



Audit & Anti-Fraud Division

Internal Audit Annual Report 2019/20

June 2020

**Finance & Corporate Resources Directorate
Audit & Anti-Fraud Division**

Contents

	Page
Introduction	3
Overall summary	4
Key themes	7
Management's response to internal audit recommendations	8
Directorate Analysis	9
Appendix 2 - Internal Audit Performance in 2019/20	11
Appendix 3 - Detailed Analysis of Internal Audit Reviews 2019/20	12
Appendix 4 - Key Financial Systems – Analysis of Audit Findings	20
Appendix 5 - Definitions of Assurance Levels	22
Appendix 6 – Internal Audit Charter 2019/20	23
Appendix 7 – Internal Audit Strategy 2019/20	30
Appendix 8 - Annual Governance Statement	35

Introduction

Purpose of this report

This report summarises the results of the work performed by Internal Audit during the financial year 2019/20, 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.

The work of Internal Audit also helps to inform the production of the Annual Governance Statement which sets out the Council's corporate governance arrangements, attached at the end of this document as Appendix 8.

Overview of work done

The original plan for 2019/20 included a total of 106 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	106
Audits added to the plan	6
Cancelled audits as no longer relevant	2
Deferred to 2020/21 or later	30
Total number of projects per revised plan	80
Projects completed from 2019/20 plan	45
Projects carried forward from 2018/19 plan completed	12

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: -

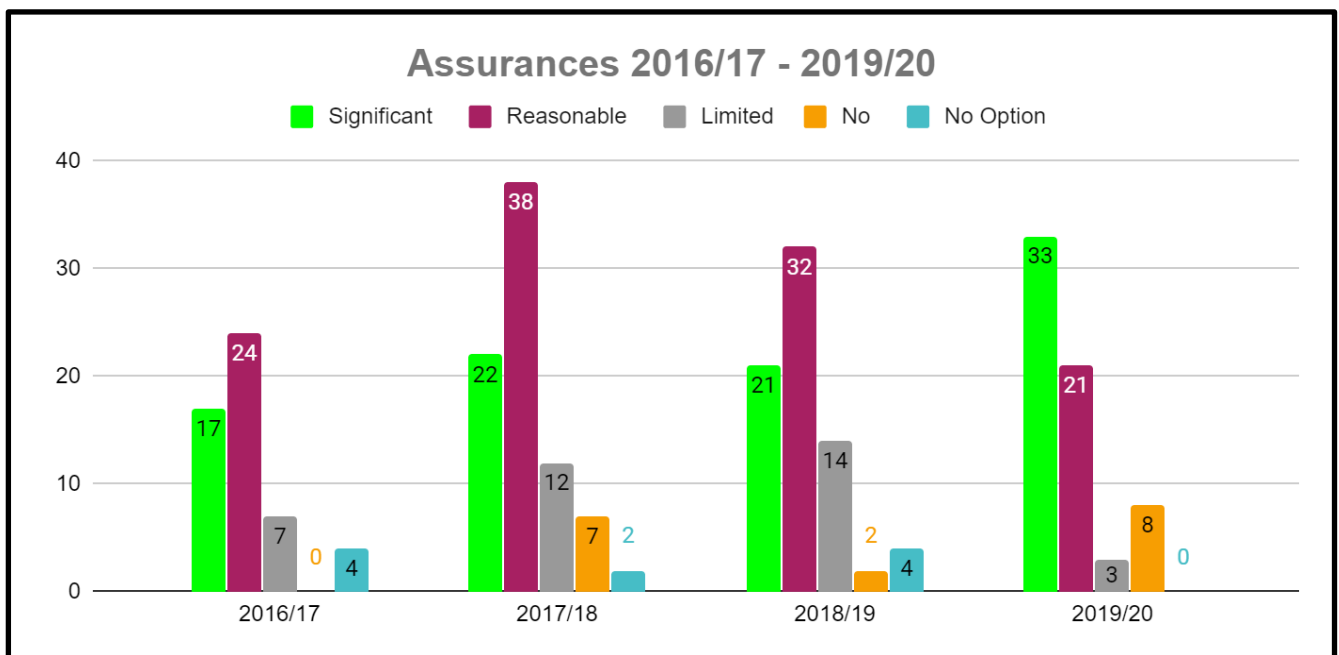
- **Overall summary** – work done by Internal Audit including an analysis of report ratings, priority of recommendations and performance of the service.
- **Key themes identified** during internal audit work in 2019/20.
- **Managers' response to internal audit recommendations** – providing a summary of progress with the implementation of recommendations.
- **Directorate analysis** – providing details of assurances for each directorate.

