London Borough of Hackney

Internal Audit Annual Plan 2020/21

1. Introduction

1.1 The remit of the Audit Committee as detailed in the terms of reference is: -

'To provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of Hackney's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.'

1.2 A key element of this consideration is the Annual Internal Audit Plan which provides details of the audit service's operational approach, working methods and specific audits 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 2020/21.

2. Statutory Requirements

2.1 The Council's Internal Audit Service is delivered in accordance with a regulatory framework comprising: -

- Section 151 of the Local Government Act 1972 which requires every local authority to 'make arrangements for the proper administration of their financial affairs'.

- The Accounts and Audit Regulations 2015 require that all local authorities 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 Public Sector Internal Auditing Standards 2013 (PSIAS), as updated in 2017. These standards set out what is meant by 'proper internal audit practices'. These are mandatory standards.

- 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.

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

2.2. 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 specific reviews 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

2.3 The Internal Audit Charter and the Internal Audit Strategy both reflect the requirements of the PSIAS. These standards 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 links to the Council's objectives and priorities.

3. Main Objectives

3.1 The overall objective of the Internal Audit Service is the provision of a high quality, independent and objective service that effectively meets: -
● The statutory requirements placed on the Council
● The individual needs of customers and stakeholders
● The wider needs of Hackney and its community
● The professional standards set for the provision of internal audit services.

3.2 Internal Audit's key objectives are to:
● Add value, improve operations and help protect public resources.
● Provide assurance that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
● Provide assurance that significant risks to the Council's objectives are being identified and managed through delivery of the Audit Plan covering key areas of Council activity.
● Provide independent assurance over the Council's risk management, internal control and governance processes.
● Provide advice and support to management to enable an effective control environment to be maintained.
● Promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud.
● Investigate allegations of fraud, bribery and corruption (this is undertaken by the Audit Investigation Team).
● Promote and develop risk management processes and awareness across the Council.
● 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.
● To provide a comprehensive service to management in the specialist areas of computer audit and special investigations.
● To ensure a planned approach to anti-fraud initiatives and develop this function as an expanded initiative in the work of the Anti-Fraud Service.
● 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 establish and maintain a sound system of internal control and to prevent and detect irregularities and fraud by ensuring that risks are properly managed. Their responsibility involves:
● ensuring the plans and intentions of the Council are delivered, (including those outlined in plans, policies and procedures) and are in compliance with

the laws/regulations under which the organisation operates;

- ensuring the reliability of data and information used either internally or reported externally;
- safeguarding the Council's resources; and
- promoting efficient and effective operations which safeguard against the risk of fraud.

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 analysis 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 PSIAS. The current level of resources is considered sufficient to develop and ensure delivery of the Audit Annual Plan and provide the necessary assurance on the effectiveness of the system of internal control.

5.2   **Audit Establishment**

The Corporate Head of Audit, Anti-Fraud & Risk Management oversees the work of the Division. At the time of reporting the Audit and Anti-Fraud Service consists of two distinct functions, a restructure of the service is expected to be undertaken during the reporting year as a result of establishment changes following the 2019 voluntary redundancy scheme, this has been delayed as a result of the corporate need to focus on providing key support services during the Covid-19 pandemic. While the resources reported below have taken account of the reduction in staffing levels further changes to the structure may occur.

Internal Audit Team

An in-house team has been in place since 2011 and is responsible for the delivery of the Annual Audit Plan. Following the reduction of two auditor posts as a result of the Council's 2019 voluntary redundancy scheme the team comprises the Head of Internal Audit and Corporate Risk Management, four auditors and a corporate risk advisor. The Council also has a three year contract in place with an independent company which provides specialist IT audit skills to perform the technical aspects of ICT audits within the plan.

Anti-Fraud Teams

The Audit Investigation Team (AIT) and Proactive 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 investigation managers and 14.6 investigators. 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 to deal with the following specific fraud threats:

- One full time investigator from the AIT is dedicated to supporting the Childrens, Adults & Community Health Directorate No Recourse to Public Funds (NRPF). This post is funded by CACH.
- The equivalent of one full time investigator from the AIT is dedicated to undertaking investigations into parking related abuse.
- One part time investigator (0.6 FTE) acting as a liaison officer between the DWP and the Housing Benefit service.

The PAFT incorporates the Tenancy Fraud Team (TFT) which comprising five investigation officers. The Council 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. There has been a reduction of one investigator on this team as a result of the voluntary redundancy scheme.

5.3 **Analysis of Operational Time**

An analysis of operational time has been performed to calculate the resource available for audit and counter fraud activity. This analysis makes allowance for 'non-available' time (corporate management, external audit liaison, staff meetings/briefings, training, etc) and non-operational time for annual leave, bank holidays. After making allowances for these areas, a net amount of productive operational time is available for audit/project work.

