audit

Review of Control Processes	Review of VFM Objectives	Review of Management Information and control systems

Internal Audit

Control Framework

Organisational Structure	Span of Control	Roles and Responsibilities	Clear Written Instructions	Clear Lines of Reporting to Executive and Board	Disciplinary Arrangements

Control Framework

Risk

Strategic Risks

- Political
- Economic
- Social
- Technological
- Legislative
- Environmental
- Competitive
- Customer/Citizen

Operational Risks

- Professional
- Financial
- Business Planning
- Legal
- Physical
- Contractual
- Technological

Residual Risk

Management

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.

Appendix 3: 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

Audit Committee	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.
Corporate Management Team	. 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.
Corporate Director of Resources	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.
Corporate Directors	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	
Political 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	**Economic** General economic problems Regional economic problems Treasury risk Missed business or service opportunities	**Professional** 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	**Financial and business planning** Failure of major project(s) Failure to prioritise, allocate appropriate budgets and monitor Failure to implement effective partnering contracts for property and estate services
Social Failing to meet the needs of disadvantaged Impact of demographic changes Employment challenges Lack of development of staff Failures in partnership working	**Technological** Obsolescence of technology Security policies Breach of confidentiality Failure in communications	**Legal** 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	**Physical** Attacks on personnel Loss of tangible assets Non compliance with health & safety law Loss of physical assets Local and national emergencies
Legislative Judicial review Human Rights Act breaches Intervention by regulatory bodies Inadequate response to new legislation Poor response to Audit Commission	**Environmental** Impact of sustainability policies Noise, contamination and pollution	**Contractual** Over-reliance on key suppliers/contractors Failure of outsource provider Quality issues Non-compliance with procurement policies	**Technological** Failure of big technology project IT system crashes affect services Breaches of security of network and data Bad management of intranets and websites
Competitive Failure to show best value Failure of bids for government funds	**Customer/Citizen** Lack of appropriate consultation Bad public and media relations		