Overall Summary

Assurance Levels

This report has drawn on the findings and assessments included in all of the reports issued during the period. A summary of the assurances provided for audits completed during 2019/20 is provided in the table below, compared with assurances for audits completed since 2015/16. The 2019/20 data includes 12 of 2018/19 audits which were completed during the year and not previously reported in the 2018/19 statistics.

Assurance	2019/20		2018/19		2017/18		2016/17	
	No of Audits	%	No of Audits	%	No of Audits	%	No of audits	%
Significant	33	58	21	33	22	27	18	37
Reasonable	21	37	32	48	38	47	24	49
Limited	3	5	14	18	12	15	7	14
No	0	0	2	1	7	11	0	0
Subtotal	57		69		79		49	
No Opinion Given	8		4		2		4	
Total	65		73		81		53	



The percentage of 'Significant' and 'Reasonable' assurance rated audits has increased since last year (95% compared to 81%), whilst the number of reviews receiving a 'significant' assurance rating has increased the overall assurance remains relatively consistent over the 4 year period. This indicates that the level of assurance over the Council's control environment has remained stable in recent years. Comparisons should be treated with some caution as the differing nature of the risks and associated reviews covered by Internal Audit each year may slightly skew the figures. See Appendix 3 for a detailed analysis of assurances from reviews completed during 2019/20.

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 2019/20 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.	22
Medium	Important issues which should be addressed by management in their areas of responsibility.	121
Total		143

A total of 143 audit recommendations were made and agreed, of which 18% were rated high priority. This compares with 142 made in 2018/19 of which 17% were high priority. These figures, as at 31 May 2020 do not include the recommendations from audits still in progress, including 9 draft reports.

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 2019/20 supports the conclusion of substantial assurance that the Council's control framework is operating effectively. In support of this conclusion: -

- Weaknesses identified in individual audits were not significant in aggregate to the overall system of internal control
- '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
- No audit reviews were classified as providing 'no' assurance

Overall Assurance

The results of internal audit work indicate that, overall, the Council's control framework is adequate, remains 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.

During the year four reports were issued with 'limited' assurance. These related to reviews of brokerage arrangements, new safeguarding arrangements in Children's & Families services, a post implementation review of the iTrent application and Yesodey Hatorah School. Recommendations raised during the reviews are being tracked and verified once implemented.

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 2019/20 are shown in Appendix 2.

In total, 79% of audits were completed or in progress as at 31 March 2020 (compared to 81% at the equivalent stage in 2018/19). On average audit reports were issued within 17 days of completing fieldwork, against our target of 15 days. This performance of the service was impacted by the outbreak of the Covid-19 pandemic and the effect this had Councilwide to services and resources.

High levels of satisfaction with audit services have been reflected in the management feedback obtained from questionnaires throughout the year, which were returned after audits were completed. These showed that 94% of managers felt that audits were excellent or exceeded expectations. Internal Audit management took a decision not to issue surveys in the final quarter of the year to minimise pressures on service managers.

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. Action has been taken to implement and embed the recommendations.

Key Themes

Internal auditors have continued to work closely with officers during 2019/20 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.

The key themes identified during our audit work in 2019/20 are set out below.

Covid-19 Pandemic

Although an adequate assurance opinion has been provided, there have been significant changes across the authority as a result of the outbreak of Covid-19 which has impacted on every aspect of our service provision, financial resilience, ways of working and of course the health and welfare of those living and working in the borough and especially the most vulnerable in our society. The restructuring of services have been suspended due to the pandemic and this has impacted on the overall control environment and governance arrangements. Our governance arrangements have responded to the crisis, in line with the emergency provisions that were made in the Coronavirus Act 2020, and we have continued to carry out effective governance despite the huge disruption caused by Covid-19. There will, however, be a need to review the Council's governance framework as a result of the changes implemented in response to the pandemic including, but not limited to, the local Code of Governance, business continuity, risk management, financial and corporate resilience.

