

London Borough of Hackney

Internal Audit Annual Plan 2023/24

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 2023/24.

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.
 - Provide an annual audit opinion based on the work of internal audit together with other sources of assurance.
 - Ensure that the statutory requirements of the Accounts and Audit Regulations 2015 in relation to a published Annual Governance Statement (AGS) are met.
 - Provide a comprehensive service to management in the specialist areas of computer audit and investigations.
 - Ensure a planned approach to anti-fraud initiatives and develop this function as an expanded initiative in the work of the Anti-Fraud Service.
 - Undertake work in developing our partnership working arrangements with external agencies, including External Audit.

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 objectives/intentions of the Council are delivered (including those outlined in plans, policies & 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
- 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. The Audit and Anti-Fraud Service consists of three distinct functions, a restructure of the service was completed during 2022/23 and operational internal audit capacity remains unchanged following this.

Internal Audit Team

An in-house team is responsible for the delivery of the Annual Audit Plan. The team comprises the Corporate Head of Internal Audit, Anti-Fraud and Corporate Risk Management, the Internal Audit Manager and four audit staff.

IT Audit resource

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.

5.3 Analysis of Operational Time

An analysis of operational time has been performed to calculate the resource available for audit activity. This analysis makes allowance for 'non-available' time (corporate management, external audit liaison, staff meetings/briefings, training, etc) and non-operational time such as annual leave. 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 2023/24 it is estimated that operational time available for delivery of the 2023/24 internal audit plan will be 723 days. The division also supports the development of the Council's Chartered Institute of Public Finance & Accountancy (CIPFA) graduate trainees, no allowance has been made in the figures as it is unclear what resources might be assigned to the division during the financial year.

Table 1: Operational Days Available 2023/24

	Internal Audit Service	Percentage %
Gross Days Available	1390	100%
<u>Less Indirect Time:</u>		
Management/Advice*	-306	22%
Leave, training, etc.	-234	17%
Vacancy drag	-31	2%
Contingency allowance for completion of 2022/23 audit plan and capacity to review areas identified for audit in-year	66	5%
Operational Days Available for delivery of the 2023/24 plan	753	54%

*This includes all 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 and 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 2023/24 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 Anti Fraud Work

7.1 The assurance work that Internal Audit undertakes is supplemented by the Division's counter-fraud and risk management activity. 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.

7.2 Resources from the investigation teams are also used to carry out proactive reviews. During the year the team will focus on a variety of areas within the services run by the Council and will carry out anti-fraud initiatives utilising a variety of techniques, linking this with the work of Internal Audit. Details of the 2023/24 Proactive Counter-Fraud plan are set out in the April Progress Report (Appendix 4).

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 areas for improvement and enable action to be taken to rectify matters.

8.3 **Key Performance Indicators (KPIs)**

The objectives of the service for 2023/24 and the KPIs which will be used to measure cost and efficiency, quality and client satisfaction are shown in Annex 2.

9. **Audit Skills and Experience**

9.1 Members of the Internal Audit Service have appropriate skills, 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 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 seminars and in-house training courses. Training needs are assessed on an ongoing basis.

9.4 Staff continue to be trained to ensure that the needs of the service and personal development requirements are met. A variety of training initiatives are planned during the year including: -

- Continuous personal development opportunities
- Membership benefits of CIPFA's Better Governance Forum include an annual programme of events designed to ensure that audit and anti-fraud staff keep abreast of current developments
- London Audit Group participation to keep abreast of pan London initiatives

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

9.5 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 brought in to cover the technical IT audits).

