Hackney

Audit & Anti-Fraud Service

Internal Audit Annual Report 2018/19

June 2019

**Finance and Corporate Resources Directorate
Audit and Anti-Fraud Service**

Contents

Introduction

Purpose of this report

This report summarises the results of the work performed by Internal Audit during the financial year 2018/19, including the key themes that can be identified across the Council. It also highlights progress made by management in implementing internal audit recommendations.

Based upon the results of this programme of work, an Audit opinion is provided on the Council's systems of risk, governance and internal control. This Audit opinion is a key source of assurance in the preparation of the Council's Annual Governance Statement.

Overview of work done

The original plan for 2018/19 included a total of audits. There has been close communication with senior management throughout the year to ensure that the audits actually undertaken continued to focus on high risk areas in the light of new and ongoing developments in the Council, and best use of our resources.

As a result of this liaison, some changes were agreed to the plan during the year as follows: -

Total number of projects per original plan	73
Audits added to the plan	2
Cancelled audits as no longer relevant	9
Total number of projects per revised plan	66
Deferred to 2019/20 plan	17
Projects completed from 2017/18 plan	24

The majority of audits were scoped to provide assurance to management on the adequacy and effectiveness of the Council's internal control environment. Others were geared more towards the provision of specific advice and support to management to enhance the efficiency, effectiveness and economy of the services and functions for which they are responsible. Where Internal Audit identified areas for improvement, recommendations were made to further minimise the level of risk, all of which were agreed by management. If implemented, the actions will further enhance the control environment and the operation of the controls in practice.

Structure of Report

This report sets out the results of the work performed as follows: -

- **Overall summary** – work done by Internal Audit including an analysis of report ratings, priority of recommendations and performance of the service.

- **Key themes identified** during internal audit work in 2018/19.

- **Managers' response to internal audit recommendations** – providing a summary of progress with the implementation of recommendations.

- **Directorate analysis** – providing details of assurances for each directorate.

This report has drawn on the findings and assessments included in all of the reports issued during the period.

Overall Summary

Assurance Levels

A summary of the assurances provided for audits completed during 2018/19 (including 13 reports which are draft as at 31 May 2019) is provided in the table below, compared with assurances for audits completed since 2015/16. The 2018/19 data includes 24 of 2017/18 audits which were completed during the year and not previously reported in the 2017/18 statistics.

Assurance	2018/19		2017/18		2016/17		2015/16	
	No of Audits	%	No of Audits	%	No of audits	%	No of audits	%
Significant	21	**33**	22	**27**	18	**37**	24	**34**
Reasonable	32	**48**	38	**47**	24	**49**	34	**47**
Limited	14	**18**	12	**15**	7	**14**	13	**18**
No	2	**1**	7	**11**	0	**0**	1	**1**
Subtotal	69		79		49		72	
No Opinion Given	4		2		4		4	
Total	73		81		53		76	
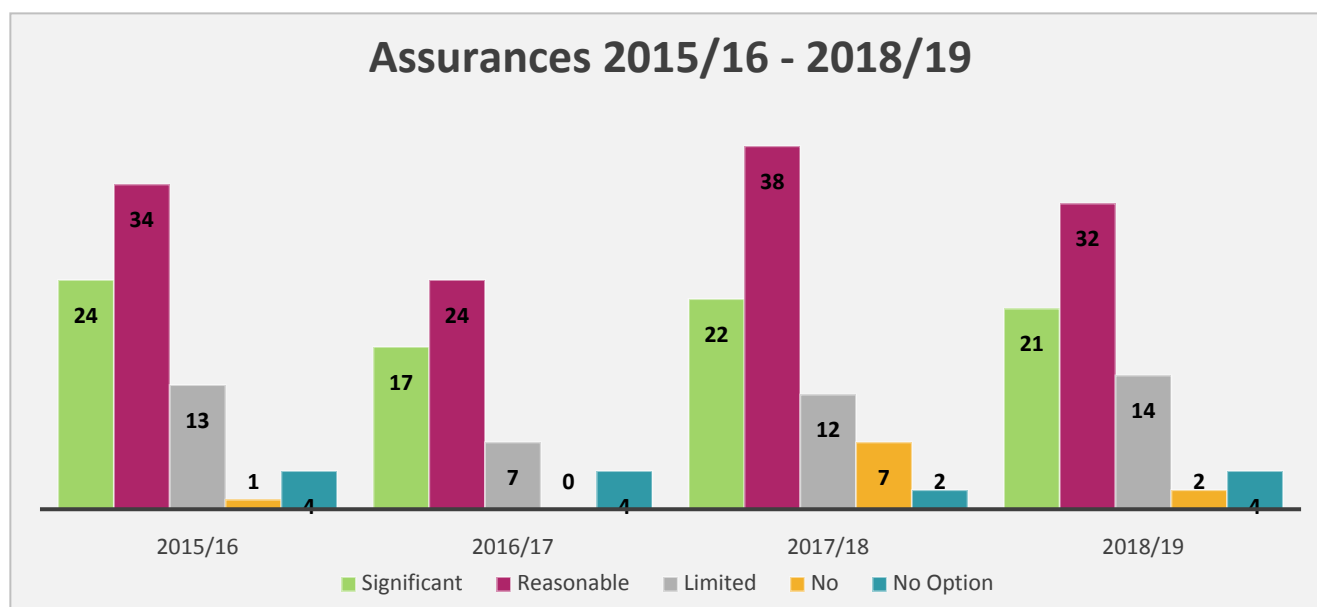
The percentage of 'Significant' and 'Reasonable' assurance rated audits has marginally increased since last year (75.5% compared to 74%) but is at a consistent level over the 4 year period. This indicates that the level of assurance over the Council's control environment has remained stable across the organisation in recent years, although any comparison should be treated with some caution as the differing nature of the risks and associated reviews that are covered by Internal Audit each year may slightly skew the figures.

