INTERNAL AUDIT SERVICE

INTERNAL AUDIT CHARTER and STRATEGY
2016-17
This Charter and Strategy sets out the purpose, authority and responsibility of the Council’s Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards. It also sets out how the South West London Audit Partnership will be developed and delivered in accordance with these standards.

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

PURPOSE

Internal Audit is defined by the Institute of Internal Auditors’ International Professional Practices Framework 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”.

In a local authority, internal audit provides independent and objective assurance to the organisation, its members, the senior management board (Executive Board at Richmond, Strategic Leadership Team at Kingston, Corporate Management Teams at Merton and Sutton), and in particular the Directors of Finance to help them discharge their responsibilities under s151 of the Local Government Act 1972, relating to the proper administration of the Council’s financial affairs. For AfC, internal audit provides assurance to its Strategic Leadership Team and Audit Committee.

In addition, the Accounts and Audit Regulations 2015, Regulation 6 (1), requires that:

“A relevant body must undertake an effective internal audit to evaluation the effectiveness of its risk management, control and governance processes taking into account public sector Internal audit standards and guidance”. Internal Audit proper practices is defined as compliance with the Public Sector Internal Audit Standards and the CIPFA application note.

Within an organisation, there are 3 lines of defence in place to effect controls. The first line of defence is the day to day operational controls, the second is the management controls (budget & performance monitoring, trend analysis) and the third is independent inspection, both internal & external.

Internal audit provides assurance on the effectiveness of governance arrangements, risk management and internal controls, and this includes an assessment of the effectiveness of the first two lines of defence. Internal audit can place reliance on assurances provided by third parties, although depending on the source, this may require some independent validation.

AUTHORITY and ACCESS TO RECORDS

References to ‘Audit Committee’ throughout the Charter and Strategy document includes General Purposes Committee at LB Merton, the Audit, Governance and Standards Committee at RB Kingston and Audit Committees at LB Richmond, LB Sutton and AfC.
In carrying out their duties and responsibilities, Internal Audit shall be entitled to have full and unrestricted access to all of the Council’s activities, records, assets, cash, stores, property, personnel and information (both manual or computerised) which they consider to be necessary to properly fulfil its function. Internal audit may enter Council property and has 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.

Access rights also apply to other third parties / organisations as permitted through contract and partnering arrangements.

Internal audit have the authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

Internal audit will consider all requests from the external auditor for access to any information, files or working papers obtained or prepared during audit work that has been finalised, and which external audit need to discharge their responsibilities.

All records, documentation and information accessed in the course of undertaking internal audit activities shall be used solely for that purpose. All internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive in the course of their work. Any information shared will be shared in accordance with the Shared Service Data Sharing Protocol.

RESPONSIBILITY

The Head of Internal Audit is required to provide the Council, via the Director of Finance and the Audit Committee, with an annual opinion on the adequacy and effectiveness of the internal control system for the whole council. To achieve this, the internal audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council’s needs, adds value, improves processes and helps protect public resources
- To provide assurance that the Council’s operations are being conducted in accordance with legislation, and relevant external and internal regulations, policies and procedures
- To provide assurance that significant risks to the Council’s objectives are being managed
- To support management through the provision of advice and guidance on the overall control environment, and where new systems and / or procedures are implemented
- To provide independent assurance over the corporate governance arrangements in place across the Council
- To promote an anti fraud, anti bribery and anti corruption culture within the Council to aid the prevention and detection of fraud. The corporate fraud function will be

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2 In respect to any references to the Head of Internal Audit within the Charter and Strategy document, the statutory Head of Internal Audit roles across the 4 Boroughs and AfC will be delivered by the Head and Deputy Head of the SWLAP.
undertaken by the South West London Fraud Partnership (SWLFP) but will be overseen by the Head of Internal Audit (see Fraud below).

- To undertake investigations where there is suspected fraud, bribery and corruption. This function will be undertaken by the SWLFP but will be overseen by the Head of Internal Audit.

These audit responsibilities are exercised with the aim of assisting the Council to deliver services in the most efficient and effective manner possible.

There are inherent limitations in any system of internal control and thus errors or irregularities may occur and not be detected by internal audit’s work. When carrying out its work, internal audit will provide management with comments and report on breakdowns, failures or weaknesses of internal control systems together with recommendations for remedial action. However, internal audit cannot absolve line management of responsibility for internal controls.

