
London Borough of Hackney

Internal Audit Annual Plan 2017/18

1. Introduction

1.1 The terms of reference of the Audit Committee includes the following: -

‘To maintain a strategic and independent overview of matters relating to corporate governance of the Council including audit, assurance and reporting arrangements and to consider reports dealing with the management and performance of the providers of internal audit services including progress reports, the Charter, Strategy and Annual Plan and to oversee the production of the Authority’s Annual Governance Statement and to recommend its adoption.’

1.2 A key element of this consideration is the Annual Internal Audit Plan which provides details of the service’s operational approach, working methods and specific projects to be undertaken.

1.3 This document sets out the division of responsibilities between the Internal Audit Service and managers, and presents the Annual Internal Audit Plan and Key Performance Measures for 2017/18. The plan covers the London Borough of Hackney including the Housing function previously managed by Hackney Homes.

2. Statutory Requirements

2.1 Section 151 of the Local Government Act 1972 requires every local authority to ‘make arrangements for the proper administration of their financial affairs’.

2.2. The Accounts and Audit Regulations 2015 require the relevant authority to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”

2.3. The regulations also require the relevant body to undertake an annual review of its corporate governance arrangements which includes its internal control systems and publish as part of its final account arrangement, an Annual Governance Statement (AGS) that provides assurance with regard to governance arrangements.

2.4. The Council has delegated to the Group Director of Finance & Corporate Resources (the Council’s Section 151 Officer) day to day responsibility to ensure the provision of a high quality internal audit service. The service is therefore required to work to professionally defined standards and in close liaison with the Group Director of Finance & Corporate Resources in providing the service.

2.5. The key elements utilised to meet the statutory requirements are: -

- The agreed strategic approach to the provision of audit services in the longer term
- The Internal Audit Annual Plan covering specifics for a given year
- The incorporation of best practice information/publications produced by relevant professional bodies
- The provision of working procedures within the Internal Audit Service

- 2.6 On 1 April 2013 new Public Sector Internal Audit Standards (PSIAS) come into effect. These encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) and replaces the Code of Practice for Internal Audit in Local Government in the United Kingdom to which the Council's Internal Audit Service previously complied. The PSIAS now apply to all internal audit service providers, whether in-house, shared services or outsourced.
- 2.7 The Internal Audit Charter 2015/16 and the Internal Audit Strategy (presented to the Audit Sub Committee in January 2016) were amended to reflect the PSIAS.
- 2.8 The PSIAS require a risk-based plan that sets out how the internal audit service will be provided and developed in accordance with the Charter and how it will link to the organisation's objectives and priorities.

3. Main Objectives

- 3.1 The overall objective of the Internal Audit Service is the provision of a quality, service that meets: -
- The statutory requirements placed on the Council
 - The individual needs of our customers and stakeholders
 - The wider needs of Hackney and its community
 - The professional standards set for the provision of internal audit services
- 3.2 The provision of the Internal Audit Service is core business of the Council and major individual objectives incorporated in the 2017/18 planning process are:
- To provide assurance to management that the Council's internal control systems are adequate, effective and are operating as intended.
 - To provide an annual audit opinion based on the work of internal audit together with other sources of assurance.
 - To ensure that the statutory requirements of the Accounts and Audit Regulations 2015 in relation to a published Annual Governance Statement (AGS) are met at both local and corporate levels.
 - To implement planned reviews of key main systems and procedural controls, evaluating and assessing these and recommending improvements where necessary.
 - To ensure that the key areas of Council activity are reviewed within the strategic planning cycle and takes into account the Council's objectives and priorities.
 - To provide a comprehensive service to management in the specialist areas of computer audit and special investigations.
 - To investigate identified or suspected cases of fraud and irregularity within the Council.
 - To ensure a planned approach to anti-fraud initiatives and develop this function as an expanded initiative in the work of the Ant-Fraud Service.
 - To provide a comprehensive fraud awareness training programme for officers throughout the Council directorates.
 - To undertake work in developing our partnership working arrangements with external agencies, Metropolitan Police and our External Auditors.