A detailed analysis of assurances for each audit from reviews completed during 2018/19 is provided at Appendix 3.

Priority of Recommendations

Where Internal Audit work identifies areas for improvement, recommendations are made to manage the level of risk. These are categorised as Critical, High, Medium or Low priority. The number of recommendations made during 2018/19 to address critical, high and medium priority issues is shown in the following table:

Categorisation of Risk	Definition	Number
Critical	Major issues that we consider could have a significant impact upon not only the system, function or process objectives, but also the achievement of the Council's objectives	0
High	Major issues that we consider need to be brought to the attention of senior management.	24
Medium	Important issues which should be addressed by management in their areas of responsibility.	118
Total		**142**

A total of 142 audit recommendations were made and agreed, of which 17% were rated high priority. This compares with 341 made in 2017/18 of which 28% were high priority. These figures as at 31 May 2019 do not include the recommendations from audits still in progress, including 8 draft reports which currently feature an additional 7 high priority and 28 medium priority recommendations.

Definitions of the report ratings for each audit can be found at Appendix 5.

Internal Audit Annual Opinion

Internal audit is satisfied that sufficient audit work has been performed to enable an opinion to be given on the adequacy and effectiveness of the Council's risk, governance and control framework. In providing this opinion, it should be recognised that the assurance given represents an assessment of risks to be addressed. The most that Internal Audit is able to provide is reasonable assurance that there are no major weaknesses in the system of internal control.

The audit opinion is based upon:

- Audits undertaken during the year

- Follow up actions in respect of previous years' audits

- Any significant recommendations not accepted by management and the resulting risks

- Effects of any significant changes in the Council's objectives or systems

- Any reliance being placed upon third party assurances

Internal Audit work performed during 2018/19 supports the conclusion of substantial assurance that the Council's control framework is operating effectively. In support of this conclusion:

- Any weaknesses identified in individual audits were not significant in aggregate to the overall system of internal control:

- Any High risk rated weaknesses identified during individual audits are isolated to specific systems or processes:

- Appropriate remedial actions have been taken by managers during the year to implement audit recommendations and hence strengthen the Council's control framework:

- A small minority of audit reviews were classified as providing 'no' assurance.

Performance and Effectiveness of Internal Audit

Key Performance Indicators for Internal Audit have been established and targets set as part of the annual planning process. Performance against the targets set for 2018/19 are shown in Appendix 2.

In total, 81% of audits were completed or in progress at 31 March 2019 (compared to 93% at the equivalent stage in 2017/18). On average audit reports were issued within 11 days of completing fieldwork, against our target of 15 days.

High levels of satisfaction with audit services have been reflected in the management feedback obtained from questionnaires, which have been returned after audits have been completed. These showed that 93% of managers felt that audits were excellent or exceeded expectations while 99% felt that audits met expectations.

Conformance with Standards

The audit service undertakes work in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS), which came into effect in 2013, and the supplementary Local Government Application Note published by CIPFA. On 1 April 2017 an updated version of the PSIAS was published, this incorporated new and revised international standards and consequent amendments to the additional public sector requirements and interpretations.

In order to meet the requirements of the PSIAS, Internal Audit is subject to a quality assurance and improvement programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor. Under pan-London arrangements agreed in 2013, a peer review of the Council's audit service against the PSIAS was conducted in April 2016. This assessment concluded that overall the internal audit service 'generally conforms' to the criteria as set out in the PSIAS. The assessor identified a number of areas where improvements could be made to ensure full compliance with the PSIAS. Action has been taken to implement and embed the recommendations.

Key Themes

Internal auditors have continued to work closely with officers during 2018/19 and have been engaged in open and challenging discussions about issues raised in Internal Audit reports. These discussions have shown good engagement from management and this has helped to ensure the outputs from Internal Audit work assist management in addressing any issues identified and add value to the organisation.

Overall Assurance

The results of internal audit work indicate that, overall, the Council's control framework continues to be robust and continues to display the improved levels of assurance to the control, risk and governance environment that have been achieved over recent years. Control of key financial systems, governance and risk (for risks identified in the published risk registers) has been generally sound.

Two reports were issued during the year with 'limited' assurance. These related to a review of the new e-tendering procedures and payroll deductions. Recommendations raised during both reviews have been tracked and verified as implemented.

The key themes identified during our audit work in 2018/19 are set out below.

Key Financial Systems

The audit of key financial systems assists the Council's external auditors with their audit planning and provides the necessary confidence that key financial controls in the fundamental systems are operating satisfactorily and support a robust internal control environment.

