



London Borough of Hackney

Internal Audit Strategy

2017-2018

Internal Audit Strategy 2017- 2018

1. Introduction

- 1.1. This Strategy sets out how the Council's Internal Audit Service will be developed and delivered in accordance with the Internal Audit Charter.
- 1.2. The Strategy will be reviewed annually and presented to the Audit Committee and to Hackney Management Team (HMT).

2. Internal Audit Objectives

- 2.1. Internal Audit will provide independent and objective assurance to the organisation, its elected Members, HMT and in particular to the Chief Financial Officer to support him in discharging his responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.
- 2.2. It is the Council's intention to provide a best practice, cost efficient internal audit service.

3. Internal Audit's Remit

- 3.1. Internal Audit is an assurance function that primarily provides an independent and objective opinion on the degree to which the framework of governance, risk management and control supports and promotes the achievement of the Council's objectives.
- 3.2. Under the direction of a suitably qualified and experienced Corporate Head of Audit, Anti-Fraud and Risk Management and Head of Internal Audit and Risk Management, Internal Audit will:
 - Provide management and Members with an independent, objective assurance on the framework of governance, risk management and control and its effectiveness in achieving the Council's objectives and priorities;
 - Provide management with a consulting activity designed to add value and improve the Council's operations;
 - Assist the Audit Committee to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered;
 - Drive organisational change to improve processes and service performance;
 - Work with other internal stakeholders and customers to review and recommend improvements to internal control and governance arrangements in accordance with regulatory and statutory requirements;

- Work closely with other assurance providers to share information and provide a value for money assurance service;
 - Promote continuous improvements in risk management and control systems;
 - Be alert in all audit work to risks and exposures that could allow fraud, corruption, extravagance, waste or inappropriate use of Council resources;
 - Participate in local and national bodies and working groups to influence agendas and developments within the profession.
- 3.3. It is recognised that it is management's responsibility to establish and maintain a sound system of internal control and to prevent and detect irregularities and fraud by ensuring that risks are properly managed. Internal Audit cannot absolve management and senior officers of these responsibilities. The overall aim of Internal Audit is to seek out areas requiring improvement and recommend solutions that will enable the Council to better achieve its objectives.
- 3.4. Internal Audit will ensure that it is not involved in the design, installation and operation of controls so as to compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice.

4. Service Delivery and Resources

- 4.1. The Service will be delivered by the in house internal audit team under the direction of the Corporate Head of Audit, Anti-Fraud and Risk Management and the Head of Internal Audit and Risk Management.
- 4.2. Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and standards.

5. Internal Audit Planning

- 5.1. Audit planning will be undertaken on an annual basis. The plan should be sufficiently flexible to accommodate changes in risks and priorities that arise during the period covered by the plan. Good practice recommends that the audit plan is reviewed on a regular basis throughout the year to ensure that it remains relevant.
- 5.2. Where possible the audit plan will take into account management activities, the external auditor, inspection bodies and other review agencies to ensure the most effective audit coverage is achieved and duplication of effort is minimised.
- 5.3. The annual audit plan and audit coverage will be based on the following:

- The Council's risk registers together with Internal Audit's own assessment of risk in operational areas considering impact and likelihood.
 - The adequacy of risk management, performance management, internal and external review bodies and other assurance processes within the Council.
 - The extent and scope of audit activity in previous years, including the previous audit reports and recommendations made to strengthen controls and enhance systems.
 - The requirements of the external auditors and their ability to utilise the work of Internal Audit in forming their opinion of the Council's Financial Statements.
 - The requirements of regulations and legislation and external factors such as grant conditions
 - The views of senior managers in the directorates and the assurances received from them regarding internal control, governance and risk management
- 5.4. The Head of Internal Audit and Corporate Risk Management will attend departmental management team meetings as part of the annual planning process to ensure that management views and suggestions are taken into account when producing the audit plan.
- 5.5. The Internal Audit Annual Plan 2017-18 is based on the following:
- **Risk Based Systems Audit:** Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through a risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they are operating correctly. The selection of work in this category is driven by Directorates' own risk processes and will increasingly include work in areas where Council services are delivered in partnership with other organisations. The results of audit work will be fed back into the risk management process to form a 'virtuous circle'.
 - **Key Financial Systems:** Audits of the Council's key financial systems. External Audit will have the opportunity to rely on the work of Internal Audit where appropriate.
 - **Probity Audit (schools and other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice is confirmed. For schools this includes assessment against the Schools Financial Value Standard. Coverage is dependent on the assessment of the level of risks.
 - **Computer Audit:** The review of ICT infrastructure and associated systems, software and hardware.

- **Contract Audit:** Audits of the procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.
- **Fraud:** The Audit Investigations Team, within the Audit and Anti-Fraud Division, will investigate any fraud and irregularity arising during the year and also undertake a programme of pro-active counter fraud projects to raise awareness of significant fraud issues.
- **Ad-Hoc Work:** Due to organisational changes and emerging risks and issues, audit resources may need to be allocated to reviews on an ad hoc basis in areas not envisaged in the Audit Plan. These unforeseen alterations will be agreed by the Corporate Head of Audit, Anti-Fraud and Risk Management and reported to the Audit Committee.

6. Follow-up

- 6.1. Internal Audit will evaluate the Council's progress in implementing audit recommendations against set targets for implementation. In areas where there has been limited or no assurance, follow up reviews may be conducted in the following year. Progress will be reported to the Audit Committee on a regular basis.
- 6.2. Where progress is unsatisfactory or management fail to provide a satisfactory response to follow up requests, Internal Audit will implement the escalation procedure as agreed with management. This entails reporting progress with implementation of high and medium priority audit recommendations to directorate management teams on a regular basis.

7. Reporting

- 7.1. Internal Audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work. Progress reports are also periodically issued to the Audit Committee. The Head of Internal Audit and Risk Management's annual report is also submitted to the Audit Committee and this contributes to the assurances underpinning the Annual Governance Statement of the Council.

8. Related Documents

- Internal Audit Charter 2017/2018
- Internal Audit Annual Plan 2017/18