


|   |  |
|---|--|
| Non-Executive Report of the:<br><b>Audit Committee</b><br>8th December 2015 | <br><b>TOWER HAMLETS</b><br><i>Classification:</i><br><i>Unrestricted</i> |
| <b>Report of:</b> Zena Cooke - Corporate Director - Resources               |  |
| <b>Revised Audit Plan</b>   |  |

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

## 1. SUMMARY

- 1.1. This report provides an update of audit activity planned for this financial year and reflects changes made to the original internal audit plan as a result of changing priorities of the authority within the resources available to perform audit work.

## 2. RECOMMENDATIONS

- 2.1 The Audit Committee is asked to note the changes proposed and to endorse the revised 2015/16 internal audit plan attached at Appendix 2.
- 2.2 The Audit Committee is asked to note the resourcing of the audit plan, as detailed at para. 4.1 of this report.

## 3. Background

- 3.1 The original internal audit plan was prepared at the start of the current financial year and was presented to Audit Committee for endorsement in March 2015. The internal audit plan was formulated using the governance model whereby four key areas were assessed for all operations of the Council and prioritised. In developing the internal audit plan for 2015/16, consideration had been given to the matters raised in the PWC report issued in November 2014 and the subsequent directions from DCLG in December 2014, which had the effect of increasing the work of the audit team by 200 days over the 2014/15 internal audit plan.

3.2 In line with the internal audit strategy, the plan has been refreshed and some changes made to the original annual audit plan. The reasons for this are as follows:

- Requests from officers to perform audits that were not originally planned;
- Requests from officers to increase the scope of audits which has resulted in higher allocation of audit days;
- Requests from Chief Officers to defer audits due to service restructuring, other external inspections and changes made to existing systems and the need to allow a period of bedding in;
- Make use of days provided in the original plan that had not been allocated to specific audits.
- To avoid duplication of work with either the external auditor or other assurance provider; and
- Additional commitment to unplanned work.

#### **4. Updated Internal Audit Plan for 2015/16**

4.1 Appendix 1 summarises audits that have been added to or deferred from the original internal audit plan. Audits listed in Appendix 1 which are proposed to be carried forward to 2016/17, could still be scheduled for 2015/16 if resources permit. The summary below shows how the plan has changed from that approved in March 2015.

|  |       |
|--|-------|
| Number of days originally planned  | 1,630 |
| Add: Additional audits added to the plan<br>(Please refer to Appendix 1)                       | 140   |
| Less: Audits to be considered as part of<br>2016/17 Audit Plan<br>(Please refer to Appendix 1) | 74    |
| Less: Use of previously unallocated days<br>to specific audits                                 | 41    |
| Less: Use of reactive fraud allocation   | 25    |
| Number of days per the Revised plan  | 1,630 |

## **5. Comments of the Chief Financial Officer**

- 5.1 The revised audit plan will be delivered through existing resources and there are no financial implications as a consequence of the changes detailed within this report.

## **6. Legal Comments**

- 6.1. 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.
- 6.2. Under sections 15(5) and 15(6) of the Local Government Act 1999 the Secretary of State for Communities and Local Government issued legally enforceable directions in order to ensure that the Council complies with its obligations under part 1 of the Local Government Act 1999. Action 1 to be taken by the Council in respect of the Directions (as stated in Annex A to the Directions) the Council is to agree a plan with the Commissioners to ensure the compliance by the Council with the remainder of the directions. In preparing the Audit Plan, due consideration has been given to the Directions and Best Value Plan presented to the Commissioners.
- 6.3. Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required by Regulation 5 to maintain an effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

## **7. One Tower Hamlets**

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

## **8. Best Value Implications**

- 8.1. The revised plan includes areas where internal control, governance and risk management can be improved to meet the Best Value Duty of the Council.

## **9. Risk Management Implications**

- 9.1. In compiling the original and the revised audit plans, the Council's Corporate and Directorate level risks have been considered. These risks have been programmed for review within the scope of individual audits listed in the plan.

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

- 10.1. There are no specific SAGE implications.

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

- 11.1. By having a sound planning system for a systematic and independent review of the Council's internal controls, governance and risk management, the Council can safeguard against the risk of fraud and abuse of financial resources and assets.