The Audit Plan includes continuous review of different aspects of the Council's key financial systems, to enable an assurance opinion to be determined for these significant systems which are core to the Council's achievement of its objectives. The findings of these audits together with the findings of audits for similar key areas undertaken in previous years are summarised below. A more detailed analysis is provided at Appendix 4.

Assurances for Key Financial Systems	2018/19		2017/18		2016/17		2015/16	
	No. of projects	%	No. of projects	%	No. of projects	%	No. of projects	%
Significant	6	67	6	60	2	20	5	72
Reasonable	3	33	2	20	6	80	1	14
Limited	-	-	2	20	-	-	1	14
No	-	-	-	-	-	-	-	-
Total	**9**		**10**		**8**		**7**	

Risk Management

Internal Audit planning continues to rely upon the Council's risk management processes, not only by being embedded in the production of the Annual Audit Plan but also as part of the scoping and execution of each individual audit. In preparing the Internal Audit Annual Plan, the Council's corporate and directorate risk registers are used to ensure that there is focus on those areas where there is significant risk to the Council's achievement of its objectives. Each area of activity is evaluated against the relevant risk register assessment to identify the impact and likelihood of concerns that management have identified, including any existing or anticipated material changes to systems, legislation, resources, etc., and also the last audit assurance rating, when the system was last audited and its financial value. When scoping each audit and producing the terms of reference, the auditors refer to the directorate or divisional risk registers to ensure that key risks are identified and considered, and that no major risks are missed out.

Regular communication has been undertaken with the Corporate Risk Advisor on areas which could be of particular interest. The Corporate Risk Advisor sits with the Audit Team and regularly contributes at Internal Audit meetings to ensure a clear linkage is achieved between Risk and Audit, and an emphasis is given to the importance of effective internal controls across the Council.

The Risk Advisor is informed of all High priority recommendations so that these can be taken into account as part of the regular review of the Council's risk registers.

Tenant Management Organisations (TMOs)

The 2018/19 Audit Plan included an allocation of time to perform follow up reviews at four TMOs that had received a 'No' assurance rating in 2017/18. In addition, Internal Audit has continued to work closely with the TMO Services Team to support the promotion of strong internal controls and processes within all of the Council's TMOs.

Management's Response to Audit Recommendations

Implementation of agreed audit recommendations

In order to ensure that managers are responsive to addressing identified system weaknesses and that the Council's control framework is continuously being strengthened, progress with implementing agreed recommendations is tracked. For all high priority recommendations raised since 1 April 2016 and due for implementation by 31 May 2019 results are shown below:

High Priority Recommendations

Directorate	Implemented (including no longer relevant)	Partially Implemented*	Not implemented /No response	Not Yet Due	Total*
Children's, Adults and Community Health	15	0	0	0	15
Neighborhoods and Housing	29	13	2	2	44
Finance & Resources	12	3	1	1	16
Chief Executive's	4	1	0	0	5
Corporate/Cross-Cutting	3	1	0	0	4
Total number	**63**	**18**	**3**	**3**	**84**
Percentage (%)*	**75%**	**21%**	**4%**	**n/a**	**100%**

*Does not include Not Yet Due

The target for 2018/19 is for 90% of high priority recommendations to be implemented by the agreed timescale. The percentage currently stands at 75% fully implemented and 21% partially implemented. This compares with 89% implementation in 2017/18 and 90% implementation in 2016/17.

Medium Priority Recommendations

Of the medium priority recommendations made and due to be implemented, 77% were verified as implemented, which compares with 84% in 2017/18 and 86% in 2016/17.

Directorate	Implemented (including no longer relevant)	Partially Implemented*	Not implemented /No Response	Not yet due	Total*
Children's, Adults and Community Health	59	4	2	4	65
Neighbourhoods and Housing	65	8	9	18	82
Finance & Resources	78	25	18	3	121
Chief Executive's	23	1	1	0	25
Corporate/Cross-Cutting	10	1	2	4	13
Total number	**235**	**39**	**32**	**29**	**306**
Percentage (%)*	**77%**	**13%**	**10%**	**n/a**	**100%**

*Does not include Not Yet Due

Directorate Analysis

The number of audits completed from the 2018/19 audit plan for each directorate (including those at draft stage) and the overall report ratings are summarised in the table below (Appendix 5 provides definitions of the assurance ratings).

Directorate	Significant	Reasonable	Limited	No	Total	2018/19 Overall Assurance	2017/18 Overall Assurance
All /Cross Cutting	1	2	0	0	**3**	**Reasonable**	**Reasonable**
Children, Adults & Community Health	1	2	2	0	**5**	**Reasonable**	**Reasonable**
Neighbourhoods & Housing	4	6	0	0	**10**	**Significant/ Reasonable**	**Reasonable/ Limited**
Chief Executives	0	0	0	0	**0**	**N/a**	**Reasonable**
Finance & Corporate Resources (including ICT)	7	6	3	0	**16**	**Significant/ Reasonable**	**Significant/ Reasonable**
Schools	7	5	4	1	**17**	**Reasonable**	**Reasonable**
Total	**20**	**21**	**9**	**1**	**51**	**Significant/ Reasonable**	**Reasonable**

N.B. These statistics/assurances should be read with caution as the same areas are not audited every year and in some areas numbers are low.