Where appropriate, internal audit will undertake audit or consulting work for the benefit of the Council and / or organisations that are wholly owned by the Council (such as Achieving for Children). Where services are provided to bodies separate from the council, this will be subject to approval by the Shared Service Board and will be provided under the terms of a Service Level Agreement (SLA).

Internal audit may also provide assurance to the Council on third party operations where this is provided for as part of the agreement or contract.

In some instances, internal audit may rely on assurances provided by other providers of assurance but this will be dependent on the level of associated risk and some degree of independent verification may be required.

**Fraud**

Internal Audit’s planned work includes evaluating controls for their effectiveness in preventing or detecting fraud. Managing the risk of fraud is the responsibility of management however Internal Audit will consider the risks and exposures which may allow fraud or corruption to occur.

Internal Audit is responsible for maintaining and updating the Council’s Anti-Fraud strategies and policies. Fraud work will be undertaken by the South West London Fraud Partnership which is a five Borough Shared Service led by Wandsworth Council. This service will be overseen by a Steering Group which includes the Head and Deputy Head of the SWLAP in their roles as statutory Heads of Internal Audit for the 4 boroughs. Work will be undertaken in accordance with an agreed Fraud Plan which includes a mix of proactive and reactive fraud work in the following main areas:

- Housing tenancy
- Internal fraud
- Procurement
- Business Rates
- Council Tax Reduction
- Blue Badge
- Social Care
- Schools
REPORTING

The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report directly to the top of the organisation and those charged with governance. This will be done as follows:

- The Audit Charter will be agreed with the senior management team (Executive Board at Richmond, Corporate Management Teams at Sutton and Merton, and Strategic Leadership Team at Kingston)
- The annual audit plan will be compiled by the Head of Internal Audit following discussions with senior managers at their Directorate Management Team (DMT) meetings, and sign off by the senior management team (Executive Board at Richmond, Corporate Management Teams at Sutton and Merton, and Strategic Leadership Team at Kingston and AfC). It will then be considered by the Shared Service Board who will agree the number of audit days to be commissioned each year, the detailed content of work to be undertaken and the resource required to deliver this. This will then be reported to the Audit Committee for approval
- The internal audit budget is agreed each year by the Shared Service Board.
- Performance against the annual internal audit plan, together with any significant risk exposures and control issues arising, will be reported to the Shared Service Board on a quarterly basis. Progress reports will be made to Directorate Management Teams on a quarterly basis and to Audit Committee at least twice a year.
- Changes to the plan during the year will be reported to the Shared Service Board quarterly and where significant, to Audit Committee
- Any significant consultancy activity not already included in the risk based plan and which might affect the level of assurance work undertaken will be reported to the Audit Committee
- The annual opinion report will be presented to Audit Committee annually
- Any instances of non conformance with the Public Sector Internal Audit Standards will be reported to the Shared Service Board and Audit Committee, and will be included in the Head of Internal Audit’s annual report. Any significant failings will be included in the Annual Governance Statement
- Any external review of the internal audit function will be agreed by, and reported to the Shared Service Board and the Audit Committee

INDEPENDENCE

The Head of Internal Audit has full and unrestricted access to the following:

- The Director of Finance (S151 officer)
- Chief Executive
- Chair of the Audit Committee (including AfC)
- The Council’s Monitoring Officer
- The Head of Corporate Governance (Kingston)
- The Executive Head of Finance (Sutton)
• The Assistant Director of Corporate Governance and Head of Legal Service (Merton)
• The Chief Executive and Director of Children’s Services (AfC)
• All members of the senior management team (Executive Board at Richmond, Corporate Management teams at Sutton and Merton, and Strategic Leadership Team at Kingston and AfC)

The Head of the SWLAP is line managed by the Director of Finance and Corporate Services, Richmond, who is responsible for carrying out the Head of Audit’s annual appraisal. The Director of Finance and / or the Head of Corporate Governance, Kingston, Executive Head of Finance (Sutton) and Assistant Director of Corporate Governance and Head of Legal Services (Merton), can participate in this appraisal review. The standards require that the Chief Executive, Richmond, reviews, provides feedback and signs off this appraisal, which is the existing practice; also, that the Chair of the Audit Committee must give feedback.

The Deputy Head of the SWLAP who also takes on a statutory Head of Internal Audit role is line managed by the Head of the SWLAP. As lead for Sutton and Merton, both the Director of Corporate Services / Assistant Director of Corporate Governance and Head of Legal Services (Merton) and the Executive Head of Finance (Sutton) can participate in this appraisal review.