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	2019/20		2018/19		2017/18		2016/17	
	No. of projects	%	No. of projects	%	No. of projects	%	No. of projects	%
Significant	6	67	6	67	6	60	2	20
Reasonable	3	33	3	33	2	20	6	80
Limited	-	-	-	-	2	20	-	-
No	-	-	-	-	-	-	-	-
Total	9		9		10		8	

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 Internal Audit Team and regularly contributes at Internal Audit meetings to ensure a clear linkage is achieved between management of risks and internal audit, and an emphasis is given to the importance of effective internal controls across the Council.

The Corporate 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.

Management's Response to 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 2020 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	5	0	20
Neighborhoods and Housing	40	8	0	0	48
Finance & Resources	17	4	1	0	22
Chief Executive's	5	0	0	0	5
Corporate/Cross-Cutting	3	1	1	0	5
Total number	80	13	7	0	100
Percentage (%)*	80%	13%	7%	n/a	100%

*Does not include Not Yet Due

The target for 2019/20 is for 90% of high priority recommendations to be implemented by the agreed timescale. The percentage currently stands at 80% fully implemented and 13% partially implemented. This compares with 75% implementation in 2018/19 and 89% implementation in 2017/18.

Medium Priority Recommendations

Of the medium priority recommendations made and due to be implemented, 83% were verified as implemented, which compares with 77% in 2018/19 and 84% in 2017/18.

Directorate	Implemented (including no longer relevant)	Partially Implemented*	Not implemented /No Response	Not yet due	Total*
Children's, Adults and Community Health	70	0	7	13	77
Neighbourhoods and Housing	104	18	0	3	122
Finance & Resources	108	20	16	1	144
Chief Executive's	25	0	0	0	25
Corporate/Cross-Cutting	16	1	4	4	21
Total number	323	39	27	21	389
Percentage (%)*	83%	10%	7%	n/a	100%

*Does not include Not Yet Due

Directorate Analysis

The number of audits completed from the 2019/20 audit plan for each directorate and the overall report ratings are summarised in the table below (Appendix 5 provides definitions of the assurance ratings).

Directorate	Significant	Reasonable	Limited	No	No Opinion	Total	2019/20 Overall Assurance	2018/19 Overall Assurance
Cross Cutting	1	1	0	0	0	2	Reasonable	Reasonable
Children, Adults & Community Health	1	2	2	0	0	5	Reasonable	Reasonable
Neighbourhoods & Housing	3	4	0	0	0	7	Reasonable	Significant/Reasonable
Chief Executives	0	0	0	0	0	0	N/A	N/a
Finance & Corporate Resources (including ICT)	6	1	0	0	0	7	Significant	Significant/Reasonable
Schools	11	6	0	0	7	24	Significant	Reasonable
Total	22	14	2	0	7	45	Significant/Reasonable	Significant/Reasonable

N.B. This should be read with caution as the same areas are not audited each year.

Schools and Children's Centres

During the year 27 schools were reviewed, including five linked children centres and one federation (made up of three schools, audited collectively for the first time) plus one stand alone children's centre. Of these 41% (11) were given 'Significant' assurance, 15% (4) were given 'Reasonable' assurance, there were no 'Limited' or 'No' assurance reports issued. Internal Control Questionnaires were issued to 26% (7) schools/children's centres, Internal Audit reviewed the returns for compliance but did not give an opinion on the adequacy of assurance for these reviews. The direction of travel has remained the same at 15 schools and improved at 11 with no schools decreasing, one new children's centre had not previously been reported upon so had no previous rating to compare. Draft reports have been issued to 5 schools (18%). There were a total of 2 high priority and 27 medium priority recommendations made in relation to schools audits in 2019/20.

The table below provides an analysis of the common high and medium priority issues emerging from the school audits performed during 2019/20.