Schools and Children's Centres

During the year seventeen schools were audited, including two Federations (made up of 3 schools in each, audited for the first time) plus follow ups from 'No' assurance reviews in 2017/18. Of these 41% (7) were given 'Significant' assurance, 29% (5) were given 'Reasonable' assurance, 24% (4) were given 'limited' assurance and 6% (1) was given 'No' assurance. The direction of travel has remained the same at four schools, improved at five schools with no schools decreasing. There are two school reports issued in draft. There were a total of 20 high priority and 52 medium priority recommendations made in relation to schools audits in 2018/19.

The table below provides an analysis of the common high and medium priority issues emerging from the school audits performed during 2018/19.

Risk Area	Number of high priority issues	% of high priority issues	Number of medium priority issues	% of medium priority issues
Governance Issues (includes approved procedures, register of interests, Terms of Reference and whistleblowing arrangements)	4	20%	18	34%
Administration and management of monies/bank account (including petty cash arrangements and voluntary fund)	9	45%	12	23%
Purchasing arrangements (including supplier arrangements, selection, use of purchase orders and contractor arrangements)	3	15%	13	25%
Safeguarding of assets (including asset registers and insurance arrangements)	-	-	3	6%
Payroll issues	2	10%	3	6%
Information Governance & GDPR	2	10%	3	6%
Total	**20**	**100%**	**52**	**100%**

The table below provides an overall view of Schools' recommendations for the period 2016/17 to 2018/19.

High and Medium Priority Recommendations 2016/17- 2018/19

Recommendation Priority	Implemented (including no longer relevant)	Partially Implemented*	Not implemented/ No response	Not Yet Due	Total*
High	41	0	1	3	42
Medium	223	6	9	1	238
Total number	**264**	**6**	**10**	**4**	**280**
Percentage (%)*	**94%**	**2%**	**4%**	**n/a**	**100%**

*Does not include Not Yet Due

Appendix 2: Internal Audit performance in 2018/19

Objectives, Key Performance Indicators (KPIs) and Targets			
Objectives	**KPIs**	**Targets**	**Actuals**
Cost & Efficiency To ensure the service provides Value for Money	1) Percentage of planned audits completed 2) Average number of days between end of fieldwork to issue of draft report	1) 90% by year end 2) Less than 15 working days	1) 81% complete or in progress at 31 March 2019 2) 11 days
Quality To ensure recommendations made by the service are agreed and implemented	1) Percentage of 'High Priority' recommendations made which are agreed 2) Percentage of agreed 'High Priority' recommendations which are implemented	1) 100% 2) 90%	1) 100% 2) 75% Fully implemented; 21% partially implemented and 4% are not implemented 2a) In relation to schools 94% are Fully implemented, 2% are partially implemented and 4% are not implemented
Client Satisfaction: To ensure that clients are satisfied with the service and consider it to be good quality	1) Results of Post Audit Questionnaires 2) Results of other Questionnaires 3) No. of Complaints / Compliments	1) 90% to score Satisfactory or above 2) Satisfactory results 3) No target – actual numbers will be reported	1) Achieved (99% met expectations, 92% were excellent or exceeded expectations) 2) Not carried out this year 3) Complaints – 0 Compliments - 0

Appendix 3: Detailed Analysis of Internal Audit Reviews 2018/19

Internal Audit Annual Plan 2018/19				
Description	**High Priority Recs**	**Medium Priority Recs**	**Audit Assurance**	**Status**
2017/18 Audits not previously reported				
Commercial voids	0	2	Significant	FINAL
Housing Transfers - process map	3	2	Limited	FINAL
Network/firewall/wireless security/ use of CIS (DWP) system	0	3	Reasonable	FINAL
Home Care/Domiciliary Services	0	5	Reasonable	FINAL
CILS (Section 106 Agreements)	0	4	Reasonable	FINAL
Building Control Fees	2	1	Limited	FINAL
Gainsborough & Children's Centre	2	6	Limited	FINAL
Planning enforcement – Breaches	0	1	Significant	FINAL
Morningside & Children's Centre	2	5	Limited	FINAL
M3 - application review	0	2	Significant	FINAL
Social Housing/RSLs - follow up	1	0	N/A	FINAL
Roll numbers in schools (Census Survey)	0	0	Significant	FINAL
IT Services in schools	0	0	Significant	FINAL
Information Governance – GDPR	1	3	Reasonable	FINAL
iTrent-new HR/payroll system	1	1	Reasonable	FINAL
Car Mileage Claims	0	6	Reasonable	FINAL
Contract monitoring - lift servicing report	7	2	No	FINAL
Speakers Office	0	3	Reasonable	FINAL
Software licensing	0	3	Reasonable	DRAFT
Holy Trinity CE	1	5	Limited	FINAL
Gifts and Hospitality	1	3	Reasonable	DRAFT
Rent collection – (arrears & debt recovery)	0	4	Reasonable	FINAL
Disaster recovery	0	0	Significant	FINAL
Voluntary Sector Grants				Deferred to 2019/20
Telephone contracts – monitoring	2	5	Limited	FINAL
Adults with Learning Difficulties				TOR – deferred to 2019/20
Adoption Allowances				TOR – deferred
Service Payroll				Deferred to 2019/20

