| REPORT TO:<br>**Audit Committee** | DATE<br>**15 December 2009** | CLASSIFICATION | REPORT NO. | AGENDA NO. |
|---|---|---|---|---|
| REPORT OF:<br>**Corporate Director, Resources**<br><br>ORIGINATING OFFICER(S):<br>*Service Head Risk Management* | | **Revised Internal Audit Plan 2009/10**<br><br><br>**Ward(s) Affected: N/A** | | |

## 1. SUMMARY

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 and the resources available to perform audit work.

## 2. RECOMMENDATIONS

2.1    The Audit Committee is asked to note the contents of this report and to endorse the changes to the 2009/10 internal audit plan.

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**LOCAL GOVERNMENT ACT, 2000 (SECTION 97)**
**LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT**

Brief description of "background papers"

Name and telephone number of holder
And address where open to inspection
*Minesh Jani – 0207 364 0738*

## 3.  Background

3.1     The original internal audit plan was prepared at the start of the current financial year and was presented to the Audit Committee for endorsement in March 2009. The internal audit plan was formulated using the governance model whereby four key areas were assessed for all operations of the Council and prioritised. Details of the governance based Audit Assessment methodology and the Audit Strategy are attached at Appendix 3. The audit plan also made provision for review of key financial systems, proactive fraud work and reactive fraud work.

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;

- 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.

- Provide a vacancy allowance for a post which is currently vacant and to be filled in by April 2010.

## 4.  Updated Internal Audit Plan for 2009/10

4.1     Appendix 1 summarises audits that have been added to or deferred from the original internal audit plan.  Appendix 2 shows the updated internal audit plan following the changes and provides for provision of unallocated days which could be used for specific audits at the request of Directorates, thus retaining some flexibility in the plan.  The summary below shows how the plan has changed.

| | |
|---|---|
| Number of days originally planned | 1,882 |
| Plus: Additional audits added to the plan (Please refer to Appendix 1) | 120 |
| Less: Allocation of days to specific audits | 75 |
| Number of days per the amended plan | 1,927 |

## 5.  Comments of the Chief Financial Officer

5.1    These are contained within the body of this report.

## 6.  Concurrent Report of the Assistant Chief Executive (Legal Services)

6.1    There are no immediate legal implications arising from this report.

## 7.  Equal Opportunity Considerations

7.1    There are no specific Equal Opportunities issues arising from this report.

## 8.  Anti-Poverty Considerations

8.1    There are no specific Anti-Poverty issues arising from this report.

## 9.  Risk Management Implications

9.1    The revised control environment should pick up the areas identified as of concern and reduce the residual risk.

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

10.1   There are no specific SAGE implications.

**A Summary of Changes to the Internal Audit Plan – 2009/10**

| Auditable Area | Directorate | No. of days |
|---|---|---|
| ***Audits Added / Amendments to the Original Plan*** | | |
| Legal Planning Meetings for Child Protection Cases | Assistant Chief Executive | 15 |
| Control and Monitoring of Void Dwellings – Stepney/Wapping | THH | 10 |
| Control and Monitoring of Void Dwelling Keys – Other Housing Areas | THH | 15 |
| Management and control over garages, sheds etc. | THH | 15 |
| Service Charges - Recovery | Resources | 10 |
| Directorate Based Budgetary Control | CLC, D&R and CSF | 30 |
| Pension Fund Investment | Resources | 10 |
| Translation Service | CSF | 15 |
| **Sub Total** | | **120** |
| Management and Monitoring of Local Public Service Agreements | Chief Executive's | 20 |
| Caretaking Services | THH | 15 |
| Use of Unallocated days | CLC | 20 |
| Use of Unallocated days | CSF | 5 |
| Use of Unallocated days | AHW | 15 |
| **Sub Total** | | **75** |