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)	-	-	8	30%
Budgets (planning, monitoring & reporting, including budget setting & approval)	-	-	2	7%
Administration and management of monies/bank account (includes petty cash arrangements and voluntary fund)	1	50%	4	15%
Purchasing arrangements (includes supplier arrangements, selection, use of purchase orders and contractor arrangements)	-	-	10	37%
Safeguarding of assets (including asset registers and insurance)	-	-	-	
Payroll issues (including IR35 & self employment)	1	50%	1	4%
Information Governance & GDPR	-	-	2	7%
Total	2	100%	27	100%

The table below provides an overview of Schools' recommendations for the period 2016/17 - 2019/20.

High and Medium Priority Recommendations 2016/17- 2019/20

Recommendation Priority	Implemented (including no longer relevant)	Partially Implemented*	Not implemented/ No response	Not Yet Due	Total*
High	47	2	1	3	50
Medium	251	6	5	1	262
Total number	298	8	6	4	312
Percentage (%)*	96%	2%	2%	n/a	100%

*Does not include Not Yet Due

Internal Audit performance in 2019/20

Objective	KPIs	Targets	Actual
<p>Cost & Efficiency</p> <p><i>To ensure the service provides Value for Money</i></p>	<p>1) Percentage of planned audits completed to final/draft report stage</p> <p>2) Average days between the end of fieldwork & issue of the draft report.</p>	<p>1) 90% by year end</p> <p>2) Less than 15 working days</p>	<p>1) 79% complete or in progress</p> <p>2) 17 days</p>
<p>Quality</p> <p><i>To ensure recommendations made by the service are agreed and implemented</i></p>	<p>1) Percentage of significant recommendations made which are agreed</p> <p>2) Percentage of agreed high priority recommendations which are implemented</p>	<p>1) 100%</p> <p>2) 90%</p>	<p>1) 100%</p> <p>2) 80% - fully implemented 13% - partially implemented</p>
<p>Client Satisfaction</p> <p><i>To ensure that clients are satisfied with the service and consider it to be good quality</i></p>	<p>1) Results of Post Audit Questionnaires</p> <p>2) Results of other Questionnaires</p> <p>3) No. of Complaints / Compliments</p>	<p>1) Responses meeting or exceeding expectations</p> <p>2) Satisfactory</p> <p>3) Actual numbers reported</p>	<p>1) 100% (94% exceeded expectations and excellent)</p> <p>2) N/A</p> <p>3) None</p>

Detailed Analysis of Internal Audit Reviews 2019/20

Internal Audit Annual Plan <i>Progress to 31 May 2020 (including 2018/19 audits completed in the year)</i>					
Code	Description	High Priority Recs	Medium Priority Recs	Audit Assurance	Status
2018/19 Audits					
1819LBH03	Subject Access Requests	0	2	Reasonable	Final
1819CE01	Disclosure & Barring Service Checks	0	3	Reasonable	Final
1819CACH06	SEN 2017/18 Follow up	2	4	Reasonable	Final
1819FCR01	Health & Safety	0	4	Reasonable	Final
1819FCR04	Commercial Property – Debt Management	0	2	Reasonable	Final
1819FCR05	VAT (HLT)	0	4	Reasonable	Final
1819FCR07	Accounts Payable	0	5	Reasonable	Final
1819FCR12	Cash Receipting/banking	0	2	Significant	Final
1819ICT02	iTrent application PIR	2	3	Limited	Final
1819ICT05	End user devices - security (incl. mobile devices, remote access)	0	1	Significant	Final
1819NH05	Housing Asset Management				Deferred to 2020/21

1819NH06	Housing Service Control Framework				Deferred to 2020/21
1819NH08	Libraries	0	1	Significant	Final
1819NH13	Waste Collection	0	0	Significant	Final
1819SCH12	Yesodey Hatorah SGS	4	4	Limited	Final
2019/20 Audit Plan					
Corporate / Cross Cutting					
1920LBH01	AGS Co-ordination 2018/19 & 2019/20	N/A	N/A	N/A	Completed for 2018/19
1920LBH02	Pension Fund				Deferred to 2020/21
1920LBH03	Payroll	1	3	Reasonable	Final
1920LBH04	Equal Pay				Deferred to 2020/21
1920LBH05	Recruitment & Retention Payments	0	1	Significant	Final
1920LBH06	Savings Tracking				Deferred to 2020/21
1920LBH07	Contract Management - Performance				Deferred to 2020/21
1920LBH08	Commercialisation				Deferred
1920LBH09	IR35	2	2		Draft