## A Summary of Changes to the Internal Audit Plan – 2015/16

|   | Directorate | No. of days | No. of days  |
|---|-------------|-------------|--------------|
| <b>Original 2015/16 Audit Plan</b>  |             |             | <b>1,630</b> |
| <b><i>Audits Added to the Original Plan</i></b>                                       |             |             |              |
| Election Court Enquiries/Due Diligence  | CORP        | 30          |              |
| Troubled Families Grant Verification  | ESCW        | 15          |              |
| Youth Service Review  | CLC         | 25          |              |
| Ben Jonson School - Investigation   | ESCW        | 20          |              |
| Markets – Management of Vouchers  | CLC         | 15          |              |
| Poplar Mortuary   | CLC         | 15          |              |
| Lettings arrangements   | D&R         | 20          |              |
| <b><i>Sub Total</i></b>   |             |             | <b>140</b>   |
| <b>Less</b>   |             |             |              |
| <b>Audits amended and carried forward to 2016/17 due to additional requests above</b> |             |             |              |
| Council Tax Reduction Scheme  | RES         | 15          |              |
| Mayors' Advisors – Contract Monitoring  | LPG         | 10          |              |
| Community Champions   | CLC         | 10          |              |
| Voids Controls  | THH         | 12          |              |
| Delivery of Economic Benefits   | D&R         | 12          |              |
| Communications Strategy - Compliance  | LPG         | 15          |              |
| Use of Management Request contingency   |             | 41          |              |
| Use of Reactive Fraud provision   |             | 25          |              |
| <b><i>Sub Total</i></b>   |             |             | <b>140</b>   |
| <b>Total Revised Plan</b>   |             |             | <b>1,630</b> |

## Appendix 2



# London Borough of Tower Hamlets

Risk, Internal Audit and Control – Revised Audit Plan

# Contents

|   |            |
|---|------------|
| Foreword                                      | 2          |
| Context                                       | 3          |
| Key Strategic Risks                           | 4          |
| The Role of Internal Audit                    | 6          |
| 2015/16 Internal Audit Plan                   | 7          |
| Governance Based Audit Assessment Methodology | Appendix 2 |
| The Internal Audit Charter                    | Appendix 3 |
| The Internal Audit Process                    | Appendix 4 |
| The Monitoring Process                        | Appendix 5 |
| Summary                                       | Appendix 6 |
| Risk Management Framework                     | Appendix 7 |

# 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 2015/16 is devised using a risk based methodology, and focuses on areas where Tower Hamlets needs to be sure its risks are being properly managed. The plan also recognises the wider role audit has in supporting management, who strive to deliver excellent public services to residents living in, and people working in the borough, by including for example, consultancy audits, corporate reviews, value for money, contract and ICT audits. A large part of the annual plan rightly focuses on providing independent assurance over the systems of control for managing risks across the authority. There is also some flexibility within the plan for risks that will arise over the next financial year.

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

Minesh Jani  
Head of Risk Management and Audit



# Context

---

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 **11 corporate risks** currently facing LBTH which are being monitored by the CMT and the Audit Committee and are summarised below. These risks have been referenced within the Audit Plan, where applicable.

| Risk Ref.. | Risk  |
|------------|---|
| ASD0015    | Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency. |
| DRA0016    | Failure to meet the borough's housing targets.  |
| CSDR0002   | Council's inability to meet demand for school places  |
| CSD0016    | Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency.            |
| LPGCOM0003 | Failure to effectively manage the reputation of the Council.  |
| RSB0019    | Maintaining financial viability /balance in 2016/17 to 2017/18.   |

| No.        | Risk  |
|------------|---|
| PPM0016    | Failure of the Council's supply chain.  |
| LPGSE0001  | Failure to achieve community cohesion, Radicalisation of young people and gangs.  |
| DR0029     | Council is unable to identify a viable exit route from Mulberry Place that ensures staff are decanted by September 2019.                        |
| LPGLS0001  | Non-compliance with corporate governance procedures.  |
| CLSCEI0008 | There is a risk that, should a major incident take place affecting Council services, there may be a failure to implement an effective response. |

# 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 2015/16 Revised Internal Audit Plan

|  | <b>Audit Days</b> | <b>Pages</b> |
|--|-------------------|--------------|
| Corporate systems and Council-wide reviews         | 287               | 8-10         |
| Director of Law, Probity and Governance            | 35                | 11           |
| Adults Services                                    | 80                | 12-13        |
| Children's Services                                | 208               | 14-15        |
| Communities, Localities & Culture                  | 190               | 16-18        |
| Development & Renewal                              | 182               | 19-21        |
| Resources & core financial systems                 | 249               | 22-25        |
| Tower Hamlets Homes                                | 115               | 26-27        |
| Information technology audits                      | 100               | 28-30        |
| Follow up, management and reactive fraud provision | 184               | 30           |
| <b>Total Provision</b>                             | <b>1,630</b>      | -            |