INTERNAL AUDIT PLAN 2023/24			
Assignment	Days	High Level Scope/Coverage	Reason for Audit
CORPORATE - CROSS CUTTING			
AGS co-ordination 2022/223 & 2023/24	25	Information gathering from across the organisation to support the production of the Council's AGS.	Core Compliance
Climate Change/Zero Tolerance	15	Corporate review of the Climate Action Plan	Assurance - Deferred from 2021/22
Equal Pay	15	Compliance with legislation/regulations	Regulatory compliance Deferred from 2022/23.
Culture - Officer/Member working relationships	15	Focus on the suitability of the policies and procedures that are in place to guide officers and members	Organisational Risk
Gifts and Hospitality	15	Compliance with revised policy and promptness of management review when declarations are made	Compliance
Public Interest Reports, PIRs - Lessons Learnt	15	Implementation of issues raised in PIRs	Organisational Risk
SUB TOTAL CROSS CUTTING	100		
CHIEF EXECUTIVE'S			
Legal, Democratic & Electoral Services			
Voter ID and Election Act 2022	10	New ID requirement for voting. Risk of LBH not complying with new legislation in time for an election.	Regulatory compliance Organisational Risk
Internal Communications - Google Contacts	15	Review of the arrangements that are in place to facilitate internal communications, including Google contacts, and the supporting policies and procedures	Assurance, Organisational Risk
SUB TOTAL CHIEF EXEC'S	25		
CHILDREN & EDUCATION			
Children & Families			
Development of Children & Family Hubs	10	Significant government funding & joint working, setting up new governance arrangements. IA representation on Transformation Board.	Advisory role

INTERNAL AUDIT PLAN 2023/24

Assignment	Days	High Level Scope/Coverage	Reason for Audit
Joint Agency Funding - Children with Complex Needs	15	Efficient and effective use of funding	Deferred from 2022/23. Assurance, financial and reputational risks
Cost of Children in Alternative Provision	15	Costs incurred as a result of Exclusions	Deferred from 2022/23. Financial and reputational risks
Foster Care Payments	15	Not recently reviewed; assurance review of payments that carers are entitled to	Management Request. Reputational Risk
CFS Residential Placements - LAC	15	Added pressure on the service due to increasing placement costs due to care providers being faced with the challenges of rising inflation and the cost of living crisis.	Financial Risks. The risk relates to the increasing financial pressures this is placing on the Council.
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 & cyclical review, 11 this year.	58	All schools receive an audit at least every 4 years.	Compliance
Falling School Roll Numbers / Surplus Primary School Places	15	Surplus primary school places result in financial pressure on schools and threatens their long-term viability. Projected figures suggest this risk will intensify and increasingly affect secondary schools as the years pass. This places a serious financial burden on HE, and the Council	Management Request. Assurance, financial and reputational risks
Traded Services	10	This is on a not for profit traded basis whereby the activity is required to generate sufficient income to cover total costs of trading.	Assurance, Financial risk
Unregistered Settings	15	Unregistered centres are neither known to, nor inspected by Ofsted, raising potential issues relating to the wellbeing and safeguarding of children and young people in the borough.	Management Request
SUB TOTAL C&E	173		
ADULTS, HEALTH & INTEGRATION			
Adult Services/Public Health			

INTERNAL AUDIT PLAN 2023/24

Assignment	Days	High Level Scope/Coverage	Reason for Audit
Mortuary	15	Statutory Review	Annual Audit
Integrated Learning Disabilities Service (ILDS)	15	Cyclical review, not audited for at least 5 years	Audit Planning Cycle Deferred from 2019/20 & again from 2020/21 & 2021/22 due to Covid & Cyber.
Public Health Commissioned Services - Substance Abuse	15	Management request	Management Request. Assurance
Residential Care	15	CQC inspection planned for next year	Assurance
Procurement of Homecare	15	Procurement exercise - compliance with procedures and operation of the arrangements in practice	Assurance
AH&I - Direct Payments Financial Assessment Process	15	Management Request - Focus on the overall governance including supporting systems.	Deferred from 2020/21 as a result of Cyber Attack
Supporting Families Programme Grant	12	Quarterly Review	Dfe Compliance, Assurance
SUB TOTAL AHI	102		
FINANCE & CORPORATE RESOURCES			
Financial Management			
Main Accounting System	15	Cyclical review	Core Financial System
Accounts Payable	15	Cyclical review	Core Financial System
Pensions	15	Cyclical review	Core Financial System
VAT compliance on income	15	Review the categorisation of income to provide assurance over the consistent application of VAT to maximise income due and ensure compliance with HMRC requirements.	Management Request. Compliance
Fleet management - Maintenance of Fleet	10	The recent incident SEND transport bus fire. 20 Jan 2022. Fleet Maintenance contract was brought back in house in April 2021	Assurance. Reputation Risk
Risk Management	10	Governance, Processes & Procedures	Cyclical Review
Procurement			
Reprocurement of expiring contracts	15	Some contracts may not be renewed in good time - this could lead to more lax procurement standards by	Management Request