**Revised Audit Plan for 2009/10**

**Appendix 2**

| | Original Audit Days | Revised Audit Days | Pages |
|---|---|---|---|
| Corporate Systems and Council–wide reviews | 150 | 130 | 2-4 |
| Assistant Chief Executive's | 30 | 105 | 5-6 |
| Children's Services | 387 | 407 | 6-9 |
| Communities, Localities & Culture | 120 | 90 | 10-11 |
| Tower Hamlets Homes | 150 | 170 | 12-15 |
| Development & Renewal | 90 | 70 | 15-16 |
| Adult, Health and Wellbeing | 75 | 40 | 17 |
| Resources & core financial systems | 260 | 295 | 18-20 |
| Contract audit | 50 | 50 | 21 |
| Information Technology audits | 130 | 130 | 21 |
| VFM and Pro-active fraud | 70 | 70 | 22 |
| Follow up, management and reactive fraud provision | 370 | 370 | 22 |
| **Total Provision** | **1,882** | **1927** | **-** |

**INTERNAL AUDIT PLAN – 2009/10**

| Auditable System | Broad Scope | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities |
|---|---|---|---|---|---|
| ***Corporate Systems*** | | | | | |
| Management of Climate Change | This audit will review the Council's arrangements for managing climate change and carbon reduction initiatives. | M | 20 | From Audit Needs Analysis and Risk Register | **A Great Place to Live** Improve the environment and tackle climate change. |
| Health and Safety | Following recent changes in the legislative requirements, this audit will seek to provide assurance over the soundness and adequacy of Health and Safety issues at work place. | H | 20 | From Audit Needs Analysis and Risk Register | **One Tower Hamlets** Working efficiently and effectively as One Council. |
| Establishment Controls | This audit will examine the systems for controlling and managing establishment levels within the Corporate Directorates. | H | 20 | From Audit Needs Analysis | **One Tower Hamlets** Working efficiently and effectively as One Council. |

**INTERNAL AUDIT PLAN – 2009/10**

| Auditable System | Broad Scope | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities |
|---|---|---|---|---|---|
| ***Corporate Systems*** | | | | | |
| Debt Management (Council Wide) | This review will examine the arrangements in place for the management of debt holistically across the authority. | H | 20 | Management request | **One Tower Hamlets** Working efficiently and effectively as One Council. |
| Core Management Processes | This review will look to assess how the Council's core processes relating to people are applied in practice such as induction, PDRs, training and development. | H | 15 | Management request | **One Tower Hamlets** Working efficiently and effectively as One Council. |

**INTERNAL AUDIT PLAN – 2009/10**

| Auditable System | Broad Scope | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities |
|---|---|---|---|---|---|
| ***Corporate Systems*** | | | | | |
| Risk Management | The Council's risk management arrangements are an important part of its Assurance Framework. This audit will review and report upon the soundness of arrangements in place for identifying, assessing and managing key risks to the Council at Strategic, Directorate and also at Service level. | H | 20 | From Audit Needs Analysis | **One Tower Hamlets** Working efficiently and effectively as One Council. |
| Contract management and monitoring | This review will examine the Council's arrangements for ensuring sound contract management and monitoring across all Directorates. | H | 15 | From Audit Needs Analysis | **One Tower Hamlets** Working efficiently and effectively as One Council. |

**INTERNAL AUDIT PLAN – 2009/10**

| Auditable System | Broad Scope | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities |
|---|---|---|---|---|---|
| *Assistant Chief Executive's* | | | | | |
| Members Allowances | This audit will examine systems for managing and controlling allowances to the members of the Council. | M | 15 | From Audit Needs Analysis | **One Tower Hamlets** Working efficiently and effectively as One Council. |
| Legal Planning Meetings | This review will examine systems and controls in place for legal planning meetings for child protection cases | M | 15 | Management Request | **One Tower Hamlets** Working efficiently and effectively as One Council. |
| Charges on Property | This audit will review the Council's arrangements for putting charges on property to ensure that where debt recovery or other enforcement actions have failed, the income due to the Council is appropriately secured. | M | 15 | From Audit Needs Analysis | **One Tower Hamlets** Working efficiently and effectively as One Council. |
| Commissioning Approach to Mainstream Grants | We will review the systems and procedures for commissioning services from the third sector organisations using the Council's | M | 20 | From Audit Needs Analysis | **One Tower Hamlets** Working efficiently and effectively as One Council. |