Internal Audit Annual Plan 2018/19				
Description	**High Priority Recs**	**Medium Priority Recs**	**Audit Assurance**	**Status**
CORPORATE CROSS CUTTING				
AGS co-ordination 2017/18 and 2018/19	N/A	N/A	**Significant**	Completed for 2017/18
Payroll				Deferred to 2019/20
Subject Access Requests (SARs)				WIP
IR35				WIP
Matrix agency contract management	0	5	**Reasonable**	FINAL
Commercialisation				Deferred to 2019/20
Pension Fund				Deferred to 2019/20
Purchasing/procurement cards	0	1	**Reasonable**	DRAFT
CHIEF EXECUTIVE'S				
Disclosure & Barring Service (DBS) Checks				WIP
CHILDREN, ADULTS & COMMUNITY HEALTH				
Adult Services/Public Health				
Appointeeships/Court of Protection	0	4	**Reasonable**	FINAL
Public Health Contracts - contract letting				Deferred
Health & Social Care Integration/Integrated Commissioning				Deferred to 2020/21
Mortuary Statutory Review	0	1	**Significant**	FINAL
Children & Families				
Looked After Children (LAC)	1	3	**Limited**	FINAL
Special Educational Needs (SEN) Transport				Deferred to 2019/20
SEN 2017/18 follow up				WIP
S17 Children in Need spend	0	4	**Reasonable**	FINAL
Multi-Agency Working (adults & children)				Deferred
Troubled Families – process review	n/a	n/a	**N/A**	FINAL
Education & Schools				
Schools overview report 2017/18			**N/A**	FINAL
Follow up schools reviews	2	4	**Limited**	FINAL
Facilities Management contract in schools	1	6	**Limited**	FINAL
FINANCE & CORPORATE RESOURCES (EXCL ICT)				
Strategic Property				
Health & Safety				WIP
Asset management	1	2	**Reasonable**	FINAL
Capital Projects - Morning Lane (Tesco site)	0	1	**Significant**	FINAL
Commercial property - debt management	0	2	**Reasonable**	DRAFT
Financial Management				
VAT (HLT)				WIP
NNDR/Business Rates	0	2	**Significant**	FINAL
Accounts Payable	0	5	**Reasonable**	DRAFT
Treasury and Investments	0	1	**Significant**	FINAL
General Ledger – Cedar	0	1	**Significant**	FINAL

Internal Audit Annual Plan 2018/19				
Description	**High Priority Recs**	**Medium Priority Recs**	**Audit Assurance**	**Status**
Customer Services				
Council Tax	0	0	Significant	FINAL
Housing Benefits	1	0	Significant	FINAL
Cash receipting/banking				WIP
Registrars Services	0	4	Reasonable	FINAL
Temporary Accommodation	2	2	Limited	FINAL
Procurement				
Single Tender Action (STA) Process				Deferred to 2019/20
ICT				
Academy IT application review	1	1	Reasonable	DRAFT
iTrent application post implementation review	2	3	Limited	DRAFT
IT equipment disposals	1	7	Limited	FINAL
IT Asset Management	0	5	Reasonable	FINAL
End user devices - security (incl. mobile devices, remote access)	0	1	Significant	DRAFT
IT risk/needs assessment	n/a	n/a	N/A	FINAL
NEIGHBOURHOODS AND HOUSING				
Housing				
Fire related safety work and H&S compliance	0	0	Significant	FINAL
TMOs –Wenlock Barn	1	8	Reasonable	FINAL
- Downs	0	7	Reasonable	FINAL
- Clapton Park – follow up	1	2	Significant	FINAL
- Tower – follow up	1	4	Reasonable	FINAL
- Cranston – follow up	0	7	Reasonable	FINAL
- Wick – follow up				Deferred to 2019/20
Housing Rents				Deferred to 2019/20
DLO				Deferred to 2019/20
Housing Asset Management				WIP
Housing Service Control Framework				WIP
Housing Asset Management Contracts				Cancelled part of PAFT work
Public Realm				
Libraries				WIP
Leisure Centres Management (GLL) - contract monitoring	0	2	Reasonable	DRAFT
APCOA parking contract	0	3	Reasonable	DRAFT
CCTV monitoring contract	0	2	Significant	FINAL
Capital schemes				Deferred to 2019/20
Waste Collection				WIP
Regeneration				
Hackney Sales	0	1	Significant	FINAL