INTERNAL AUDIT PLAN 2023/24

Assignment	Days	High Level Scope/Coverage	Reason for Audit
		purchasing services, poor vfm or more requests for STAs	
Energy & Carbon Management - Hackney Schools	15	A review of the Council's Energy team to ascertain current arrangements /contracts for schools. Schools are currently facing an increase in energy bills in light of the cost of living crisis.	Assurance. Financial Risks
Human Resources			
Matrix ICT Contract (Digital market place)	15	Checks and balances in the system that is used for procurement by ICT. Spend has increased significantly with them since 2017.	Compliance with corporate processes
Service Payroll	15	The service payroll is being used for situations that were not originally envisaged, assurance over governance and operations.	Compliance. Assurance
Strategic Property			
Commercial Property Income	15	Increased risk to income due to pandemic.	Risk register
Rev's & Ben's			
Money Hub	15	Processes and procedures, possibly look at the rationale for other support being outside Money Hub	Management Request
SUB TOTAL FCR (EXCL ICT)	170		
ICT			
3 year ANA	7	Preparing 3 year Audit Needs Assessment to focus resources on areas of highest risk	Audit Planning
ICT governance	12	Focusing on the governance of technical design, change management and information security	Reputational risk and compliance
ICT Asset Management	10	Processes to record and manage ICT assets	Risk assessment - Reputational risk and compliance
Cloud platform	15	Reviewing the design, implementation and roadmap for our cloud platform	Audit Planning cycle & risk assessment
Freedom of Information, FOI	10	Application processes, response times, record keeping	Deferred from 2022/23
Assurance on New Systems, Repairs, Asset Management & Community Safety	15	New systems - are they meeting expectations	Deferred from 2022/23

INTERNAL AUDIT PLAN 2023/24

Assignment	Days	High Level Scope/Coverage	Reason for Audit
Follow up of recommendations	4		Deferred from 2022/23
SUB TOTAL ICT	73		
CLIMATE, HOMES & ECONOMY			
Housing			
TMOs - risk assessed coverage 2 x TMO per year	20	Cyclical review of Council TMOs	Risk Assessment
Right to Buy Scheme	15	Not reviewed since 2016/17	Management Request
Rent arrears - Incl. Effect of UC on tenant arrears	15	Management request to defer to Q1 2023/24	Financial Risk. Deferred from 2022/23
Complaints Handling - Housing	15	Concerns raised by the Housing Ombudsman about handling complaints.	Assurance , Reputational Risk
Public Realm			
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. Deferred from 2022/23
Regeneration			
Planning Enforcement	15	Nearly nine in 10 local planning authorities are struggling with a backlog of planning enforcement cases as "unmanageable workloads" mean many councils cannot meet demand, a report by the Royal Town Planning Institute	Assurance, Reputational Risk
Leasehold Major Works- Debt Recovery	15	Debt recovery work may be adversely affected by system issues and a wait to appoint new contractors.	Assurance, Financial Risks
SUB TOTAL CHE	110		
ALL DIRECTORATES TOTAL	753		
Contingencies	66	Follow up work & completion of 2022/23 audits, contingency for emerging risks.	
TOTAL AUDIT DAYS	819		

Objectives, Key Performance Indicators (KPI's) and Targets for 2022/23		
Objectives	KPI's	Targets
<p>Cost & Efficiency</p> <p>1) To ensure the service provides Value for Money</p>	<p>1) Percentage of annual plan completed by 31 March</p> <p>2) Average number of days between end of fieldwork to issue of draft report</p>	<p>1) 90%</p> <p>2) Less than 15 working days</p>
<p>Quality</p> <p>1) To maintain an effective system of Quality Assurance to ensure recommendations made by Internal Audit are agreed and implemented</p>	<p>1) Percentage of high and medium recommendations made which are agreed</p> <p>2) Percentage of agreed high and medium recommendations which are implemented in agreed timescales</p>	<p>1) 100%</p> <p>2) 90%</p>
<p>Client Satisfaction</p> <p>1) To ensure that clients are satisfied with the service and consider it to be good quality</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) Average score of satisfactory and above</p> <p>2) Satisfactory results</p> <p>3) No target – actual numbers will be reported</p>