| Auditable System | Broad Scope | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities |
|---|---|---|---|---|---|
| Management of Working Neighbourhood Fund | The scope of this audit will be to review systems in place for managing and monitoring the WN funding. | H | 20 | Audit Needs Analysis and Management request | **One Tower Hamlets** Working efficiently and effectively as One Council |
| Local Area Agreements | This audit will review the arrangements for ensuring that arrangements for delivering the key targets and outcomes of LAA .are sound and secure. | H | 20 | Audit Needs 6-Analysis | **One Tower Hamlets** Working efficiently and effectively as One Council. |
| **_Children, Schools and Family_** | | | | | |
| Building Schools for the Future | The scope of this audit would be to review the procurement arrangements for the wave 5 of secondary schools BSF initiative and primary Schools Capital programme.<br><br>A current contract audit will be carried out on the building works at the two sample schools in the BSF programme. | H | 25 | Risk registers CS17 and CS18 and Audit Needs analysis. | **One Tower Hamlets** Working efficiently and effectively as One Council.<br><br>**A Prosperous Community** Support lifelong learning opportunities for all. |

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| Auditable System | Broad Scope | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities |
|---|---|---|---|---|---|
| Common Assessment Framework | The objective of this audit will be to examine systems for managing and controlling the implementation of the CAF. | H | 20 | Risk registers CS20 and Audit Needs analysis. | **A Safe and Supportive Community.** Empower vulnerable people and support families. |
| ContactPoint Implementation and Accreditation | The implementation and use of the ContactPoint system requires accreditation checks by Internal Audit. This audit will provide assurance to the national CP team and the DCFS that arrangements made by LBTH are sound and secure. | H | 15 | Risk register and Audit Needs analysis. | **A Safe and Supportive Community.** Empower vulnerable people and families. |
| Social Care Commissioning and Client Monitoring | This audit will review the systems in place for commissioning and monitoring social care services for children managed by the Strategy, Policy and Partnerships service of the Directorate. | H | 20 | Management request and Audit Needs analysis. | **A Safe and Supportive Community.** Empower vulnerable people and support families. **One Tower Hamlets** Working efficiently and effectively as One Council |

**INTERNAL AUDIT PLAN – 2009/10**

| Auditable System | Broad Scope | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities |
|---|---|---|---|---|---|
| Schools' Regularity Audit | School visits are undertaken using a risk based approach to review mainly the arrangements for school governance, budget planning and control, accounting and financial control, purchasing, personnel/payroll administration and control, IT Security and asset management. | H | 224 | From Audit Needs Assessment | **A Prosperous Community**<br><br>Support lifelong learning opportunities for all.<br><br>**One Tower Hamlets**<br><br>Working efficiently and effectively as One Council |
| Financial Management Standards for Primary and Secondary Schools | The DCFS's guidance requires bigger primary schools to demonstrate good financial management arrangements by 31/03/2010. The S151 officer will need to show that the standards set by the DCFS have been met, or an action plan is in place to meet the standards. We plan to visit the respective number of primary schools during the year and integrate the DCFS's financial management standards into our audit programme for schools. | H | 68 | DCFS regulation on financial management standards at schools in line with the DCFS toolkit. | **A Prosperous Community**<br><br>Support lifelong learning opportunities for all.<br><br>**One Tower Hamlets**<br><br>Working efficiently and effectively as One Council. |

**INTERNAL AUDIT PLAN – 2009/10**

| Auditable System | Broad Scope | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities |
|---|---|---|---|---|---|
| Management and control of surplus balances | This audit will seek to provide assurance on the systems and procedures for managing, controlling and monitoring schools surplus balances. | H | 10 | Management request and audit needs analysis | **A Prosperous Community**<br>Support lifelong learning opportunities for all.<br><br>**One Tower Hamlets**<br>Working efficiently and effectively as One Council. |
| Translation service | This audit will examine the management of translation service | M | 15 | Management Request | **A Prosperous Community**<br>Support lifelong learning opportunities for all. |
| Budgetary Control | This audit will review systems for budget setting and budgetary control | M | 10 | Audit Needs Analysis and External Audit requirement as key financial system | **One Tower Hamlets**<br>Working efficiently and effectively as One Council. |