Internal Audit Annual Plan 2018/19				
Description	**High Priority Recs**	**Medium Priority Recs**	**Audit Assurance**	**Status**
Schools				
Baden Powell PS	0	4	Reasonable	DRAFT
Betty Layward PS				Deferred to 2019/20
Viridis Federation (3 schools)	0	1	Significant	FINAL
Daubeney PS+CC				Deferred to 2019/20
New Wave Teaching School Alliance (3 schools)	0	2	Significant	FINAL
Harrington Hill PS (follow up)	0	2	Reasonable	FINAL
Holmleigh PS	3	5	Limited	FINAL
London Fields PS	1	2	Reasonable	FINAL
Mandeville PS				Deferred to 2019/20
Princess May PS	9	11	No	FINAL
Stoke Newington School and Sixth Form	0	4	Reasonable	FINAL
Yesodey Hatorah SGS	4	4	Limited	DRAFT
Ickburgh School	3	5	Limited	FINAL
Stormont House School	0	5	Reasonable	FINAL
St Pauls with St Michael	0	2	Significant	FINAL

Appendix 4: Key Financial Systems – Analysis of Audit Findings

System		Internal Audit Findings				
		2018/19	2017/18	2016/17	2015/16	2014/15
Main Accounting System/General Ledger		Significant	N/a	N/a	Significant	N/a
Capital Asset Accounting/Capital Programme		Significant	N/a	N/a	Significant	Significant
Treasury Management		Significant	N/a	N/a	N/a	N/a
Cash Receipting/Banking		N/a	On line – Significant Bank accounts - Reasonable	Reasonable	Significant	N/a
Procurement		N/a	Limited e-tendering	Reasonable	Limited ASC Contracting	N/a
NNDR	Billing	Significant	N/a	N/a	N/a	Significant
	Valuation, Liability & Collection	Significant	Significant	N/a	N/a	Significant
	Liability – Charitable Relief	Reasonable	N/a	Reasonable	N/a	N/a
	Liability – Empty Rating	N/a	N/a	Reasonable	N/a	N/a
	Recovery & Enforcement	Reasonable	N/a	N/a	N/a	Significant
	Pool Claim	N/a	N/a	N/a	N/a	N/a
Housing Benefit	Benefit Application	N/a	N/a	N/a	N/a	Reasonable
	Overpayments	Significant	N/a	N/a	N/a	N/a
	Reclaim of Grants	N/a	N/a	N/a	N/a	N/a
	Benefits Administration	N/a	N/a	N/a	Significant – Change of Circumstances	N/a
	Reconciliations	N/a	N/a	N/a	N/a	Significant
	CTRS	N/a	Significant	N/a	N/a	N/a
Accounts Payable	Central Systems	Reasonable	Significant	Significant	Significant	Significant
	Directorate Systems	N/a	N/a	N/a	N/a	N/a

Payroll	Overall (key controls)	N/a	N/a	N/a	N/a	N/a
	Starters and Leavers	N/a	Reasonable	N/a	N/a	N/a
	Variations to Pay	N/a	N/a	N/a	N/a	N/a
	Computer System	N/a	N/a	N/a	N/a	N/a
	Processing Payments	N/a	N/a	N/a	N/a	N/a
	Deductions	N/a	Limited	N/a	N/a	N/a
	Payroll Tax Management	N/a	N/a	N/a	N/a	N/a
Accounts Receivable	Billing	N/a	Significant	Significant (Rent collection – billing & collection)	N/a	Reasonable
	Collection	N/a	Significant	Reasonable (HLT debt)	Reasonable	Reasonable
Council Tax	Tax Setting	N/a	N/a	N/a	N/a	N/a
	Billing	N/a	N/a	N/a	N/a	Reasonable
	Valuation, liability, collection	N/a	Significant	N/a	N/a	N/a
	Discounts and Exemptions	N/a	N/a	N/a	N/a	N/a
	Recovery	N/a	N/a	N/a	N/a	Significant
	Reconciliations	N/a	N/a	N/a	N/a	Significant

Appendix 5 – Definitions of Assurance Levels

The **Overall Assurance** given in respect of an audit is categorised as follows:

Level of assurance	Description	Link to risk priorities
Significant	Our work found some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore we can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the system, function or process.	There are two or less medium-rated issues or only low rated or no findings to report.
Reasonable	There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be less than critical or they would be unlikely to occur.	There is no more than one high priority finding and/or a low number of medium rated findings. However, where there are many medium rated findings, consideration will be given as to whether the effect is to reduce the assurance to Limited.
Limited	There are some weaknesses in the design and / or operation of controls which could have a significant impact on the achievement of key system, function or process objectives but should not have a significant impact on the achievement of the Council's objectives. However, there are discrete elements of the key system, function or process where we have not identified any significant weaknesses in the design and / or operation of controls which could impair the achievement of the objectives of the system, function or process. We are therefore able to give limited assurance over certain discrete aspects of the system, function or process.	There are up to three high-rated findings. However, if there are three high priority findings and many medium rated findings, consideration will be given as to whether in aggregate the effect is to reduce the opinion to No assurance.
No	There are weaknesses in the design and/or operation of controls which [in aggregate] have a significant impact on the achievement of key system, function or process objectives and may put at risk the achievement of the Council's objectives.	There are a significant number of high rated findings (i.e. four or more).

⊟ Hackney

London Borough of Hackney

**Internal Audit Charter
2019 - 2020**

Internal Audit Charter

1. Introduction

1.1 This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards (PSIAS). The Charter will be reviewed annually and presented to the Audit Committee for final approval.

