London Borough of Tower Hamlets

Risk, Internal Audit and Control Plan: 2012-13

Contents

Foreword

Internal audit at Tower Hamlets plays an essential role in supporting the Council to achieve its goals and outcomes. The annual audit plan for 2012-13 is thus devised using a risk based methodology, and focuses on areas where Tower Hamlets needs to be assured its risks are being properly managed. The plan also recognises the wider role audit has in supporting management, who strive to deliver excellent public services to residents living in, and people working in the borough, by including for example, corporate reviews, 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 Head of Corporate Finance, the Monitoring Officer, 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 strategic risks and Directorate based risks have been considered. There are 19 strategic 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.

No.	Risk
BSF10005	Failure to secure planning consent for Bow school
CL0028	There is a reputational risk resulting from misdirected blame for Olympic Games disruption to the community. (Previous risk No. CS0024/8 & CSFO0001)
DRA0009	Failure to deliver Decent Homes by 2016
AH0025	Accommodation – There is significant risk to the Directorate arising as a result of the accommodation changes required over the next 12-24 months, these relate to the decant requirements of both operational and 'back office' services and a shortfall in the level of supported housing available which would impact on the efficiencies agreed by Members in March 2011.
AH0033	Breach of Health and Safety Legislation due to portable appliance testing for the community Equipment Store not being up-to-date.

No.	Risk
DRC0007	The level of resources available to support housing revenue and capital expenditure impact upon the viability of the council's Housing Revenue Account (HRA) 30 Year Business Plan.
DRDH0001	The Government's 'welfare reform' agenda leads to a reduction in both the supply of affordable private sector landlords to rent to benefit dependant households.
RS0039	There is a risk that additional savings required to respond to the local government financial settlement and budget growth pressures need to be fully formulated, which may impact on the financial resilience of the Council and its medium term financial strategy from 2012/13.
CSE0010	Insufficient capacity (assets, land and funding) to meet local need for school places.
DRA0012	The Council is unable to deliver the target level of affordable housing.
TP-SW0015	Failure to vacate and surrender Anchorage House lease on time.
CEAC0004	Publication or broadcast of content that presents reputational risk to the council.

No.	Risk
HR0003	Industrial action by trade unions - either in response to local decisions relating to budgetary reductions, or Central Government policy decisions on pay and pensions.
HR0005	There is a risk that the Council will fail to develop and implement a work force plan that effectively meets its strategic and operational needs over the next 5 to 10 years – across all services.
ICT0007	Data compromised through loss or leakage.
ICT0011	Major ICT service/infrastructure failure of framework I, care alarm, JD Edwards, Iworld, etc, leading to a potential business continuity plan.
RS0038	The approved savings programme for 2011/12 – 2013/14 of £55m may not be delivered either in full or to the original timescales.
SP- FS0016	Future sourcing – Programme/ Business case justification. Failure to find a suitable strategic partner.
S&EQ0001	Challenge to community cohesion

The Role of Internal Audit

The role of Internal Audit is to provide an independent 'assurance' to the organisation that its systems of internal control are sound and adequate, and are being complied with by staff and management.

Internal Audit is a review function, which independently reviews and reports upon the organisation's internal control, governance and risk management arrangements. It critically evaluates the entire internal control framework and where necessary, makes recommendations for improvement and the introduction of best practice.

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

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

The findings emerging from internal audit reviews provide a basis for an Annual Audit Opinion in the Statement of Internal Control within the Annual Governance Statement**.**

London Borough of Tower Hamlets 2012/13 Internal Audit Plan

	Audit Days	Pages
Corporate systems and Council–wide reviews	128	9-11
Chief Executives'	15	12
Children, Schools and Families	197	13-14
Communities, Localities & Culture	99	15-16
Tower Hamlets Homes	135	17-19
Development & Renewal	116	20-21
Adult, Health and Wellbeing	76	22-23
Resources & core financial systems	224	24-26
Information technology audits	80	27
Follow up, management and reactive fraud provision	255	27
Total Provision	**1325**	-