4. Division of Responsibilities

- 4.1 It is management's responsibility to manage the systems of the Council in a manner which:
- ensures the plans and intentions of the organisation are delivered, (including those outlined in plans, policies and procedures) and are in compliance with the laws/regulations under which the organisation operates;
 - ensures the reliability of data and information used either internally or reported externally;
 - safeguards the organisation's resources; and
 - promotes efficient and effective operations.
- 4.2 Internal control is an integral part of managing operations and as such internal auditors independently review how effectively management discharges this aspect of its responsibilities by evaluating the effectiveness of systems and controls and providing objective analyses and constructive recommendations. Management retains full ownership and responsibility for the implementation of any such recommendations.

5. Audit Resources

- 5.1 The Council is required to provide sufficient resources to enable an adequate and effective Internal Audit service to be delivered that meets its objectives. Internal Audit should have appropriate resources in order to meet its objectives and comply with the standards contained in the PSIAS.
- 5.2 The current level of resources is considered sufficient to develop and ensure delivery of the Internal Audit Annual Plan and provide the necessary assurance on the effectiveness of the system of internal control.
- 5.3 **Current Audit Establishment**

The service is currently managed by the Director of Audit & Anti Fraud, however, this post is to be deleted in April 2017 following the restructure of the Council. The new post of Corporate Head of Audit, Anti-Fraud & Risk Management will oversee the work of the Division after this date. A restructure of the Audit and Anti Fraud Service is in progress and the new structure is largely in place but not yet complete. The following reflects the new structure.

The Audit and Anti-Fraud Service consists of two distinct functions:-

Internal Audit Team

An in-house team was established in 2011, it is responsible for the delivery of the annual internal audit plan. The team comprises the Head of Internal Audit and Risk Management (position in the process of being recruited to) and six Auditors. There is a further contingency allowance of 120 days to buy in specialist IT audit skills.

Anti Fraud Teams

The Audit Investigation Team (AIT) and Pro-Active Anti-Fraud Teams (PAFT) are responsible for carrying out anti-fraud work and investigations into fraud and irregularity across all Council directorates. The teams comprise two investigations managers and 14.6 investigators (three of these posts are

currently vacant while the Division completes a restructure). The service also has responsibility for overseeing a number of corporate functions (i.e. Regulation of Investigatory Powers Act (RIPA), Proceeds of Crime Act (POCA), Whistleblowing and Money Laundering).

Dedicated personnel are in place within the AIT and PAFT to deal with the following specific fraud threats:

- One full time investigator from the AIT is dedicated to supporting the Children & Young Peoples Service Over-staying Families Intervention Team (OFIT).
- A Tenancy Fraud Team (TFT) comprising six officers. Hackney continues to support this work at the current resourcing level, despite a central government grant that had been in place for several years being withdrawn at the end of March 2015.
- Two Proactive Anti-Fraud Team (PAFT) investigators provide additional assurance that works carried out under Hackney contracts give value for money in what is a significant area of expenditure. The initiative was initially part-funded by a central government counter fraud grant and has since been resourced solely by the Council.

5.4 Analysis of Project Time

An analysis has been undertaken of the time available to undertake project work. This analysis incorporates an in-depth assessment of those areas of time that are considered as 'non-available' time in addition to the unavoidable lost time for annual leave, bank holidays.

This 'non-available' time includes corporate management issues, external audit liaison, staff meetings/briefings, training, annual leave, etc. After making allowances for these areas a net amount of productive audit time is available for project work.

5.5 Available Audit Time

During 2017/18 it is estimated that the total time available for internal audit project work will be 1346 days, in addition time available for anti-fraud is estimated to be 2616 days. This does not take account the expectation that the division will support the continued development of the Council's Chartered Institute of Public Finance & Accountancy (CIPFA) graduate trainees, however as no definite timeframes have been agreed no allowance has been made for this resource in the plan.