Chief Executive's					
1920CE01	Electoral Services				Deferred due to elections
1920CE02	Environmental Sustainability				Deferred
1920CE03	Grants				Deferred
Children, Adults & Community Health					
Adult Services/Public Health					
1920CACH01	ALD				Deferred
1920CACH02	Residential Care				Deferred
1920CACH04	Health & Social Care/Integrated Commissioning				Deferred
1920CACH05	Agencies Supplying Care	0	3	Reasonable	Final
1920CACH06	Housing with Care				On hold
1920CACH07	Payments Team for Adults Homecare				Deferred
1920CACH08	Panel Processes	0	2	Significant	Final
1920CACH09	Brokerage	4	2	Limited	Final
Children & Families					

1920CACH10	Safeguarding – New Arrangements	2	9	Limited	Final
1920CACH11	Use of UASC - Controlling Migration Fund				Cancelled at Management request
1920CACH12	LAC Incidentals				Deferred
1920CACH13	Children Leaving Care				WiP
1920CACH14	Children's Disability Payments				Draft
Education					
1920CACH15	Schools Overview Report 2018/19				WiP
1920CACH16	Special Educational Needs (SEN) Transport	0	7	Reasonable	Final
1920CACH17	Themed audit Early Years Setting -15 hrs free entitlement for 2 yr olds				Deferred
Public Health					
1920CACH03	Mortuary Statutory Review				Draft
Follow Up					
1920CACH18	Direct Payments				On Hold
FINANCE & CORPORATE RESOURCES					
Strategic Property					

1920FCR01	Consultants				Deferred to 2020/21
1920FCR02	Management Companies				Deferred to 2020/21
Financial Management					
1920FCR03	Budget Monitoring				Deferred
1920FCR04	NNDR/Business Rates				Deferred
1920FCR05	Creditors/Accounts Payable	0	0	Significant	Final
1920FCR06	Treasury and Investments				Deferred
1920FCR07	General Ledger	0	2	Significant	Final
1920FCR08	C/Tax & Hackney Housing - Cautionary Contact				Deferred at management request
1920FCR09	Financial Resilience	0	0	Significant	Final
Follow Up					
1920FCR14	Accounts Receivable – ASC Debt	1	1	Significant	Final
1920FCR15	FM in Schools				Deferred at mgmt request
Customer Services					
1920FCR10	Council Tax				Deferred

1920FCR11	Housing Benefits	0	1	Significant	Final
1920FCR12	Cash Receipting/Banking	0	2	Significant	Final
Procurement					
1920FCR13	Single Tender Action (STA) Process	0	4	Reasonable	Final
ICT					
1920ICT01	Back Office Side (e.g. Licensing & Parking)				Deferred
1920ICT02	Cyber Resilience				Draft
1920ICT03	Programme & Project Governance, Delivery & QA				ToR
1920ICT04	GDPR - Information/Data Security				ToR
Neighbourhoods & Housing					
Housing					
1920NH01	Arden TMO	1	9	Reasonable	Final
1920NH02	Lordship South TMO	1	8	Reasonable	Final
1920NH03	Wick TMO				On hold at management request
1920NH04	Housing Rents	0	3	Significant	Final

1920NH05	DLO				WIP
1920NH06	Right To Buy	0	0	Significant	Final
1920NH07	Major Works				WiP
1920NH08	Resident Safety Compliance & Testing				Deferred
1920NH09	Housing Capital Budget	0	2	Reasonable	Final
Public Realm					
1920NH10	Capital Schemes - Monitoring/Project Management				Deferred to 2020/21 at management request
1920NH12	Parking Income				Draft
1920NH13	Markets Management	0	0	Significant	Final
Regeneration					
1920NH11	Build Quality on New Builds				Deferred
1920NH14	Disability Facilities Grant - Private Sector Housing	2	3	Reasonable	Final
Schools					
Children's Centres					
1920SCH01	Ann Tayler Children's Centre	0	0	No Opinion	Final - ICQ