## Internal Audit Plan 2015-16

|                                      | <b>Broad Scope</b>  | <b>Audit Days</b> | <b>Audit Source</b>  | <b>Link with Corporate Priorities</b>  |
|--------------------------------------|---|-------------------|--|--|
| <b>Corporate Audits</b>              |   |                   |  |  |
| Management and Control of Sickness   | This audit will examine controls in place for an effective management and monitoring of sickness absences across the Council.   | 20                | Audit Need Analysis  | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Establishment Control                | We will review systems and processes in place to provide assurance around the effective management of the Council's establishment levels.   | 15                | Audit Need Analysis  | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Transparency Code – Compliance       | This audit will test compliance with various aspects of the Transparency Code to ensure that the Council has a sound system in place for collecting, quality checking and publishing the necessary information. | 12                | Corporate Risk Ref.<br>LPGLS0001<br><br>Management Request | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Management and Control of Taxis/Cabs | This audit will provide assurance over controls in place for controlling and monitoring of the use of taxis and minicabs by staff and members.  | 10                | Audit Need Analysis<br>Corporate Risk Ref.<br>LPGLS0001    | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |

|  | <b>Broad Scope</b>   | <b>Audit Days</b> | <b>Audit Source</b>                                     | <b>Link with Corporate Priorities</b>  |
|--|--|-------------------|---|--|
| Use of Purchase Cards – Compliance Testing                   | This will be compliance testing of how purchase cards are used, controlled and monitored across the Council to provide assurance that the Council's procedures on Purchase cards are followed and complied with.   | 30                | Audit Needs Analysis<br><br>Corporate Risk Ref. PPM0016 | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Procurement Procedures – Compliance audit                    | This will be a detailed testing of how Directorate staff comply with the Council's Procurement procedures to ensure that goods and services are procured, ordered and paid in accordance with the Council's approved procedures.   | 30                | Audit Needs Analysis<br><br>Corporate Risk Ref. PPM0016 | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Control and Monitoring of Best Value Action Plan             | We will provide assurance that the progress of Best Value Action Plan for securing the Council's compliance with its best value duty is controlled and monitored.  | 25                | Audit Needs Analysis and Management Request             | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Regularity Audits of Grant Funded Third Sector organisations | We will carry out probity audits to a sample grant funded organisations to provide assurance that the grant funding is properly used in accordance with the grant conditions and that value for money is secured in the use of public money to achieve the objectives and priorities of the Council. | 100               | Audit Needs Analysis and Management Request             | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |

|  | <b>Broad Scope</b>   | <b>Audit Days</b> | <b>Audit Source</b>   | <b>Link with Corporate Priorities</b>  |
|--|--|-------------------|---|--|
| Control, Monitoring and Reporting of Executive Decisions | This audit will examine the Council's procedures for recording, monitoring and reporting of Executive decisions taken by officers. | 15                | Management request.<br><br>Corporate Risk Ref.<br>LPGLS0001 | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Election Court Enquiries                                 | To carry out due diligence audits on various issues identified by the Commissioners as a result of the Election Court judgement.   | 30                | Management Request  | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| <b>Total</b>   |  | <b>287</b>        |   |  |



| <b>Law, Probity and Governance</b> | <b>Broad Scope</b>  | <b>Audit Days</b> | <b>Audit Source</b>  | <b>Link with Corporate Priorities</b>  |
|------------------------------------|---|-------------------|----------------------|--|
| Contract Signing and Sealing       | To examine procedures for finalising, signing and sealing of legal contracts.   | 10                | Audit Needs Analysis | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Registrar's Office                 | We will examine the systems and controls for income generation initiatives to provide assurance that the new business model is delivered effectively.                                 | 15                | Audit Needs Analysis | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Data Quality                       | This audit will examine a sample of high risk corporate performance indicators identified by the Performance Management team to provide assurance over the accuracy of the indicator. | 10                | Management request   | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| <b>Total</b>                       |   | <b>35</b>         |                      |  |

| <b>Adults Services</b>   | <b>Broad Scope</b>   | <b>Audit Days</b> | <b>Audit Source</b>                                    | <b>Link with Corporate Priorities</b>   |
|--|--|-------------------|--|---|
| Resource Allocation for Individual Budgets for Adults Social Care        | We will review the systems and controls for allocating and approving resources for Individual Budgets to ensure that care plans for individual service users are costed and budgeted correctly and accurately. | 10                | Audit Needs Analysis<br><br>Corporate Risk Re ESW0001. | <b>A Safe and Supportive Community</b><br>Empower Older and Vulnerable People                                 |
| Recovery of Unspent Funds from Individual Budgets for Adults Social Care | We will test the procedures for identifying, monitoring and recovering unspent individual budgets and funds that have been used for activities outside the support plan.                                       | 10                | Audit Needs Analysis                                   | <b>A Safe and Supportive Community</b><br>Empower Older and Vulnerable People.<br>Focus on Early Intervention |
| Financial Safeguarding   | We will undertake sample testing of the effectiveness with which financial safeguarding of vulnerable adults in supported and other accommodation is managed, controlled and monitored.                        | 20                | Audit Needs Analysis                                   | <b>A Safe and Supportive Community</b><br>Empower Older and Vulnerable People.<br>Focus on Early Intervention |