Table 1: Productive Days Available 2017/18

	Internal Audit Team	Investigation Teams	Total Days	Percentage
Gross Days Available	1960	4359	6319	100%
Less Unproductive Time:				
Management/Advice*	172	810	982	
Leave, training, etc.	442	933	1375	
Productive Days Available	1346	2616	3962	59%

*This includes all of the available time of the Corporate Head of Audit, Anti-Fraud & Risk Management

6. The Audit Approach

- 6.1 Internal Audit is responsible for providing an opinion on the internal control environment within the Annual Audit Report. The Annual Audit Plan governs each year's activity and at the completion of each audit a report is produced for management with recommendations for improvement.
- 6.2 For each report issued, the recommendations are categorised as High, Medium or Low priority. In addition each report contains an opinion on the level of internal control operating within the area being audited, ranging from Significant to No Assurance. The annual assessment of the Council's overall internal control environment is based on the level of assurance applied to each area audited. The annual opinion then forms part of the review of the effectiveness of the Council's governance framework and is included in the Annual Governance Statement.
- 6.3 The service places great emphasis on an integrated approach to its work that links systems, regularity and computer reviews for specific areas to the service's work on anti-fraud initiatives in what are considered key risk areas.
- 6.4 The other key factor in the approach adopted by Internal Audit concerns the assessment of 'risk' factors in the planning process. In developing the operational plan it is important that audit resources are directed in line with the priorities of the Council/associated body taking into account assessment of risk.
- 6.5 The Division utilises a number of means to identify significant risk areas and has incorporated these in its planning process. These include: -
- Corporate work undertaken by risk management and audit staff in relation to the production of the Annual Governance Statement (AGS)
 - The Council's list of key corporate risk areas
 - Individual risk registers at both directorate and service level
 - Local workshops with the Audit Investigation Team to consider targeted areas for anti-fraud work
 - Individual audit assessments of risk for specific project work
- 6.6 Key elements of the overall analysis include: -
- The size of the risk or exposure
 - The likelihood that the risk will materialise
 - Any mitigating controls in place
 - The probability of the consequences being detected if the risk does not materialise.
 - The date of the last audit and the assurance level given
 - Known areas of change within the Council and external changes (e.g. legislation)
 - Other sources of assurance
- 6.7 The approach results in a plan that is supportive of Chief Officers/Directors in delivering the strategic priorities and corporate improvement priorities of the organisation, provides a view on the overall internal control environment and gives assurance that all directorates/services are covered in a given period and

that the approach is consistent throughout the Council. All of which are key to good corporate governance.

6.8 In addition to the above, individual risk assessments on project work are undertaken and audit reports provide management with advice on risk issues as part of the action plan developed for each audit review.

6.9 Details of the approach to specific work areas can be defined as follows: -

Regularity / Systems & Computer Work

- Work in this area comprises the 'core' function of Internal Audit's workload. The systems and regularity plan is based on a strategic cycle with the intention of ensuring that a comprehensive review process is undertaken in the main areas of council activity within all council directorates during that time.
- Audit systems reviews will assess the quality and integrity of the internal control process that is built into the specific operating systems. The basis of systems review will be the preparation and production of a key control matrix, which will identify, assess and test the specific controls applying to a system. This work will be designed to provide assurance that systems are controlled and secure and where necessary will make recommendations for improvement.
- A number of regularity audits will be undertaken to consider areas of departmental activity incorporating in-depth testing of particular areas to provide confirmation that specific systems controls are operating satisfactorily.
- Additional work will include:
 - Reviewing the adequacy of the controls and security of existing computer applications and installations.
 - Evaluation and advice on controls prior to the implementation of new computer systems.
 - Maintaining an overall involvement in the corporate management of information technology issues on a council-wide basis including corporate advice on the implementation and monitoring of standards and new policy initiatives.
- Although the majority of audit work can be planned there are occasions when individual planned audits cannot be undertaken (for example, significant change takes place in the audit area). In these circumstances attempts will be made to replace the audit with a suitable replacement in agreement with the relevant Chief Officer.
- Unforeseen work can arise due to new areas of service provision or increased risk which is appropriate to audit within the year. Therefore, in order to allow some flexibility, a contingency allowance is also made to enable such work to be undertaken without adversely affecting the delivery of the planned audit work.

Audit Investigations Work

- Reactive counter-fraud referrals are received regularly. These invariably require urgent priority attention and sometimes develop into more wide-

ranging projects which might encompass entire systems or business areas.