1920SCH02	Brook Children's Centre (With School)				Cancelled to do audit with school
1920SCH03	Clapton Park Children's Centre	-	-	No Opinion	Final - ICQ
1920SCH04	Comberton Children's Centre	0	2	Significant	Final
1920SCH05	Comet Children's Centre	-	-	No Opinion	Final - ICQ
1920SCH09	Hillside Children's Centre	-	-	No Opinion	Final - ICQ
1920SCH10	Linden Children's Centre	-	-	No Opinion	Final - ICQ
1920SCH11	Lubavitch Children's Centre (New to LBH)	-	-	-	Cancelled - moved to Academy
Primary Schools					
1920SCH16	Betty Layward Primary School	0	4	Reasonable	Final
1920SCH17	Colvestone Primary School				Deferred to 2020/21
1920SCH06	Daubeney Primary School (incl CC)				Draft
1920SCH08	Gainsborough Community School (incl CC)				Deferred
1920SCH19 1920SCH22 1920SCH24	Leap Federation Gayhurst Community Kingsmead Primary Mandeville Primary	0	3	Reasonable	Final
1920SCH20	Holy Trinity CE Primary School	0	0	Significant	Final

1920SCH07	Jubilee School (incl Fernbank CC)	0	2	Significant	Final
1920SCH23	Lauriston Primary School				Draft
1920SCH13	Morningside Primary School (incl CC)	0	2	Significant	Final
1920SCH26	Our Lady and St Joseph's RC Primary School	0	1	Significant	Final
1920SCH27	Princess May Primary School	1	0	Significant	Final
1920SCH28	Queensbridge Primary School (incl Mapledene CC)				Deferred to 2020/21
1920SCH29	Randal Cremer Primary School				Draft
1920SCH14	Sebright School (incl CC)				Draft
1920SCH31	Simon Marks Jewish Primary School	1	1	Significant	Final
1920SCH32	Sir Thomas Abney School	0	0	Significant	Final
1920SCH33	St. John the Baptist CE Primary School				Deferred to 2020/21
1920SCH34	St. Matthias CE Primary School				Deferred to 2020/21
1920SCH35	St. Monica's Roman Catholic Primary School	0	0	Reasonable	Final
1920SCH15	Tyssen Community Primary School (incl CC)	0	3	Reasonable	Final
1920SCH37	Shoreditch Park Primary School	0	2	Significant	Final

1920SCH41	St Scholastica Catholic Primary School	0	2	Significant	Final
Secondary Schools					
1920SCH38	Cardinal Pole Catholic School	0	2	Significant	Final
1920SCH39	Our Lady's Convent High School	-	-	No Opinion	Final -ICQ
1920SCH40	The Urswick School	-	-	No Opinion	Final -ICQ

Key Financial Systems Analysis of Audit Findings

System		Internal Audit Findings				
		2019/20	2018/19	2017/18	2016/17	2015/16
Main Accounting System/General Ledger		Significant	Significant	N/a	N/a	Significant
Capital Asset Accounting/Capital Programme		N/a	Significant	N/a	N/a	Significant
Treasury Management		N/a	Significant	N/a	N/a	N/a
Cash Receipting/Banking		Significant Self-service Payment Centre	N/a	On line – Significant Bank accounts - Reasonable	Reasonable	Significant
Commercial Property		Reasonable Debt Management	N/a	N/a	N/a	N/a
Procurement		Reasonable Single Tender Action	N/a	Limited e-tendering	Reasonable	Limited ASC Contracting
NNDR	Billing	N/a	Significant	N/a	N/a	N/a
	Valuation, Liability & Collection	N/a	Significant	Significant	N/a	N/a
	Liability – Charitable Relief	N/a	Reasonable	N/a	Reasonable	N/a
	Liability – Empty Rating	N/a	N/a	N/a	Reasonable	N/a
	Recovery & Enforcement	N/a	Reasonable	N/a	N/a	N/a
	Pool Claim	N/a	N/a	N/a	N/a	N/a
Housing Benefit	Benefit Application	N/a	N/a	N/a	N/a	N/a
	Overpayments	N/a	Significant	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	N/a	Significant – Change of Circumstance
	Appeals	Significant	N/a	N/a	N/a	N/a
	Reconciliations	N/a	N/a	N/a	N/a	N/a