## Communities. *Localities and Culture*

| Audit Name | Broad Scope | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities |
|---|---|---|---|---|---|
| Recycling of household waste contract monitoring | Our scope for this audit will include Council's arrangements for managing and monitoring the recycling contracts. | H | 20 | Risk register and Audit Needs Assessment | **A Great Place to Live** Improve the environment and tackle climate change. |
| ASBO Management and enforcement | The scope of this review will include the Council's systems for managing and enforcing Anti-Social Behaviour Orders. | M | 20 | Risk register and Audit Needs analysis. | **A Safe and Supportive Community.** Empower vulnerable people and support families. Tackle and Prevent Crime. |
| Governance of Tower Hamlets Partnership | This audit will examine the system of governance to regulate the business of the LBTH strategic partnership. | H | 20 | Risk register H1 / H2 and Audit Needs analysis. | **One Tower Hamlets** Working efficiently and effectively as One Council. |

| Audit Name | Broad Scope | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities |
|---|---|---|---|---|---|
| Management of Highways works | The systems and procedures for managing and controlling repairs and maintenance works to highways and footways will be examined during this audit. | M | 20 | Audit Needs analysis | **One Tower Hamlets** Working efficiently and effectively as One Council. |
| Budgetary Control | This audit will review systems for budget setting and budgetary control | M | 10 | Audit Needs Analysis and External Audit requirement as key financial system | **One Tower Hamlets** Working efficiently and effectively as One Council. |

## Tower Hamlets Homes

| | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities |
|---|---|---|---|---|
| **Financial Systems**<br>This review will provide assurance on the soundness and adequacy of the company's financial systems and procedures. This will include systems for treasury management, VAT, accounting, Bank Reconciliation, Creditors, Payroll etc. | H | 20 | Audit Needs analysis risk register | **One Tower Hamlets**<br>Working efficiently and effectively as One Council. |
| **Performance Management**<br>This audit will seek to provide assurance that systems and procedures in place for performance management are sound, secure and are complied with. | H | 15 | Audit Needs analysis risk register | **One Tower Hamlets**<br>Working efficiently and effectively as One Council. |
| **Budgetary Control**<br>Systems for planning controlling and monitoring budgets will be examined in this audit. | H | 15 | Audit Needs analysis risk register | **One Tower Hamlets**<br>Working efficiently and effectively as One Council. |

| _Tower Hamlets Homes_ | | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities |
|---|---|---|---|---|---|
| Management and control of Keys to void dwellings – Stepney Wapping | This audit will examine systems for managing decants and keys control for void dwellings in Ocean Estate. | H | 10 | Management Request | **One Tower Hamlets** Working efficiently and effectively as One Council. |
| Management and control of Keys to void dwellings – other Housing Areas | This audit will examine systems for keys control for void dwellings in other housing areas. | H | 15 | Management Request | **One Tower Hamlets** Working efficiently and effectively as One Council. |
| Management of garages, sheds etc. | This audit will examine systems and controls for managing and monitoring garages and sheds in all Housing areas | H | 15 | Management request | **One Tower Hamlets** Working efficiently and effectively as One Council. |
| Strategic Management of SLAs | This audit will examine the soundness and adequacy of systems for managing and monitoring SLAs for various services. | M | 10 | Audit Needs analysis risk register | **One Tower Hamlets** Working efficiently and effectively as One Council. |

| **Tower Hamlets Homes** | | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities |
|---|---|---|---|---|---|
| Systems Development work | The objective of this work will be to advise management on procedures and controls during the systems development stages. | H | 10 | Audit Needs analysis risk register | **One Tower Hamlets** Working efficiently and effectively as One Council. |
| Contract Audits | A sample of building contracts will be selected to test the arrangements for administering and managing these contracts to provide assurance on cost and programme control. | H | 20 | Audit Needs analysis | **One Tower Hamlets** Working efficiently and effectively as One Council. |
| Housing Repairs | This audit will examine systems for managing and controlling repairs to housing dwellings managed by THH. Arrangements for monitoring the performance of the repairs contractors will also be reviewed. | H | 20 | Audit Needs analysis risk register. | **A Great Place to Live.** Provide affordable housing and strong neighbourhoods. |

| | | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities |
|---|---|---|---|---|---|
| ***Tower Hamlets Homes*** | | | | | |
| Follow Up Audits | We will carry out follow up audits to ensure that recommendations made are progressed and implemented. | H | 20 | | **One Tower Hamlets** Working efficiently and effectively as One Council. |
| ***Development and Renewal*** | | | | | |
| Asset Management | This audit will examine systems for managing the assets of the Council to ensure that its strategic objectives and priorities are achieved. | H | 20 | Audit Needs analysis risk register DR9. | **One Tower Hamlets** Working efficiently and effectively as One Council. |
| Management and control of Planning Permissions | This audit will examine systems for managing and controlling planning permissions. | H | 20 | Audit Needs analysis | **One Tower Hamlets** Working efficiently and effectively as One Council. |
| Homelessness and Temporary Accommodation | This audit will examine systems in place for capturing homelessness cases and the arrangements placing them in temporary accommodation. | M | 20 | Audit Needs analysis risk register | **A Safe and Supportive Community.** Empower vulnerable people and support families. |

| | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities |
|---|---|---|---|---|
| Budgetary Control | **M** | 10 | Audit Needs Analysis and External Audit requirement as key financial system | **One Tower Hamlets** Working efficiently and effectively as One Council. |
| This audit will review systems for budget setting and budgetary control | | | | |

## INTERNAL AUDIT PLAN – 2009/10

| Audit Name | Broad Scope | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities |
|---|---|---|---|---|---|
| **_Adults, Health and Wellbeing_** | | | | | |
| Governance of Pooled Agreements and Partnerships | This review will examine governance systems and procedures for partnership working with other organisations to provide adult services. | H | 20 | Audit Needs analysis risk register AS5 | **A Safe and Supportive Community.** <br><br> Empower vulnerable people and support families. |
| Integrated Commissioning of Mental Health | This audit will review the systems and controls for commissioning mental heath services for adults using the integrated commissioning approach. | M | 20 | Risk register AS11 | **A Safe and Supportive Community.** <br><br> Empower vulnerable people and support families. |

# INTERNAL AUDIT PLAN – 2009/10

| Audit Name | Broad Scope | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities **One Tower Hamlets** |
|---|---|---|---|---|---|
| **_Resources_** | | | | | Working efficiently and effectively as One. |
| Housing and Council Tax Benefit | | H | 20 | | |
| General Ledger incl. Budgetary Control | | H | 20 | | |
| Cashiers / Cash income | | H | 10 | | |
| Council Tax | | H | 15 | | |
| Sundry Debtors including Recovery and Write offs | Reviews of key financial systems to provide assurance to management in preparing in the annual statement of accounts and to support the authority's "managed" audit approach. | H | 15 | Audit needs analysis | |
| Creditors | | H | 20 | | |
| Capital Accounting | | H | 10 | | |
| Pensions | | H | 10 | | |
| N.N.D.R. | | H | 10 | | |
| Personnel/Payroll | | H | 20 | | |

## INTERNAL AUDIT PLAN – 2009/10

| Audit Name | Broad Scope | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities |
|---|---|---|---|---|---|
| Housing Rents | | H | 10 | | |
| Investments /Loans/Prudential Borrowing | | H | 10 | | |
| Support the work of External Audit by Mapping Key Financial Systems | Following the requirement of the International Auditing Standards to map all material financial systems, we have agreed with External Audit to complete this process over three years. | H | 35 | To identify key controls that facilitates good financial governance. | |
| Competitive tendering | This review will seek to provide assurance over the soundness and adequacy of the Council's competitive tendering arrangements for procuring works, goods and services. | H | 20 | Audit Needs analysis | **One Tower Hamlets** Working efficiently and effectively as One. |
| Parking Permits | Systems and procedures for issuing various parking permits by the Council's Chief Cashiers Office and by One Stop Shops will be reviewed. | H | 20 | Audit Needs analysis | **One Tower Hamlets** Working efficiently and effectively as One. |