- During the year 2017/18 resources from the Audit Investigation Team will also be used to carry out proactive reviews. During the year the team will target a variety of particular areas within the many services run by the Council and will carry out anti-fraud initiatives utilising a variety of audit techniques and link this with the work of the Internal Auditors.
- As in previous years, the team will be involved in the National Fraud Initiative (NFI) now organised by the Cabinet Office. This is an ongoing exercise which involves a countrywide computer data match of information held by all local authorities, the NHS and other public sector bodies in order to detect potential fraud and irregularity. Existing matches will continue to be investigated and new data will be matched later in 2017/18.
- The Public Interest Disclosure Act 1998 requires all public bodies to put in place a system for dealing with anonymous allegations against members of staff within the organisation. The Council has in place an independent 'Whistleblowing' telephone hotline in order to meet its obligations under this Act. The Audit Investigation Team is responsible for investigating any issues of potential fraud and irregularity that arise through this facility.
- The Corporate Head of Audit, Anti-Fraud & Risk Management is responsible for overseeing the Council's activities under the Regulation of Investigatory Powers Act (RIPA). One officer on the Audit Investigation Team has specific responsibilities for maintaining the corporate records and ensuring compliance.
- The Corporate Head of Audit, Anti-Fraud & Risk Management has corporate responsibility for activities under the Proceeds of Crime Act (POCA). This is an expanding area of activity for the Council. The powers enable accredited officers to apply to the courts to confiscate funds in criminal cases. Two members of the team have been accredited as a Financial Investigators under the powers of POCA. Officers in other departments such as Trading Standards are also accredited to undertake this work.
- Members of the team will continue to represent the Council in corporate initiatives both within the authority and on London wide steering groups (e.g. London Public Sector Counter Fraud Partnership and London Boroughs Fraud Investigators Group). Representation on these groups ensures the team remains in the forefront of investigations work within London.

6.10 Details of the projects included in the Annual Audit Plan for 2017/18 are attached as Annex 1.

7. Efficiency & Performance Management

7.1 Client Liaison

The Audit Service issues satisfaction surveys to auditees at the end of each review. Responses received are used to assess any problem areas regarding the quality of our product and enable action to be taken to rectify matters.

7.2 **Key Performance Indicators (KPIs)**

The objectives of the service for 2017/18 and the KPIs which will be used to measure cost and efficiency, quality, client satisfaction and continuous improvement throughout the year are shown in Annex 2.

8. **Audit Training Initiatives**

- 8.1 The current Internal Audit Team hold relevant qualifications including CIPFA, IIA, ICAEW and AAT. All the permanent auditors have considerable experience in internal audit both in the public and private sector.
- 8.2 Members of the Anti-Fraud Teams hold various qualifications including Accredited Counter Fraud Specialist (ACFS) or equivalent, PiNS, POCA Financial Investigator and Senior Authorising Officer.
- 8.2 Individual members of the in-house team have a personal responsibility to undertake a programme of continuing professional development to maintain and develop their competence. This is achieved through professional training, attendance at ad-hoc seminars and in-house training courses. The Division also supports the Corporate Professional Training Programme. Training needs are assessed on an ongoing basis and are formally reviewed annually as part of the Council's staff appraisal processes.
- 8.3 Staff will continue to receive training opportunities to ensure that the needs of the service and personal development requirements are met. A variety of training initiatives for Internal Audit staff to be undertaken during 2017/18 and onwards will include: -
- Continuous Personal Development opportunities for all members of the division.
 - Refresher training in respect of RIPA and Money Laundering for relevant officers.
 - Training/Accreditation for relevant officers in respect of POCA.

These training and development initiatives will provide the members of the division with the necessary skills to assist in the achievement of the audit plan.

Annual Audit Plan 2017/18

ASSIGNMENTS	DAYS
ALL	
Annual Governance Statement	
IR35	
Car Mileage Claims	
Gifts and Hospitality	
Sub Total	65
CHIEF EXECUTIVE'S	
New Payroll/HR System	
Payroll -	
Service Payroll	
Staff Agency Contract	
Vountary Sector Grants	
Speakers Office	
Sub Total	100
GROUP DIRECTOR CHILDREN, ADULTS & COMMUNITY HEALTH	
Adult Services/Public Health	
Adult Learning Disabilities	
Public Health Contracts	
Home Care/Domicilliary Services	
Residential Care Placements	
Direct Payments	
Sub Total	100
Children & Families Services	
Youth Club Services	
Adoption Allowances	
Sub Total	35
Education and Schools	
Overview of school findings and benchmarking	
IT Services in Schools	
Roll Numbers in Schools (Form 7?)	
Building School for the Future	
Traded Services Customer Satisfaction	
Sub Total	95
Schools	
Secondary Scools	
Yesodey Hatorah	
Primary Schools	
Hoxton Gardens	
Gainsborough	
Grasmere	