	CTRS	N/a	N/a	Significant	N/a	N/a
Accounts Payable	Central Systems	Significant	Reasonable	Significant	Significant	Significant
	Directorate Systems	N/a	N/a	N/a	N/a	N/a
Payroll	Overall (key controls)	Reasonable	N/a	N/a	N/a	N/a
	Starters and Leavers	N/a	N/a	Reasonable	N/a	N/a
	Recruitment & Retention	Significant	N/a	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	N/a	Limited	N/a	N/a
	Payroll Tax Management	N/a	N/a	N/a	N/a	N/a
Accounts Receivable	Billing	N/a	N/a	Significant	Significant (Rent collection – billing & collection)	N/a
	Collection	Significant ASC Debt F/up	N/a	Significant	Reasonable (HLT debt)	Reasonable
Council Tax	Tax Setting	N/a	N/a	N/a	N/a	N/a
	Billing	N/a	N/a	N/a	N/a	N/a
	Valuation, liability, collection	N/a	N/a	Significant	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	N/a
	Reconciliations	N/a	N/a	N/a	N/a	N/a

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).



London Borough of Hackney

Internal Audit Charter

June 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:
- Demonstrate integrity
 - Demonstrate competence and due professional care
 - Be objective and free from undue influence, i.e. be independent
 - Be aligned with the strategies, objectives and risks of the organisation
 - Be appropriately positioned in the organisation & adequately resourced
 - Demonstrate quality and continuous improvement
 - Communicate effectively
 - Provide risk based assurance
 - Be insightful, proactive and future-focused
 - 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 the external auditor 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:
- (i) 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
- (ii) The Internal Audit Strategy and Charter and any amendments to them are reported to the Audit Committee.

- (iii) 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.
- (iv) The Internal Audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.
- (v) The adequacy, or otherwise, of the level of internal audit resources (as determined by the Group Director of Finance & Corporate Resources) and the independence of the Internal Audit function will be reported annually to the Audit Committee. The approach to providing resources is set out in the Internal Audit Strategy.
- (vi) Performance against the Internal Audit Annual Plan and any significant risk exposures and control issues arising from audit work are reported to the Audit Committee on a quarterly basis.
- (vii) 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, Finance & 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 Corporate 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 Internal Audit & Risk Management, 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, 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 Internal Audit and Risk Management concludes that management has accepted a level of risk that may be unacceptable to the Council, the Head of Internal Audit and Risk Management must discuss the matter with senior management. If the Head of Internal Audit and Risk Management 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. Internal 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 Internal Audit and Risk Management to seek to develop proactive anti-fraud work through a series of specifically focussed audits into areas of high risk of fraud and irregularity.
- 8.3. The Investigation Teams 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 reoccurring.
- 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 Auditors 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 2020 - 2025
- Internal Audit Annual Plan
- Anti-Fraud and Corruption Policy



London Borough of Hackney

Internal Audit Strategy

Internal Audit Strategy

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 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 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 is based on the following: -

- (i) **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'.
- (ii) **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.
- (iii) **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.
- (iv) **Computer Audit:** The review of ICT infrastructure and associated systems, software and hardware.
- (v) **Contract Audit:** Audits of the procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.
- (vi) **Fraud:** The Audit Investigation Teams, within the Audit and Anti-Fraud Division, will investigate any fraud and irregularity arising during the year and also undertake a programme of proactive counter fraud projects to raise awareness of significant fraud issues.
- (vii) **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 annual audit plan. These unforeseen alterations will be agreed by the Head of Internal Audit 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 fails 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
- Internal Audit Annual Plan