5.4 **Available Audit Time**
During 2020/21 it is estimated that operational time available, taking account of a possible disruption of services lasting up to 12 weeks, for internal audit work will be 630 days, and operational time available for anti-fraud activity is estimated to be 1657 days. Should the current measures introduced to combat Covid-19 be reduced then it is anticipated that the number of operational days available will increase. The Division also supports the development of the Council's Chartered Institute of Public Finance & Accountancy (CIPFA) graduate trainees.

Table 1: Operational Days Available 2020/21

	Internal Audit Team	Investigation Teams	Total Days	Percentage %
Gross Days Available	1390	3690	5080	**100**
Less Indirect Time:				
Management/Advice* Leave, training, etc.	520	1313	1833	**36**
Less contingency allowance for disruption to services from Covid-19	240	720	960	**19**

Operational Days Available	630	1657	2287	45

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 independent assurance on the adequacy of the Council's internal control framework. This is delivered through an opinion included as part of the Annual Audit Report. The opinion is derived from the results of audit activity as set out in the Annual Audit Plan, which focuses on areas of highest risk. Following each audit a report is produced for management with recommendations (categorised as High, Medium or Low) for improvement.

6.2 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 an overview of 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 Audit Plan is a flexible and dynamic resource planning tool which, in order to remain relevant, may be revised and adjusted during the year in response to a constantly changing environment and the need to reflect changes in the Council's risks, operations, systems and controls. Where such changes are required, details will be reported to management and the Audit Committee as part of the regular progress reports.

6.4 The Audit Plan is prepared based upon a risk assessment methodology which takes into account the size of the risk or exposure, the likelihood that the risk will materialise, any mitigating controls in place. Known areas of change within the Council and externally (e.g. legislation) are also considered. The main factors taken into account in compiling the Audit Plan consist of:

● Materiality and significance based upon budgets and volumes of transactions.
● Consideration of the Council's strategic risk register, directorate/service level risk registers and corporate objectives.
● Changes to the control environment and significant legislative changes.
● Key governance issues as identified during the previous year's AGS process.
● Concerns and emerging risks as identified through consultation with management teams, external audit and other relevant bodies.
● National and London wide horizon scanning which identifies public sector emerging risks and themes for consideration as part of audit planning.
● Cross fertilisation of risks and themes with Counter fraud work, to ensure that significant fraud risks are managed.
● The need to comply with the PSIAS.
● Previous audit history and assurance level in specific areas including follow up work.
● Other sources of assurance.

6.5 Wherever possible, Internal Audit will take assurance from management's oversight of the control framework, and the results of the inspections performed by any other review bodies, for example Care Quality Commission and Ofsted.

6.6   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.

6.7   The approach outlined above ensures that the Audit Plan is supportive of Directors and Senior Management in delivering the strategic priorities and corporate improvement priorities of the Council, provides an opinion 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   Individual risk assessments on project work are also undertaken and audit reports provide management with advice on risk issues as part of the scope developed for each audit review.

6.9   In addition to ensuring that audit resources are directed to those areas of greatest risk to the Council achieving its objectives, audit activity will also include the following strands:

- Coverage of the Council's key financial systems on a regular basis, to ensure that core assurance is provided.
- Compliance reviews in certain areas, such as the Borough's schools to ensure that every school receives a review at least once every 4 years, but more frequently where a risk assessment indicates that the risk landscape has changed (such as a change in school leadership, impending academisation, discussions with HLT). In appropriate circumstances school reviews will be undertaken through the use of Internal Control Questionnaires.
- Follow up audit work to ensure that recommendations are addressed within the agreed timescales and that where audits received no or limited assurance, a subsequent visit can provide assurance that control weaknesses have been addressed.
- Unforeseen work can arise due to new areas of service provision, management requests or emerging risks which are appropriate to audit within the year. In order to allow some flexibility, a contingency allowance is included to enable such work to be undertaken without adversely affecting delivery of the planned audit work.
- Whilst the majority of audit work can be planned ahead, there are occasions when audits cannot be undertaken (for example, significant change takes place in the audit area). In these circumstances, the audit may need to be deferred, or may be replaced in agreement with the relevant manager.

6.10   Details of the projects included in the Annual Audit Plan for 2020/21 are attached as Annex 1. Key areas of activity that in the past were reviewed annually will in future be reviewed as indicated by a risk assessment, other audits are included which reflect key risks identified through the risk management process and which were considered by the Audit Committee during the year.

7.   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.

- Resources from the investigation teams 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 Internal Audit.

- As in previous years, the team will be involved in the Cabinet Office National Fraud Initiative (NFI). This is an ongoing exercise which involves a national 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. The latest datasets were provided to councils at the end of 2018/19. The service has started work on the new matches and will continue to investigate matches from the previous dataset.