|  | <b>Broad Scope</b>   | <b>Audit Days</b> | <b>Audit Source</b>                                     | <b>Link with Corporate Priorities</b>   |
|--|--|-------------------|---|---|
| Quality of Care Audits   | Review and testing of procedures in place for ensuring that the quality of care received by vulnerable adults from their care providers is to the expected standard of care.       | 15                | Audit Needs Analysis<br><br>Corporate Risk Ref. ESW0001 | <b>A Safe and Supportive Community</b><br>Empower Older and Vulnerable People.<br>Focus on Early Intervention |
| Better Care Fund – Planning and Governance                         | We will review the planning and governance arrangements for delivering an effective system for integrating health and social care services to local people to receive better care. | 10                | Audit Needs Analysis<br><br>Corporate Risk Ref. ESW0001 | <b>A Safe and Supportive Community</b><br>Focus on Early Intervention   |
| Management of the Action Plans resulting from Serious Case Reviews | We will review the robustness of systems in place for implementing and embedding lessons learnt from Serious review Cases.   | 7                 | Audit Needs Analysis<br><br>Corporate Risk Ref. ESW0001 | <b>A Safe and Supportive Community</b><br>Focus on Early Intervention   |
| Management and control of “No Recourse to Public Fund” cases       | We will review the verification framework for controlling and managing cases falling within the terms of “No recourse to Public Funds”, but receiving services from the Council.   | 8                 | Management Request                                      | <b>A Safe and Supportive Community</b><br>Focus on Early Intervention   |
| <b>Total</b>   |  | <b>80</b>         |   |   |

| <b>Children's Services</b>  | <b>Broad Scope</b>  | <b>Audit</b> |   | <b>Broad Scope</b>  |
|---|---|--------------|---|---|
| Contract Management of School Expansions                            | We will select a sample of building works in progress and test the effectiveness of contract management and monitoring to ensure that building works are delivered on time and to the agreed budget.  | 10           | Audit Needs Analysis<br>Corporate Risk Ref. ESWRS0001   | <b>A Prosperous Community</b><br>Support lifelong learning opportunities for all. |
| Management of Missing Children's Register                           | We will review procedures for identifying, recording and monitoring cases of children missing from schools and other establishments.  | 10           | Audit Needs Analysis<br>Corporate Risk Ref. ESW0001     | <b>A Safe and Supportive Community</b><br>Focus on Early Intervention             |
| Management and control of "No Recourse to Public Fund" cases        | We will review the verification framework for controlling and managing cases falling within the terms of "No recourse to Public Funds", but receiving services from the Council.  | 8            | Management Request                                      | <b>A Safe and Supportive Community</b><br>Focus on Early Intervention             |
| Management of the Action Plans resulting from Serious Case Reviews. | We will review the robustness of systems in place for implementing and embedding lessons learnt from Serious review Cases.  | 10           | Audit Needs Analysis<br><br>Corporate Risk Ref. ESW0001 | <b>A Safe and Supportive Community</b><br>Focus on Early Intervention             |
| Schools audits  | The school probity audits will cover areas of Leadership and Governance; Budget Management; Procurement; Income and Expenditure controls; Payroll and Personnel; Asset Management; ICT security and other key areas of business within schools. | 135          | Annual Programme  | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council    |

|                                      | <b>Broad Scope</b>  | <b>Audit Days</b> | <b>Audit Source</b> | <b>Link with Corporate Priorities</b>  |
|--------------------------------------|---|-------------------|---------------------|--|
| Ben Jonson School Investigation      | To carry out the investigation and liaise with the police to assist in their part of the investigation.                           | 20                | Audit Needs         | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Troubled Families Grant Verification | To check and verify the correctness and validity of the Troubled Families Grant before submission of the grant claim for payment. | 15                | Management Request  | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| <b>Total</b>                         |   | <b>208</b>        |                     |  |

|  | <b>Broad Scope</b>   | <b>Audit Days</b> | <b>Audit Source</b>  | <b>Link with Corporate Priorities</b>  |
|--|--|-------------------|----------------------|--|
| <b>Communities, Locality and Culture</b>                     |  |                   |                      |  |
| Control and Monitoring of Education and Development of Staff | This will be an audit of procedures in place for approving, controlling and monitoring of education and development of staff within the Directorate and its services.                              | 10                | Management Request   | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Flare – Data Quality   | We will undertake testing of the Flare system operated by the Health and Housing Team to provide assurance that cases are managed and dealt with efficiently and effectively.                      | 10                | Management Request   | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Licence Applications   | How applications for various licences are managed, including effectiveness of publicity and consultation before granting the licence.  | 15                | Management Request   | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Trading Standards  | We will review the systems and procedures for case management, ensuring that the Council's residents and consumers benefit from the programme of work undertaken by the Trading Standards Service. | 15                | Audit Needs Analysis | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |

|  | <b>Broad Scope</b>  | <b>Audit Days</b> | <b>Audit Source</b>   | <b>Link with Corporate Priorities</b>  |
|--|---|-------------------|---|--|
| Park and Phone Cashless Parking Income | This audit will review systems and procedures for controlling and monitoring the contract for Park and Phone service to ensure that all income due to the council is collected and accounted for efficiently and service provided is compliant with the contract. | 15                | Audit Needs Analysis  | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Tendering for the new Waste Contracts  | We will review and provide advice on the tendering arrangements for the procurement of the new Waste contract.  | 10                | Audit Needs Analysis  | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Highways Contract                      | This audit will test the effectiveness of controls over the ordering, inspecting and paying for planned and responsive Highways Maintenance works undertaken as part of the Measured Term Contract.   | 15                | Audit Needs Analysis  | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Community Language Service             | We will examine systems for governance, recruitment, quality control of teaching and paying for staff to ensure that Council procedures and standards are complied with.  | 15                | Management Request<br><br>Corporate Risk ref.<br>LPGSE0001                      | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Youth Centres – Probity Audits         | This will be probity audit on Youth Centres to provide assurance that the centres are operating within the Council's rules and procedures, and that the service objectives and priorities are achieved economically, efficiently and effectively.                 | 30                | Audit Needs Analysis and Management Request<br>Corporate Risk ref.<br>LPGSE0001 | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |

|  | <b>Broad Scope</b>   | <b>Audit Days</b> | <b>Audit Source</b> | <b>Link with Corporate Priorities</b>  |
|--|--|-------------------|---------------------|--|
| Poplar Mortuary                              | To examine systems and controls for various aspects of the Mortuary management.  | 15                | Management Request  | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Markets – Management of Vouchers for Traders | To examine systems and controls on how vouchers are produced, handled and managed in allocation of pitches to the traders. | 15                | Management request  | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Youth Service Review                         | To carry out a service review to assist the Service Head in achieving the objectives and priorities of the service.        | 25                | Management Request  | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| <b>Total</b>                                 |  | <b>190</b>        |                     |  |



|  | <b>Broad Scope</b>   | <b>Audit Days</b> | <b>Audit Source</b>                          | <b>Link with Corporate Priorities</b>  |
|--|--|-------------------|--|--|
| <b>Development and Renewal</b>               |  |                   |  |  |
| Asset Management                             | This will be a review of systems and controls for management of Council's assets to achieve the key priorities and objectives.   | 15                | Audit Needs Analysis                         | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Temporary Accommodation                      | We will provide assurance over the systems and procedures for placing and paying for homeless families in temporary accommodation including B&B establishments to ensure that the government regulations are complied with and that Council's objectives are achieved. | 20                | Audit Needs Analysis                         | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Monitoring of Faith Buildings Grants         | We will review the systems for monitoring the grants for the Faith Buildings programme to ensure that the funding secures value for money.   | 15                | Audit Needs Analysis and Management Request. | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Management and Monitoring of Emergency Funds | We will review the systems for allocating and monitoring the grants awarded from the Emergency Fund to ensure that the funding is released to organisations meeting the agreed criteria and that it secures the principles of sound probity and value for money.       | 10                | Management Request                           | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |

|   | <b>Broad Scope</b>   | <b>Audit Days</b> | <b>Audit Source</b>                          | <b>Link with Corporate Priorities</b>  |
|---|--|-------------------|--|--|
| Annual Evaluation of Grants Programme                     | This audit will provide assurance that as required by the Council's procedures the various grant programmes and initiatives are evaluated on an annual basis to ensure that they have achieved their objectives effectively and that lessons learnt are cascaded to the next round of the programme. | 10                | Audit Needs Analysis and Management Request. | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Mainstream Grants Programme– Allocation and Assessment    | This work will shadow the new round of the grants programme to provide assurance that grant application, eligibility, assessment and allocation systems achieve best value principles and achieve Council objectives.  | 20                | Audit Needs Analysis and Management Request. | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Repairs and Maintenance of Administrative Buildings       | We will review systems for identifying, ordering, inspecting, paying and monitoring the reactive and planned repairs and maintenance works to Administrative Buildings of the Council.   | 15                | Audit Needs Analysis                         | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Contract Audit  | We will review the effectiveness of systems and controls for managing and monitoring various capital projects delivered by the Capital Delivery group.   | 30                | Audit Needs Analysis and Management Request  | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| London Mayor and LBTH Community Infrastructure Levy (CIL) | We will test the effectiveness of the systems for collecting and paying for the London Mayor's Community Infrastructure Levy. We will use the results of these tests to evaluate the systems proposed for the LBTH CIL.  | 15                | Audit Needs Analysis and Management Request  | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |

|                                    | <b>Broad Scope</b>   | <b>Audit Days</b> | <b>Audit Source</b> | <b>Link with Corporate Priorities</b>  |
|------------------------------------|--|-------------------|---------------------|--|
| Land Acquisitions and transactions | We will review the governance and controls around the Council's land acquisitions programme and land related transactions with developers and other stakeholders to ensure that these are within the Council's powers. | 12                | Audit Needs         | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Lettings arrangements              | This audit will examine systems, processes and controls for the management of lettings.  | 20                |                     |  |
| <b>Total</b>                       |  | <b>182</b>        |                     |  |

| <b>Resources</b>                   | <b>Broad Scope</b>   | <b>Audit days</b> | <b>Audit Source</b>                                     | <b>Link with Corporate Priorities</b>  |
|------------------------------------|--|-------------------|---|--|
| Management of VAT                  | We will review systems and controls for VAT management to ensure that VAT regulations are complied with.   | 15                | Audit Needs Analysis                                    | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Medium Term Financial Plan         | We will test the system for compiling and updating the Council's Medium Term Financial Plan to ensure that the Council's medium term financial planning is sound, secure and resilient.  | 10                | Audit Needs Analysis<br><br>Corporate Risk Ref. RSB0019 | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Management of Efficiency Programme | Review of systems and controls for managing and monitoring the Council's savings programme.  | 20                | Audit Needs Analysis                                    | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Payroll Account Reconciliation     | We will test the soundness of the procedures for payroll account reconciliation to provide assurance that payroll transactions are reconciled with the Council's accounting system.  | 10                | Audit Needs Analysis                                    | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| One Stop Shops – Regularity Audit  | We will undertake planned visits to One Stop Shops to provide assurance that Council's rules and regulations e.g, data security and protection control etc. are complied with in carrying out various front line customer service functions. | 15                | Audit Needs Analysis                                    | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |

|                                      | <b>Broad Scope</b>   | <b>Audit days</b> | <b>Audit Source</b>                          | <b>Link with Corporate Priorities</b>  |
|--------------------------------------|--|-------------------|--|--|
| Processing of Suppliers Credit Notes | We will test the soundness of controls over the timely and accurate processing of Credit Notes received from the Council's suppliers.  | 10                | Audit Needs Analysis                         | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Management of Insurance Claims       | We will provide assurance over the adequacy of systems and procedures for managing various insurance claims received by the Council from residents, tenants, staff and other parties to whom the Council has duty of care. | 10                | Audit Needs Analysis and Management Request. | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Bailiff Contract                     | We will test the effectiveness with which the Bailiff contract is controlled and monitored to ensure that the key deliverables in the contract are monitored and objectives are achieved.                                  | 10                | Audit Needs Analysis.                        | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Treasury Management                  | Annual Review of key financial system  | 10                | Part of Managed Audit approach               | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| HR/payroll                           | Annual Review of key financial system  | 15                | Part of Managed Audit approach               | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |

|   | <b>Broad Scope</b>                    | <b>Audit days</b> | <b>Audit Source</b>            | <b>Link with Corporate Priorities</b>  |
|---|---------------------------------------|-------------------|--------------------------------|--|
| General Ledger                            | Annual Review of key financial system | 10                | Part of Managed Audit approach | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Budgetary control                         | Annual Review of key financial system | 10                | Part of Managed Audit approach | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Creditors                                 | Annual Review of key financial system | 15                | Part of Managed Audit approach | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Debtors                                   | Annual Review of key financial system | 15                | Part of Managed Audit approach | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| NNDR                                      | Annual Review of key financial system | 10                | Part of Managed Audit approach | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Council Tax                               | Annual Review of key financial system | 15                | Part of Managed Audit approach | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Capital Programme and Accounting          | Annual Review of key financial system | 8                 | Part of Managed Audit approach | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Control and Monitoring of cash income C&D | Annual Review of key financial system | 10                | Part of Managed Audit approach | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Pensions                                  | Annual Review of key financial system | 8                 | Part of Managed Audit approach | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Housing and Council Tax Benefit           | Annual Review of key financial system | 15                | Part of Managed Audit approach | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |

|               | <b>Broad Scope</b>                    | <b>Audit days</b> | <b>Audit Source</b>            | <b>Link with Corporate Priorities</b>  |
|---------------|---------------------------------------|-------------------|--------------------------------|--|
| Housing Rents | Annual Review of key financial system | 8                 | Part of Managed Audit approach | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| <b>Total</b>  |                                       | <b>249</b>        |                                |  |