Holmleigh Follow Up	
Holy Trinity CE	
Lauriston	
Lubavitch Junior Girls	
Millfields PS and CC	
Morningside	
Nightingale	
Rushmore	
St Matthais	
St John and St James	
Children Centres	
Comet Children Centre	
Lubervitch Children Centre	
Linden's Children Centre	
Special Schools/PRU	
Sub Total	93
GROUP DIRECTOR - FINANCE AND CORPORATE RESOURCES	
Financial Management	
Insurance	
Creditors/ Central Payments Team	
My budget - Monitoring	
VAT	
Bank Accounts	
Accounts Receivable	
Strategic Property	
Commercial Voids	
Procurement	
To be confirmed	
Customer Services	
Use of the CIS (DWP) system	
Revenues and Benefits – NNDR	
Revenues and Benefits - Housing Benefit	
Council Tax	
Social Housing Contract Monitoring Follow Up	
Online Payments/Telephone Payments	
Sub Total	245
Director ICT	
Software Licencing	
Telephone Contracts - Monitoring	
Information Governance - Compliance to GDPR	
Academy - Applications Review	
E Street - Post Implementation Review	
Network/Firewall/Wireless Security	
Disaster Recovery	
Sub Total	130

GROUP DIRECTOR NEIGHBOURHOODS AND HOUSING	
Regeneration	
Leaseholders Buy Back	
Sub Total	15
Housing	
Leaseholders Charges Debt Collection	
Gas Servicing	
Rent Collection (Arrears and Debt Recovery)	
TMO (rolling Programme)	
Contract Monitoring	
Sub Total	88
Public Realm	
Planning Enforcement - Breeches	
Hackney and City Tennis Club	
Building Control Fees	
Parking PCN	
CILS (Section 106 Agreements)	
Sub Total	80
Audit Management	
Plan Delivery, contingencies, 2016/17 work in progress, follow ups, progress reports and ad hoc minor requests/Liaison with Management/Committee Reporting/Advice and Information	300
Total Available Days	1346

Internal Audit Operational Plan 2016/17

Objectives, Key Performance Indicators (KPI's) and Targets for 2017/18		
<p align="center">Cost & Efficiency Objectives</p> <p>1) To ensure the service provides Value for Money</p>	<p align="center">KPI's</p> <p>1) Percentage of annual plan completed by 31 March 2) Average number of days between end of fieldwork to issue of draft report</p>	<p align="center">Targets</p> <p>1) 90% 2) Less than 15 working days</p>
<p align="center">Quality Objectives</p> <p>1) To maintain an effective system of Quality Assurance 2) To ensure recommendations made by the service are agreed and implemented</p>	<p align="center">KPI's</p> <p>1) Percentage of agreed significant recommendations which are implemented in agreed timescales</p>	<p align="center">Targets</p> <p>1) 100%</p>
<p align="center">Client Satisfaction Objectives</p> <p>1) To ensure that clients are satisfied with the service and consider it to be good quality.</p>	<p align="center">KPI's</p> <p>1) Opinion of External Auditor 2) Results of Post Audit Questionnaires 3) Results of other Questionnaires 4) No. of Complaints / Compliments</p>	<p align="center">Targets</p> <p>1) Satisfactory opinion 2) Average score of satisfactory and above 3) Satisfactory results 4) No target – actual numbers will be reported</p>
<p align="center">Continuous Improvement Objectives</p> <p>1) To ensure that the service develops in line with modern thinking and practice on Internal Auditing</p>	<p align="center">KPI's</p> <p>1) Internal/External assessment under the Public Sector Internal Audit Standards</p>	<p align="center">Targets</p> <p>1) Internal Audit team conforms with the PSIAS</p>