2. Mission, Definition and Core Principles

2.1 The Mission of Internal Audit is to "Enhance and protect organisational value by providing risk-based and objective assurance, advice and insight"

2.2 Internal Audit is defined by the Public Sector Internal Audit Standards (PSIAS) as *"an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."*

2.3 The Core Principles of Internal Auditing which, taken as a whole, articulate internal audit effectiveness, are as follows:

    2.1. Demonstrate integrity.

    2.2. Demonstrate competence and due professional care.

    2.3. Be objective and free from undue influence, i.e. be independent.

    2.4. Be aligned with the strategies, objectives and risks of the organisation.

    2.5. Be appropriately positioned in the organisation and be adequately resourced.

    2.6. Demonstrate quality and continuous improvement.

    2.7. Communicate effectively.

    2.8. Provide risk based assurance.

    2.9. Be insightful, proactive and future –focused.

    2.10. Promote organisational improvement.

3. **Purpose**

3.1. In a local authority internal audit provides independent and objective assurance to the organisation, its elected members, senior management and in particular to the Chief Financial Officer to help him discharge his responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

3.2. In addition, the Accounts and Audit Regulations (2015) specifically require an internal audit function and state that a relevant body must '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'. The standards for 'proper practices' in relation to internal audit are laid down in the PSIAS.

3.3. The Council's Financial Procedure Rules (FPR 4) state "a continuous internal audit, under the independent control and direction of the Group Director, Finance and Corporate Resources, shall be arranged to carry out an examination of accounting, financial and other operations of the Council."

4. **Authority and Access to Records**

4.1. In undertaking their duties and responsibilities, auditors and investigators assigned to the Audit and Anti Fraud Division shall be entitled to have full access to all of the Council's data, records, cash, stores, property, assets, personnel and information, whether manual or computerised, that it considers necessary to fulfil its responsibilities. Audit staff may enter Council property and have unrestricted access to all locations and officers where necessary, on demand, and without prior notice. Council staff are expected to provide every possible assistance to facilitate the progress of audits and investigations.

4.2. Access rights apply equally to third parties and organisations, as permitted through the associated contract and partnering arrangements. Right of access to other bodies funded by the Council should be set out in the conditions of funding.

4.3. The Internal Audit function will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that have been finalised, which External Audit would need to discharge their responsibilities.

4.4. All records, documentation and information accessed in the course of undertaking audit reviews shall be used solely for that purpose. All audit staff are responsible for maintaining the confidentiality of information received in the course of their work.

5. Responsibility

5.1. The PSIAS requires the Internal Audit Charter to define the terms 'board' and 'senior management' for the purposes of internal audit activity. The Audit Committee has been designated as the 'board' and Hackney Management Team (HMT) as 'senior management'. The role of the Chief Audit Executive as described in the PSIAS will be covered by the role of the Corporate Head of Audit, Anti-fraud and Risk Management and the Head of Internal Audit and Risk Management.

5.2. The Council's Head of Internal Audit and Risk Management is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the Audit Committee, on the adequacy and the effectiveness of the framework of governance, risk management and control for the whole Council. In order to achieve this, the Internal Audit function has the following objectives:

- To provide a high quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources.
- To provide assurance that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- To provide assurance that significant risks to the Council's objectives are being identified and managed.
- To provide independent assurance over the risk management, internal control and governance processes.
- To provide advice and support to management to enable an effective control environment to be maintained.
- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud.
- To investigate allegations of fraud, bribery and corruption (this is undertaken by the Audit Investigation Team).
- To promote and develop the risk management processes and awareness across the Council.

5.3. There are inherent limitations in any system of internal control and thus error or irregularities may occur and may not be detected by internal audit's work. When undertaking audit reviews, internal audit will provide management with comments and report on failures or weaknesses in internal control systems together with recommendations for remedial action. It remains a management responsibility to maintain an effective system of internal control. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

5.4. The remit of Internal Audit covers the entire framework of governance, risk management and control for the Council.

5.5. Where appropriate, Internal Audit may undertake consulting work for the benefit of the Council. Consultancy is defined as " Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and

control processes without the internal auditor assuming management responsibility. Examples include advice, facilitation and training".

5.6.   Internal Audit may also provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

6. Reporting

6.1.   The PSIAS require the Head of Internal Audit to report at the top of the organisation and this is done in the following ways:

- An Annual Report and Annual Audit Opinion which is used to inform the Council's Annual Governance Statement and which concludes on the overall adequacy and effectiveness of the framework of governance, risk management and control. The Annual Report includes:
    - The opinion
    - A summary of the work that supports the opinion; and
    A statement of conformance with the PSIAS and the results of the quality assurance and improvement programme derived from the internal or external assessment. Any instances of non-conformance with the PSIAS will be reported to HMT and the Audit Committee and will be included in the Annual Report. If there is significant non-conformance this may be included in the Annual Governance Statement
- The Internal Audit Strategy and Charter and any amendments to them are reported to the Audit Committee.
- The Internal Audit Annual Plan is compiled by the Head of Internal Audit and Risk Management taking account of the Council's risk framework, which includes calculating a score based on both impact and likelihood, and after input from members of HMT and other senior managers it is then presented to HMT and the Audit Committee for final comment and approval.
- The Internal Audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Corporate Head of Audit, Anti-Fraud and Risk Management) and the independence of the Internal Audit function will be reported annually to the Audit Committee. The approach to providing resource is set out in the Internal Audit Strategy.
- Performance against the Internal Audit Annual Plan and any significant risk exposures and control issues arising from audit work are reported to Audit Committee on a quarterly basis.
- Any significant consulting activity not already included in the Audit Plan which might affect the level of assurance work undertaken will be reported to the Audit Committee.