- 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 Financial Investigators under the powers of POCA, one of these is also responsible for overseeing the administration of the Council's use of the powers. 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 at the forefront of investigations work across London.

8.   Performance Management

8.1   It is important that the effectiveness of the work of Internal Audit is monitored and reported in order to comply with the requirements of the Accounts & Audit Regulations 2015, and to provide the necessary assurance to Members and Management as to the adequacy of the Internal Audit function. There is a range of performance criteria for Internal Audit which is monitored throughout the year and reported to the Audit Committee as part of the regular progress reports for the service.

8.2   **Client Liaison**
The Internal 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.

8.3 **Key Performance Indicators (KPIs)**
The objectives of the service for 2020/21 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.

9. Audit Skills and Experience

9.1 Members of the Internal Audit Team have appropriate skills through holding relevant professional qualifications including CIPFA, IIA and AAT, and have considerable experience in internal audit both in the public and private sector.

9.2 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.

9.3 Individual officers 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.

9.4 Staff will continue to be trained to ensure that the needs of the service and personal development requirements are met. A variety of training initiatives for Audit & Anti Fraud staff to be undertaken during the year 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
- Membership benefits of CIPFA's Better Governance Forum include a programme of events and day courses during the year designed to ensure that audit and fraud staff keep up to date
- Participation in the London Audit Group to keep abreast of pan London initiatives
- Training on IDEA, a software tool which supports computer assisted audit techniques, enabling databases to be analysed

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

9.5 On occasions when technical skills are required and it is not cost effective to develop and maintain these skills in house, an external provider is used (e.g. specialist IT auditing skills are bought in to cover the technical IT audits).

INTERNAL AUDIT PLAN 2020/21			
Assignment	**Days**	**High Level Scope/Coverage**	**Reason for Audit**
CORPORATE - CROSS CUTTING			
AGS co-ordination 2019/20 & 2020/21	25	Information gathering from across the organisation to support the production of the Council's AGS.	Core Compliance
Pension Fund	15	Deferred from 2019/20 at management request	Core Financial System
Equal Pay	15	Review of systems and processes to ensure that the Council is complying with equal pay legislation, jobs identified and evaluated, etc Deferred from 2019/20 at management request	Risk Register
Commercialisation	20	Deferred from 2019/20 at management request	Risk Register
Company Governance (e.g. Hackney Light & Power)	15	Council as main stakeholder, how is it exercising control	Risk Register
Climate Change - Zero Carbon Footprint	15	Assurance of how the Council is managing this commitment - Is there a strategy & plans in place to deliver this commitment	Risk Register
SUB TOTAL CROSS CUTTING	**105**		
CHIEF EXECUTIVE'S			
Electoral Services	15	Risk Register	Deferred from 2019/20 due to the general election in 2019 and the pending local election in May 2020.
Grants	15	Key controls ensure grants are paid & monitored appropriately	Audit Plan Cycle
Establishment	15	Effect of reduction in resources following 2019 VR scheme	Management request
Environmental Sustainability	15	Plans and policies in place to deliver expectations	Deferred from 2019/20
SUB TOTAL CHIEF EXEC'S	**60**		
CHILDREN, ADULT & COMMUNITY HEALTH			
Adult Services/Public Health			
Mortuary	10	Statutory Review	Annual Audit

ALD	15	Cyclical review, not audit for at least 5 years	Deferred from 2019/20
Direct Payments	15	Key controls in place to administer payments and protect against fraud	Deferred from 2019/20 at management request
Residential Care	15	Never audited on its own, services outsourced	Deferred from 2019/20
Adults Homecare Payments Team	10	Risk assessment	Deferred from 2019/20 at management request
Housing with Care	15	Previous QCC review resulted in assessment of 'no assurance'	Deferred from 2019/20
Children & Families			
LAC Incidentals	15	Consistency, decision making process, (process for placement, allocation & 3 month review), verifying payments are valid and monitored, overspends	Limited assurance in Nov 2018, to include follow up
Education & Schools			
Schools overview report 2019/20	5	Summary of previous year's audits detailing key themes.	Annual Summary
Compliance review for schools based upon a risk assessment and cyclical review, 13 due this year	36	All schools in the Borough will receive an audit at least every 4 years. All to be done with internal control questionnaires unless specific concerns have been raised.	Compliance
Facilities management in schools	15	New contract	Deferred from 2019/20 at management request
Themed audit Early Years Setting -15 hours free entitlement for 2 year olds	15	Management request - New scheme, complicated processes	Deferred from 2019/20
SUB TOTAL CACH	**166**		
FINANCE & CORPORATE RESOURCES (EXCL ICT)			
Strategic Property			
Consultants	15	Excessive use, consultants with conflicts, working on specs they then charge fees on, eg CA House.	Flagged up during 2018/19 audit, deferred from 2019/20 at management request
Management Companies	20	Tiger Way, etc. Ed Partnerships - new area of activity	Audit Plan Cycle
Financial Management			
Capital Budget monitoring	10	Key controls review	Core Financial System, Audit Cttee interest