## INTERNAL AUDIT PLAN – 2009/10

| Audit Name | Broad Scope | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities |
|---|---|---|---|---|---|
| Service Charges - Recovery | This review will examine the system in place for ensuring that service charges debts are recovered in accordance with procedures | H | 15 | Audit needs analysis and management request | **One Tower Hamlets** Working efficiently and effectively as One. |
| VAT Management | This audit will review the arrangements for managing and administering VAT across the Council. | H | 10 | Audit needs analysis | **One Tower Hamlets** Working efficiently and effectively as One. |
| Pension Fund Investment Management | This audit will review the arrangements for managing the investment of its Pension Fund to ensure that key regulatory and legislative requirements are complied with. | M | 10 | Audit needs analysis and Audit Commission requirement | **One Tower Hamlets** Working efficiently and effectively as One. |
| Grant Claim - Teachers Pensions Return | This is an annual audit which examined the deduction, processing and payment of teachers' pensions contribution to provide assurance to the Audit Commission certifying the Grant Claim. | H | 15 | Audit Commission requirement | **One Tower Hamlets** Working efficiently and effectively as One. |

**INTERNAL AUDIT PLAN – 2009/10**

| Audit Name | Broad Scope | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities |
|---|---|---|---|---|---|
| ***Contract Audit*** | | | | | |
| Contract Audit Reviews | These audits will examine sample capital and revenue contracts to ensure that required works/services are carried out and provided and that payments made were in line with the contract obligations. | H | 50 | Audit Needs Analysis | **One Tower Hamlets**<br><br>Working efficiently and effectively as One. |
| ***Information Technology Audits*** | | | | | |
| To be determined from operational risk analysis / management consultation | A separate Computer Audit Plan will be devised following the review of the computer audit strategic plan. The plan will include application reviews encompassing the key financial systems. | - | 130 | Risk Registers CO5 and management request | **One Tower Hamlets**<br><br>Working efficiently and effectively as One. |

## INTERNAL AUDIT PLAN – 2009/10

| Audit Name | Broad Scope | Risk Assessment | Audit Days | Source of Audit | Link with Corporate Priorities |
|---|---|---|---|---|---|
| **Value for Money Audits** | | | | | |
| Procurement of Temporary Accommodation | This audit will provides assurance over the soundness and adequacy of the Council's arrangements for procuring temporary accommodation for homeless families. | H | 20 | Audit Needs analysis and risk register AS10 | **One Tower Hamlets** Working efficiently and effectively as One. |
| Proactive Fraud Work | A provision of fraud awareness and anti-fraud activities. A separate anti-fraud plan has been devised. | H | 50 | Part of the contract | **One Tower Hamlets** Working efficiently and effectively as One. |
| **Follow Ups** | Follow-up of reviews carried out in 08/09 to ensure implementation of audit recommendations. | H | 110 | | **One Tower Hamlets** Working efficiently and effectively as One. |

# 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 <u>add</u> 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 <u>multiplying</u> 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 | 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 | or | 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 | or | |
| 7 | Medium vulnerability | or | Moderately complex system with medium risk of error | or | Moderate level of change over medium term | or | |
| 8 | Medium to high inherent risk | or | | or | Significant level of change with restricted timescale | or | |
| 10 | Highly vulnerable | or | Complex system with high risk of error | or | Extensive changes planned with short timescale | or | Highly desirable assets exposed to high risk of fraud or loss |

**Internal Audit Risk Assessment Matrices**

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

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

# Internal Audit Strategy

## Introduction

### *What is Internal Audit?*

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

- review systems of risk management, internal control and governance to ensure that these are sound and effective.
- to provide an assurance opinion on the soundness of the organisation's risk management and internal control frameworks.
- 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, 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:

- 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;
- 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;

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

- 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;

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

- 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:

- 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;

- 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;

- 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;

- 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.

## Internal Audit & Risk Management

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

- the authority's risk registers, to ensure risks are being managed properly;
- background information obtained from previous audits and our discussions to date with the authority;
- experience of issues raised at other public sector organisations after carefully considering key risks to the authority; and
- 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 to 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 be 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:-

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