INTERNAL AUDIT PLAN – 2012/13

Auditable System	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Corporate Systems & Council Wide Reviews					
Contract Management	This audit will provide assurance that the Council's contract management and monitoring arrangements are sound and secure. A sample of contracts will be selected to test compliance with corporate procedures on contract management.	H	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Management of Complaints	This audit will examine systems for managing and monitoring various complaints received by the Council to ensure that sound arrangements are in place.	H	10	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Scheme of Delegation	The Council requires a scheme of delegation to manage those operations and functions which are delegated to management. This audit will examine the Council's scheme of management delegation and its compliance.	H	10	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Management of Efficiency Projects	This review will provide assurance that adequate controls are in place to manage and monitor the delivery of efficiency projects across the Council.	H	15	Strategic Risk Register RS0038 and RS0039.	**One Tower Hamlets** Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2012/13

Auditable System	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Corporate Systems & Council Wide Reviews					
Data Quality	This audit will provide assurance that there are sound controls in place to manage and monitor the quality of data produced at various levels within the organisation.	H	10	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Translation Services	To provide assurance that the Council's arrangements for procuring, commissioning, paying and monitoring translation services are sound, secure and provide value for money.	H	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Waivers of Financial Regulations	The audit will focus on the Council's arrangements for managing and monitoring waivers of Financial Regulations by officers.	H	5	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Use of Oyster Cards	This audit will review systems for managing and monitoring the use of Oyster Cards across the Council.	H	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Equality Impact Assessment	The objective of this audit is to provide assurance over the Council's systems and procedures for carrying out Equality Impact Assessment.	H	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2012/13

Auditable System	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Corporate Systems & Council Wide Reviews					
Mayors Bursary Grants	This will be review of the administration and control of the Bursary Grants to eligible pupils attending secondary and further education schools and colleges.	H	8	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Corporate Governance	This generic review will incorporate the preparation and validation of the Annual Governance Statement and provide assurance on the progress made in improving controls around those specific governance issues reported within the AGS	H	10	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Chief Executive's					
Members Enquiries	The objective of this audit is to provide assurance that systems and procedures for dealing with and managing and monitoring enquiries raised by elected members of the Council are sound and secure at both Directorate and corporate level.	H	15	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Children, Schools and Families					
Special Education Needs - assessment and commissioning	This review will examine the systems for assessing and commissioning services for children with special education needs.	H	15	Audit needs analysis	**A Prosperous Community** Support lifelong learning opportunities for all.
Children's Centres	This audit will be probity audits to a sample of children's centres to provide assurance that systems for governance and financial management are sound and secure.	H	10	Audit needs analysis	**A Prosperous Community** Support lifelong learning opportunities for all.
Children Looked After	This audit will provide assurance that systems for services provided to Looked After Children are sound and secure.	H	15	Audit needs analysis	**A Safe and Supportive Community** Focus on Early Intervention
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	10	Audit needs analysis	**A Prosperous Community** Support lifelong learning opportunities for all.
Commissioning of Social Care services	This audit will examine systems and procedures for procuring and commissioning services for children.	H	15	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Children, Schools and Families					
Careers Services	The review will examine the key controls over the management of careers service to ensure that key service objectives are achieved.	H	12	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One **A Prosperous Community** Support lifelong learning opportunities for all. Council
Core Assessments	This audit will provide assurance that management oversight and control in carrying out initial and core assessments is sound and secure.	H	15	Management request	**A Safe and Supportive Community** Focus on Early Intervention
School Meals Income Collection and Banking	To provide assurance that systems and controls for collecting and banking schools meals income are sound and secure. A sample of secondary schools will be selected for testing.	M	15	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Schools' Probity Audits	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	90	From Audit Needs Assessment	**A Prosperous Community** Support lifelong learning opportunities for all. **One Tower Hamlets** Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Communities. Localities and Culture					
Idea Stores- Probity Audit	This is a probity audit which will examine systems for collecting and banking of income, petty cash, ordering and paying for goods and services, inventory management, staffing and other financial matters.	H	12	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council **A Prosperous Community** Support lifelong learning opportunities for all
Commercial Waste	This audit will examine management and control of commercial waste to ensure that sound systems and procedures are in place.	H	10	Audit needs analysis	**A Great Place to Live** Improve the environment and tackle climate change
Management and control of Markets	This audit will review the Council's arrangements for management, control and enforcement of street trading activities.	M	15	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Horticultural contracts management	To review systems and controls in place for managing and monitoring horticultural contracts.	M	10	Audit needs analysis	**A Great Place to Live** Improve the environment and tackle climate change

INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Victoria Park – Post Contract Audit	To review systems and controls in place for post completion assessment, final accounts and claims for loss and expenses.	H	10	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Boishakhi Mela	This audit will examine the systems and controls put in place by the organisation receiving monies from the Council and provide assurance over its financial management arrangements.	M	10	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Management of Anti -Social Behaviour	This audit will provide assurance that systems for managing and controlling Anti-social behaviour is sound and secure.	M	12	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Olympics Planning and Risk Management	The review will examine the planning and risk management arrangements for the Olympics games.	H	10	Strategic Risk Register CL0028	**One Tower Hamlets** Working efficiently and effectively as One Council
Trading Standards Stores	To review the systems and controls for managing the Trading Standards stores.	M	10	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Tower Hamlets Homes					
Right to Buy	This audit will examine systems of control for managing Right to Buy applications and compliance with appropriate legislation, regulations and authorisations from LBTH.	H	10	Internal Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Financial Systems	This audit will review the robustness of key financial systems such as income and expenditure systems, cash flow forecasting, Treasury Management, VAT and reconciliation processes, as part of the annual assurance on the soundness of financial control across THH.	H	10	Risk Register THH-FN0003, THH-FN0005, Internal Audit needs analysis and External Audit requirement	**One Tower Hamlets** Working efficiently and effectively as One Council
Use of Document and Management Workflow system	To provide assurance that THH has a clear procedures for the use of a document management system and that the system procedures are complied with.	H	10	Internal Audit Needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Major Works - Consultation.	This audit will examine the arrangements for consulting with leaseholders to provide assurance the cost of the works are recoverable.	H	10	Risk Register THH LS0001 and LS0002 and Internal Audit needs analysis.	**A Great Place to Live** Provide affordable housing and develop strong neighbourhoods

INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Decent Homes Programme	To provide assurance that the management of Decent Homes works for year 2, is sound, secure and achieve the key objectives of securing the necessary funding..	H	15	Risk Register – DRA0009, THH0049 and THH-IP0001	**A Great Place to Live** Provide affordable housing and develop strong neighbourhoods
Water Systems and Installations	To provide assurance that water installations are inspected, tested and rectified where necessary to ensure that the necessary statutory and H&S requirements are complied with.	H	10	Internal Audit Needs analysis	**A Safe and Supportive Community** Empower Older and Vulnerable People
Enforcement of Estate Parking	This audit will seek to examine systems and controls for enforcement of parking on Council estates to ensure that the enforcement contract deliver key objectives.	H	12	Internal Audit Needs analysis and Risk Register THH-CF0001 and CF0002.	**A Great Place to Live** Provide affordable housing and develop strong neighbourhoods
Governance of THH	This audit will examine the adequacy and soundness of the governance arrangements for THH.	H	10	Internal Audit Needs analysis	**A Great Place to Live** Provide affordable housing and develop strong neighbourhoods
Contractors Final Accounts Audits	This audit will provide assurance that the systems and procedures in place for checking and auditing contractors final accounts for completed projects are sound and secure.	M	10	Internal Audit Needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Aids and Adaptations	This audit will examine systems for managing and controlling aids and adaptations works requisitioned by the LBTH Occupational Therapy service and consider how the decent homes programme is joined up.	M	10	Internal Audit Needs analysis	**A Safe and Supportive Community** Empower Older and Vulnerable People
Management Requests	To service special requests from THH management to carry out any other high priority audit work.		10		
Follow Up Audits	We will carry out follow up audits to ensure that recommendations made are progressed and implemented.		18		