NNDR/Business Rates	10	Key controls over registration, billing, arrears, discounts, voids, inspections, appeals, refunds, MIS/PIs.	Core Financial System
Treasury and Investments	10	Compliance review to ensure key controls are effective and processes in place to ensure CIPFA regulations are adhered to. New Prudential Code, MIFID, commercial investment.	Core Financial System
Accounts Payable	10	Ivanti Post Implementation Review	Core Financial System
Customer Services			
Council Tax	10	Council Tax Collection/Enforcement of Arrears	Core Financial System
Cautionary Contact (ASB/CTax Teams)	0	How is Academy joined with UH to ensure our staff are safe when visiting. Flagging up properties where safety of visitors could be at risk due to aggression, etc.	See Housing
Audit & Anti Fraud			
Anti Fraud	25	Compliance with policies/procedures and regulations/legislation, performance and value for money.	Management request
SUB TOTAL F&CR (EXCL ICT)	**110**		
ICT			
Programmes & Projects/Project Benefit Appraisal	25	Partly deferred from 2019/20 and amalgamated with planned benefit appraisal scheduled for 2020/21	Risk Assessment
ICT Risk Management, sources of assurance	10	How & to what level ICT risks are being identified, documented & managed. Given that (some of) the developments are 'cutting edge' what sources of assurance are being sought (internal and/or external).	Risk Assessment
Mobile Device Security & EP Security	12	To ensure that devices are known, managed and utilised securely and effectively and that data security is maintained / encryptions / authentications are also deployed. BYO devices are securely managed.	Risk Assessment
Service Desk Case Management & End User experience	12	Many big changes & fast implementations across platforms – how is the user being treated. End user support is this sufficiently or appropriately managed avoiding delays or down time	Risk Assessment
GDPR - Privacy by Design	10	Ongoing from 2019/20	Risk Assessment

Follow up of recommendations	5		
SUB TOTAL ICT	**74**		
NEIGHBOURHOODS AND HOUSING			
Housing			
TMOs - risk assessed coverage 2 x TMO per year (Suffolk, Wyke)	30	Cyclical review of Council TMOs	Risk Assessment
C/Tax & Hackney Housing - Cautionary Contact	10	How is Academy joined with UH to ensure our staff are safe when visiting. How are staff from other services protected from known risks. Flagging up properties where safety of visitors could be at risk..	H&S Risk to various staff members, List maintained by Estate Safety but issues with access. Deferred from 2019/20
Public Realm			
Capital schemes - Monitoring/project management	15	Audit Planning Cycle - Deferred from 2019/20 at management request due to delay in start of new contract	Risk Assessment
Gold Loggists - recruitment/training/ preparation	10	Lack of appropriately trained staff, leaving strategic decision makers exposed - Effectiveness of system in pandemic crisis	Risk register
Use of Infrastructure Levy/section 106	15	Use of receipts, Article in Property Weekly suggested LBH had 2nd highest discrepancy between receipts and expenditure	Audit Planning Cycle
Regeneration			
Build quality on new builds	15	Ensuring schemes are properly managed throughout build so at completion they are ready to go rather than having to re-visit to ensure compliance with regulations, etc.	Management request, deferred form 2019/20
SUB TOTAL N&H	**95**		
OTHER			
Follow up audit work, completion of 2019/20 audit work and contingency for requests and emerging risks.	40		
Allowance for impact of Covid-19 pandemic	220		
SUB TOTAL OTHER	**260**		

TOTAL AUDIT DAYS	870		

Objectives, Key Performance Indicators (KPI's) and Targets for 2020/21		
Objectives	**KPI's**	**Targets**
Cost & Efficiency 1) To ensure the service provides Value for Money	1) Percentage of annual plan completed by 31 March 2) Average number of days between end of fieldwork to issue of draft report	1) 90% 2) Less than 15 working days
Quality 1) To maintain an effective system of Quality Assurance ensure recommendations made by Internal Audit are agreed and implemented	1) Percentage of agreed significant recommendations which are implemented in agreed timescales	1) 100%
Client Satisfaction 1) 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) Average score of satisfactory and above 2) Satisfactory results 3) No target – actual numbers will be reported
Continuous Improvement 1) To ensure that the service develops in line with modern thinking and practice on Internal Auditing	1) Internal/External assessment under the Public Sector Internal Audit Standards	1) Internal Audit team conforms with the PSIAS