|                                | <b>Broad Scope</b>  | <b>Audit Days</b> | <b>Audit Source</b>  | <b>Link with Corporate Priorities</b>  |
|--------------------------------|---|-------------------|----------------------|--|
| <b>Tower Hamlets Homes</b>     |   |                   |                      |  |
| Major Works                    | We will provide assurance over the systems and controls in place for the correct capturing and identification of major works, undertaking the necessary consultations with Leaseholders, billing, collection, recovery and other key processes. | 15                | Audit Needs Analysis | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Unauthorised Occupancy         | We will review the effectiveness with which unauthorised occupancy is controlled and managed.   | 10                | Audit Needs Analysis | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Corporate Health and Safety    | We will review the various aspects of Health and Safety requirements falling within the remit of the company to provide assurance that the required H&S standards and regulations are complied with and monitored.                              | 10                | Audit Needs Analysis | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Specialist Repairs Contracts   | This audit will review the controls for managing and monitoring the specialist repairs contract for repairs, maintenance and servicing gas installations and equipment.   | 15                | Audit Needs Analysis | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Declaration of Staff Interests | This review will examine systems and controls for managing and monitoring declaration interests by THH staff.   | 7                 | Management Requests  | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |



| <b>Tower Hamlets Homes</b> | <b>Broad Scope</b>   | <b>Audit Days</b> | <b>Audit Source</b>                                     | <b>Link with Corporate Priorities</b>  |
|----------------------------|--|-------------------|---|--|
| Risk Management            | To carry out testing around the effectiveness of risk identification, risk assessment, control identification and management of risks and opportunities.   | 8                 | Audit Needs Analysis                                    | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Management of SLAs         | We will review the systems and controls for effective management of various SLAs the company has entered with LBTH.  | 10                | Audit Needs Analysis                                    | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Bancroft TMO               | This will be a regularity audit of the TMO to provide assurance that the TMO is managed and controlled within the contractual framework and that functions carried out by the TMO are in accordance with Management Agreement. | 10                | Management Request                                      | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| 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                                    | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Contract Audits            | We will review the effectiveness of systems and controls for managing and monitoring various building and maintenance works planned and delivered by the company under the Delegated powers from LBTH.                         | 15                | Audit Needs Analysis<br><br>Corporate Risk Ref. DRA0016 | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| <b>Total</b>               |  | <b>115</b>        |   |  |

|                               | <b>Broad Scope</b>  | <b>Audit Days</b> | <b>Audit Source</b>  | <b>Link with Corporate Priorities</b>  |
|-------------------------------|---|-------------------|----------------------|--|
| <b>Information Technology</b> |   |                   |                      |  |
| Problem Management            | This audit will give assurance over the system of control over processes to identify service issues and the arrangements to mitigate risk of repeat issues. The audit will take account of root cause analysis, evaluation and steps taken to address problem.  | 10                | Audit Needs Analysis | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Backups and Recovery          | The purpose of this audit is to provide assurance that a back and recovery plan is in place to enable the Council to recover data and computer operations from loss of data.  | 10                | Audit Needs Analysis | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| ICT Governance                | This audit will seek to understand how the ICT strategy has been formulated linked to the Council's strategic plan and agreed (acknowledged that the strategy is draft and being finalised). The audit will also seek to understand how the enterprise architecture framework has been set up and whether this is in line with good practice and controls are in place to ensure the architecture aligns with business and IT strategy and delivering value for money.<br>The audit will review governance controls and reporting arrangements to ensure ICT is delivering in line with business expectations, including how customer satisfaction is assessed. | 20                | Audit Needs Analysis | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |

|   | <b>Broad Scope</b>   | <b>Audit Days</b> | <b>Audit Source</b>  | <b>Link with Corporate Priorities</b>  |
|---|--|-------------------|----------------------|--|
| Project Management                            | This audit will examine the arrangements in place for developing and delivering the Council's strategic priorities from change management projects including the methodology for, planning, processing (Council and Agilisys), delivery and Deliverables, and effective management of progress and budgets etc. A sample of projects will be reviewed. | 15                | Audit Needs Analysis | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| ITIL Security Management – ISO 27001          | The audit will examine the arrangements for establishing, implementing, operating, monitoring, reviewing, maintaining and improving a documented information management system. The audit will also examine the IT partner's arrangements for managing its ITIL standards.   | 15                | Audit Needs Analysis | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Web Management and Security                   | The purpose of this audit is to ensure management controls are in place to ensure the Council's internet and e-mail policy is complied, particularly around arrangements to prevent access to inappropriate sites and for regular reporting of web usage.  | 10                | Audit Needs Analysis | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Patch Management – OS (hardware) and software | This audit will review the arrangements in place for Patch management of hardware and software to protect the Council from IT threat.  | 10                | Audit Needs Analysis | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |

|                                      | <b>Broad Scope</b>   | <b>Audit Days</b> | <b>Audit Source</b>  | <b>Link with Corporate Priorities</b>  |
|--------------------------------------|--|-------------------|----------------------|--|
| Threats and vulnerability management | Controls in this area are important to safeguard the Council from cyber risks; in particular, internet based attacks. This audit will review arrangements in place to protect the Council from such threats. | 10                | Audit Needs Analysis | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| <b>Other</b>                         |  | <b>100</b>        |                      |  |
| Follow up Audits                     | We will undertake follow up audits to ensure that the agreed internal audit recommendations have been implemented and that the control environment has improved.   | 100               |                      | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Management Requests                  | Contingency set aside to service Management requests during the year.  | 9                 |                      | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Reactive Fraud                       | Earmarked resource to support the investigation of cases of potential fraud, irregularities, waste of public money and whistle blow inquiries directed to the team.  | 25                | Annual               | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| Management Time                      | Provision for management time to direct, control and monitor the work of the team.   | 50                |                      | <b>One Tower Hamlets</b><br>Working efficiently and effectively as One Council |
| <b>Grand Plan Total</b>              |  | <b>1,630</b>      |                      |  |

## 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 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<br>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<br>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

| <p>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.</p> |  |    |   |    |  |
|---|--|----|---|----|--|
| 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. |

## LONDON BOROUGH OF TOWER HAMLETS

### INTERNAL AUDIT CHARTER

**This 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 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.

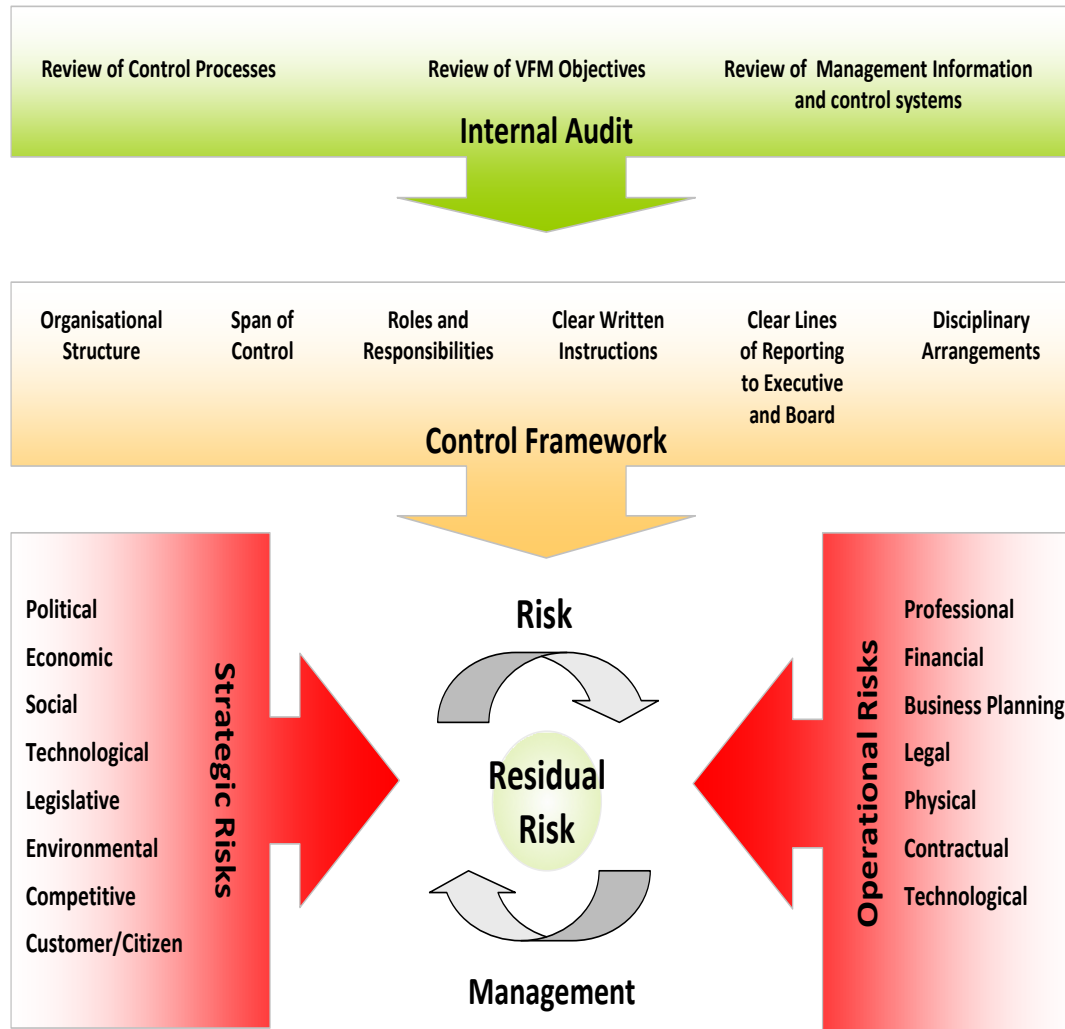
Internal Audit recommendations are classified as follows:

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

Appendix 7

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



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