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Development and Renewal					
Management and control of Land Charges	This review will focus on the systems for managing and controlling land charges and the associated trading account.	H	10	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Management of Mainstream Grants	The objective is to provide assurance over the management and control of mainstream grants awarded to third sector organisations.	H	15	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Procurement and Payments for Accommodation for Homeless	This audit will provide assurance over the soundness and adequacy of the Council's arrangements for placing homeless families in temporary accommodation and for making payments for the accommodation.	H	12	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Recovery of Deposits under FRDS	The review will examine the systems in place for recovering deposits under the family rental deposit scheme	H	12	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Management and control of S106 Planning Obligations	To review systems and controls for management and control of s.106 Planning Obligations monies received by the Council.	M	12	Audit needs analysis	**A Great Place to Live** Provide affordable housing and develop strong neighbourhoods

INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Lettings	This audit will examine systems and controls for managing Lettings to Council dwellings.	H	15	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Collection and Banking of Planning Fees	This review will examine systems and procedures for charging, collecting and banking income from planning fees.	M	10	Directorate Risk Register DRP0005	**One Tower Hamlets** Working efficiently and effectively as One Council
Archiving and Retrieval Contract	This audit will provide assurance over the Council's management and monitoring of the archiving contract.	H	12	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Nomination Rights	This audit will review management and control of the Council's nomination rights to social housing.	M	10	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
BSF – Current Contracts	Building contract audits will be carried out on the building works at the non-sample schools in the BSF programme to provide assurance that cost and programme controls are adequate during the currency of the contract.	H	8	Directorate Risk Register BSF-DAP0003 and DAP0005 and Audit needs analysis	**A Prosperous Community** Support lifelong learning opportunities for all.

INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Adults, Health and Wellbeing					
Assessment and Commissioning	This audit will examine systems and controls for assessment and commissioning of various services for vulnerable adults.	H	15	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Electronic Home Care	This audit will review the effectiveness and efficiency of the electronic home care system, to ensure that controls are sound and secure and achieve the objectives of the designed system.	H	12	Management Request	**A Safe and Supportive Community** Empower Older and Vulnerable People
Supporting People	This audit will review the management, control and monitoring of the Supporting People Programme to ensure that the programme achieves its key objectives.	H	12	Audit needs analysis	**A Safe and Supportive Community** Empower Older and Vulnerable People
Safeguarding Vulnerable Adults	This audit will review the Council's systems and controls for safeguarding vulnerable adults.	H	12	Directorate Risk Register AH0015 and Audit needs analysis	**A Safe and Supportive Community** Empower Older and Vulnerable People

INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Domiciliary Care Contracts	This audit will examine systems and procedures for the management and monitoring of Domiciliary care contracts to ensure that these contracts provide value for money.	H	15	Audit needs analysis	**A Safe and Supportive Community** Empower Older and Vulnerable People
Statutory Review Process	This audit will provide assurance over the arrangements for carrying out annual statutory review of service users needs and priorities.	M	10	Directorate Risk Register AH001 and Audit needs analysis	**A Safe and Supportive Community** Empower Older and Vulnerable People

INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Resources	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.				**One Tower Hamlets** Working efficiently and effectively as One Council
Treasury Management		H	10		
HR/Payroll		H	10		
General Ledger		M	10		
Creditors/R2P		H	15		
Debtors		M	8		
N.N.D.R.		M	8	Support the work of the Audit Commission	
Council Tax		M	10		
Capital Programming & Accounting (testing		M	8		
Cashiers		H	8		
Pensions		M	8		
Pension Fund Account Administration and Control		M	8		
Housing & Council Tax Benefit		M	10		
Housing Rents		M	8		

INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Resources					
Cheque Control and Cancelled Cheques	This audit will review systems for cheque control and cancellation and booking back of returned cheques.	H	8	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Grant Claims	This will be a systems audit on how various grant claims are managed, controlled, evidenced and quality checked before submission to the Audit Commission for certification.	H	10	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Management of VAT	This will be a review of the Council's systems and controls for management of VAT.	H	10	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council.
Financial Information System - Implementation	This will involve internal audit in providing assurance over the implementation of the new FIS.	H	20	Directorate Risk Register RSB0014	**One Tower Hamlets** Working efficiently and effectively as One Council
ICT Contract Monitoring and Clienting	This review will focus on the arrangements in place for managing and monitoring the future sourcing contract once it has been let.	H	12	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Resources					
Management and Control of Purchase Cards	This audit will review the arrangements for managing and controlling the issue and use of purchase cards.	H	15	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Selection of contractors and E tendering	The Council's systems for selection of contractors for competitive tendering and for submitting tenders using the e-tendering system will be examined.	H	8	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
NNDR and Council Tax refunds	This will be a probity review of how refunds for NNDR and Council Tax are managed and controlled and links with possible money laundering.	M	10	Audit needs analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Grant Claim - Teachers Pensions Return	This is an annual audit which will examine the deduction, processing and payment of teachers' pensions contribution to provide assurance to the Audit Commission certifying the Grant Claim.	M	10	Audit Commission requirement	**One Tower Hamlets** Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2012/13

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
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.	**H**	80	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council.
Other					
Management Requests	A provision for servicing various management requests for advice and other systems development work.	-	50	-	**One Tower Hamlets** Working efficiently and effectively as One.
Follow Up Audits	Follow-up of reviews carried out in 10/11 to ensure implementation of audit recommendations	-	100	-	**One Tower Hamlets** Working efficiently and effectively as One
Reactive Fraud	A provision for work carried out on investigating and reporting upon reported irregularities and fraud	-	55	-	**One Tower Hamlets** Working efficiently and effectively as One
Management time	This is a provision for management time required to direct, control and monitor the work of the audit team.	-	50	-	**One Tower Hamlets** Working efficiently and effectively as One

Governance-based Audit Assessment Methodology

<u>Assessment Categories</u>

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.

<u>Assessment Process</u>

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

<u>Calculation of the Audit Risk Index</u>

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.

<u>Results of the Audit Risk Assessment</u>

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		Simple system with low risk of error	or	No changes planned	or	Undesirable low value assets not at risk of fraud or loss
6	Medium or low inherent risk	or		or	Limited changes planned with reasonable timescale		
7	Medium vulnerability	or	Moderately complex system with medium risk of error	or	Moderate level of change over medium term		
8	Medium to high inherent risk	or		or	Significant level of change with restricted timescale		
10	Highly vulnerable	or	Complex system with high risk of error	or	Extensive changes planned with short timescale	or	Highly desirable assets exposed to high risk of fraud or loss

Internal Audit Risk Assessment Matrices

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

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

Internal Audit 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, with specific reference to its role within the Authority, in the following way:

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

Why do we need an Internal Audit Strategy?

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

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

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

Delivering the Strategy

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

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

Audit Reporting

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

Quality

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

- 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.