7. Independence

7.1. The Corporate Head of Audit, Anti-Fraud and Risk Management is line managed by the Chief Financial Officer however both the Corporate Head of Audit, Anti-Fraud and Risk Management and the Head of Internal Audit and Risk Management have free and unfettered access to the following:

- Group Director of Finance and Corporate Resources (Chief Financial Officer)
- Chief Executive
- Chair of the Audit Committee
- Monitoring Officer
- Any other member of the Hackney Management Team

7.2. The independence of the Corporate Head of Audit, Anti-Fraud and Risk Management is further safeguarded by ensuring that the annual appraisal of the post holder is not inappropriately influenced by those subject to audit. This is achieved by ensuring that the Chief Executive contributes to, and/or reviews the appraisal of the Corporate Head of Audit, Anti-Fraud and Risk Management.

7.3. All Council and agency staff working in the Internal Audit and Investigation Teams are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed. Auditors are also frequently rotated to prevent over-familiarity or complacency which could influence objectivity. In addition stringent procedures are in place relating to the acceptance of gifts and hospitality and the prevention of bribery.

7.4. Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit Committee. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

7.5. Internal Audit must remain independent of the activities that it audits to enable auditors to make impartial and effective professional judgements and recommendations. Internal auditors have no operational responsibilities or authority over any of the activities audited.

7.6. The responsibilities of the Corporate Head of Audit, Anti-Fraud and Risk Management include risk management and counter fraud. To maintain independence in these areas, their role, and that of the team, is clearly defined. For example, the Risk Advisor within the Audit Service has a co-ordinating role and provides support and advice for the maintenance of the risk registers and the development of the Council's risk framework, including revising the Risk Strategy and assisting directorates with reviewing their risks. In order to provide the necessary safeguards as set out in PSIAS standard 1112, where the Chief Audit Executive has roles beyond internal auditing, when audits are conducted in these areas, the Corporate Head of Audit, Anti-Fraud and Risk Management and/or the

Head of Audit & Risk, will remove themselves from the review process of these audits, and all findings and draft reports will be shared at their conclusion with both of these officers and the Group Director of Finance & Corporate Resources.

7.7.   Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. Accountability for the response to the advice and recommendations of Internal Audit lies with management. Managers must either accept and implement the advice and recommendations, or formally reject them accepting responsibility and accountability for doing so. When the Head of Audit and Risk concludes that management has accepted a level of risk that may be unacceptable to the Council, the Head of Audit and Risk must discuss the matter with senior management. If the Head of Audit and Risk determines that the matter has not been resolved, the matter will ultimately be communicated to the Audit Committee.

8.   Counter Fraud

8.1.   Managing the risk of fraud and corruption is the responsibility of management. Internal Audit reviews alone cannot guarantee that fraud or corruption will be prevented or detected. Auditors will, however, be alert in their work to risks and exposures that could allow fraud, corruption or other irregularity to take place.

8.2.   The Corporate Head of Audit, Anti-Fraud and Risk Management will work together with the Head of Audit and Risk Management to seek to develop pro-active anti-fraud work through a series of specifically focussed audits into areas of high risk of fraud and irregularity.

8.3.   The Audit Investigation Team will respond to all notifications of fraud and suspected financial irregularity and will undertake investigations to assess the validity of such allegations. Where weaknesses in internal control are identified these will be communicated to Internal Audit in order that appropriate recommendations can be made to strengthen the controls and help prevent such frauds and irregularities re-occurring.

8.4.   The policies and procedures of the anti-fraud service are detailed in the Council's Anti-Fraud and Corruption Strategy.

9.   Due Professional Care

9.1.   The Internal Audit function is bound by the following standards:
- Institute of Internal Auditor's International Code of Ethics
- UK Public Sector Internal Audit Standards (PSIAS)
- CIPFA Statement on the Role of the Head of Internal Audit
- Seven Principles of Public Life (Nolan Principles)
- All Council Policies and Procedures
- All relevant legislation

9.2.   All internal audit staff are required to sign an annual statement confirming their compliance with the IIA Code of Ethics as included in the PSIAS.

9.3.   Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the PSIAS, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor. An independent assessment was undertaken during 2016.

9.4.   A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. The Head of Internal Audit and Risk Management is required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

10.   Related Documents

- Internal Audit Strategy 2019/20
- Internal Audit Annual Plan 2019/20
- Anti-Fraud and Corruption Policy

London Borough of Hackney

Internal Audit Strategy
2019 - 2020

Internal Audit Strategy 2019- 2020

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. The Strategy will be reviewed annually and presented to the Audit Committee.

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 Audit and Risk Management will attend directorate 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 2019/20 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 2019/20
- Internal Audit Annual Plan 2019/20