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.
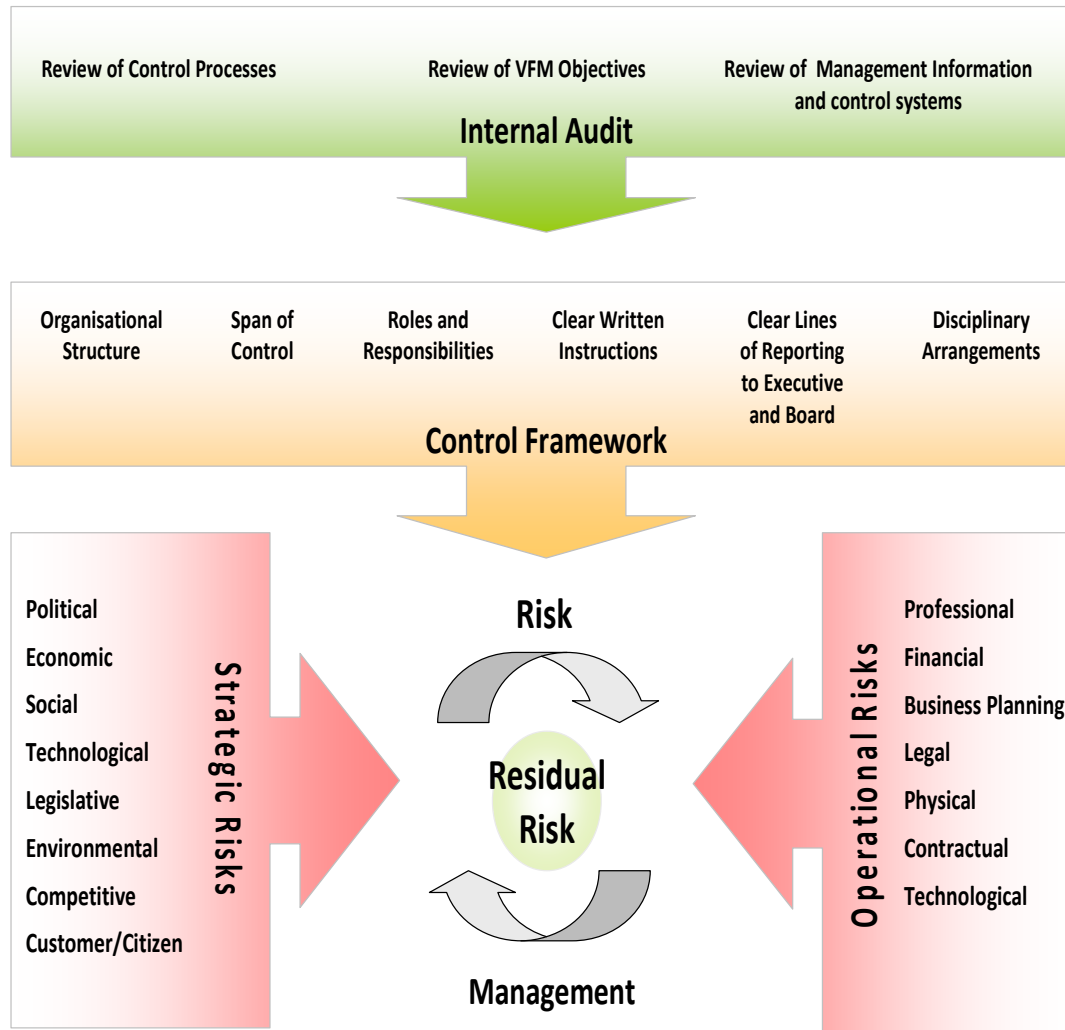
The Monitoring Process

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

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

Internal Audit

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

Control Framework

Risk

Strategic Risks

Political
Economic
Social
Technological
Legislative
Environmental
Competitive
Customer/Citizen

Residual Risk

Operational Risks

Professional
Financial
Business Planning
Legal
Physical
Contractual
Technological

Management

Internal Audit: Will provide assurance that risk management processes and internal controls are operating effectively, ensure major business risks are being managed effectively, and that governance arrangements are operating effectively.

Control Framework: A matrix of control mechanisms will be developed to ensure that every member of staff is aware of their responsibility in managing risk, and a reporting framework will ensure that the Senior Management Team and the Board have a clear view of the effectiveness of the controls in place.

Risk Management: The Risk Register will be reviewed on a periodic basis to reassess the residual level of risk for the strategic risks identified in the first year of operation; new risks added as they become evident.

Appendix 3: Risk Management Framework

Definitions

Risk "Any issue which could impact on an organisation's ability to meet its objectives"

Risk Management Risk management is a planned and systematic approach to the identification, analysis and control of risks that challenge and threaten the achievement of the objectives of the organisation. Risk management makes it possible to determine whether the risks pose a large enough threat and the innovations a big enough opportunity, to implement mitigation techniques.

Objective Is to implement an effective risk management framework that ensures that risks are identified and managed to an acceptable level and that opportunities are fully exploited, whilst minimising, financial loss, service disruption, bad publicity, reputation loss, claims for compensation and threats to the public and staff.

Our Policy: We believe that by managing risks effectively, we at LB of Tower Hamlets will be in a stronger position to deliver our strategic and operational objectives. By taking advantage of opportunities and managing them well, we will be in a better position to improve services and give our stakeholders better value for money.

Objectives of Risk Management:

- Ensure that systems are in place to identify, track and report upon existing and emerging risks that could damage the interest of our business and our stakeholders.
- Ensure that risk management is embedded throughout the organisation, creating an environment where all staff assumes responsibility for managing risk.

These Objectives will be Achieved by:

- Establishing clear roles, responsibilities and reporting lines within the organisation for risk management;
- Providing opportunities for shared learning on risk management across the organisation;
- Developing and maintaining systems for identifying and evaluating all significant risks;
- Developing and maintaining a framework for allocating resources to identified priority risk areas;
- Reinforcing the importance of effective risk management as part of the everyday work of employees by offering training;
- Incorporating risk management considerations into Best Value and service reviews and business planning;
- Put in place review and monitoring arrangements to assess the effectiveness of our mechanisms and arrangements.

To Emphasise the Organisation's Working Commitment to Risk Management, the Risk Management Mission Statement is as Follows:

"London Borough of Tower Hamlets recognises that it has a responsibility to manage opportunities and risks in a structured manner in order that LB Tower Hamlets will better achieve its corporate objectives and enhance the value of services it provides to the Community".

The Audit Committee, Corporate Management Team (CMT) and the Directorate Management Team (DMT) will have overall responsibility for risk management and will be consulted and kept informed as to the progress of the implementation of the strategy on at least an annual basis.

Roles and Responsibilities

Audit Committee	The Committee's primary role is to review and conclude upon the adequacy and effectiveness of the Council's overall internal control system. In performing this role the Committee's work predominantly focuses upon the framework of risks, controls and related assurances that underpin the delivery of the Council's objectives.
Corporate Management Team	. One of the roles of the CMT is to work on a cross-directorate basis to ensure that the Council has an effective risk management arrangement in place to achieve its objectives and to consider quarterly reports on the key strategic risks faced by the Council and how these risks are being managed and mitigated.
Corporate Director of Resources	As S.151 officer, the Corporate Director of Resources is responsible for the proper administration of the financial affairs of the Council. The requirement to have an Internal Audit function derives from S.151 of the Local Government Act 1972 As such the Corporate Director of Resources supports the Council and its departments in ensuring that the arrangements made for financial management, risk management and internal control systems are sound and secure.
Corporate Directors	The Corporate Directors have the operational responsibility for ensuring that there are sound procedures in place at Directorate level for effective financial management, risk management and internal control systems.

Risk Management Action Plans

One of the key risk management objectives is the effective management of the organisation's risks, both strategic and operational. This has been achieved by the sessions to identify and profile the organisation's significant strategic risks.

Once this task has been compiled, SMT and the Audit Committee will be asked to comment on these risks and the risk assessment process. In relation to the operational risks, each Director has facilitated and co-ordinated a similar risk assessment exercise in order that the significant operational risks have been accurately identified profiled and managed. The aim of such a process is that it will eventually form part of each Division's annual business planning process.

Coming out of this process, will be risk management action plans relating to the most serious significant risks, i.e. those where the existing levels of internal control are seen as inadequate. The above assessments (both strategic and operational) will be a yearly process with tracking and monitoring of risks on an annual basis.

The Director of Resources will receive copies of each Division's operational risk management action plans in order that any cross-departmental risks can be picked up and managed accordingly. The Director of Resources will also monitor the risk improvement strategy to ensure that progress is made against the key significant risks.

Similarly, the same risk assessment programme can be adopted when services are going through the Best Value programme. A risk management pack can be included in the Best Value documentation. It is generally accepted that each Directorate must be seen to be managing its risks in order to demonstrate Best Value.

Classification of Risk

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