All staff (including agency and contract staff) in the Internal Audit Partnership are required to make annual declarations of any potential conflicts of interest and adhere to confidentiality requirements. As far as resources permit, auditor rotation will be implemented to ensure auditors’ objectivity is not impaired.

Internal audit must 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. Where Internal Audit do provide consultancy services, any audit staff involved in this consulting activity will not be involved in the audit of that area for at least 12 months.

**EXTERNAL AUDITORS**

The external auditors fulfill a statutory duty. Effective collaboration between internal and external audit will help ensure effective and efficient audit coverage and resolution of issues of mutual concern. Internal and external audit will meet periodically to discuss respective work plans and coverage, and potential issues arising from work completed.

**DUE PROFESSIONAL CARE**

The internal audit function will adhere to / comply with the following:

- Institute of Internal Auditor’s International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- UK Public Sector Internal Audit Standards
- All Council policies and procedures
- All legislation
All audit work is subject to in house quality control procedures whereby each audit review is subject to senior peer review. The audit service will be subject to an annual self assessment to assess its compliance with the UK Public Sector Audit Standards and an external review and assessment at least once every 5 years by a suitably qualified, independent assessor.

The Head of Internal Audit is required to hold a relevant professional qualification (CCAB or CMI) and be suitably experienced. All staff are required to maintain a programme of Continuous Professional development (CPD) to ensure auditors maintain and enhance their knowledge, skills and audit competencies.

INTERNAL AUDIT STRATEGY

Service delivery

The Internal Audit service will be delivered by the South West London Audit Partnership (SWLAP) which is the 4 borough shared internal audit service hosted by LB Richmond providing internal audit services to LB Richmond, RB Kingston, LB Merton and LB Sutton. This relationship is governed in law through a formal Collaboration Agreement. The arrangement also includes the provision of Internal Audit to Achieving for Children (AfC), the community interest company created by LB Richmond and RB Kingston to provide their children’s services.

The SWLAP is an in-house team with contract auditors or agency staff used as required to supplement the in house skills and experience. The SWLAP are part of the Croydon Framework contract with Mazars allowing the service to buy in additional audit resource and expertise.

Quarterly performance reports to the Shared Service Board will provide updates on any staffing changes, issues such as sickness absence levels and whether there is any surplus or shortfall in resources (significant issues will be reported to the Audit Committee at LB Richmond, LB Sutton and AfC, General Purposes Committee at LB Merton and Audit, Governance and Standards Committee at RB Kingston).

The statutory Head of Internal Audit roles across the 4 Borough’s will be undertaken by the Head and Deputy Head of the SWLAP. Unless amended and agreed by the Shared Service Board, the Head of the SWLAP will take the lead as the statutory Head of Internal Audit for LB Richmond, RB Kingston and AfC. The Deputy Head of the SWLAP will take the lead as statutory Head of Internal Audit for LB Merton and LB Sutton. Both officers will support each other in the delivery of these roles.

The Corporate Fraud service will be delivered by the South West London Fraud Partnership, led by Wandsworth Council. This is a shared service which is overseen by a Steering Group consisting of the Heads of Internal Audit from each of the 5 boroughs.

Key Performance Targets

Key Performance Targets are established and monitored on a quarterly basis by the Shared Service Board, with quarterly progress reports to Directorate Management Teams.
A risk register has also been established and is reported to, and monitored by the Shared Service Board.

Bi-monthly reports on corporate fraud work undertaken by the SWLFP will be provided to the Head of Internal Audit and an annual report made to Audit Committee.

**Audit Plan**

Each year, an audit plan will be agreed by the respective Directors of Finance and the Audit Committees which will include a number of audit reviews; these will focus on the key risk areas across the organisation, but will include IT audits, as well as some systems, compliance and regularity audits (schools and establishments). The coverage of the audit plan will take into account any assurances (including concerns and issues raised) obtained from other providers (e.g. Ofsted) and also any requirements of the external auditors. Follow up work on outstanding audit recommendations will be regularly undertaken, and the audit plan will also include a programme of proactive fraud checks.

A Fraud Plan will be also be agreed by the Directors of Finance and Audit Committees and quarterly reports provided by the SWLFP will report on activity against this plan.

**Policies and Procedures**

All audit work will be undertaken in accordance with Council regulations and professional standards. There is an Internal Audit Protocol which sets out the audit process for staff to adhere to, including quality control procedures.

**Quality Assurance and Improvement Programme**

The Head of the South West London Audit Partnership continuously reviews the quality and effectiveness of all aspects of the Internal Audit service. This includes:

- Establishing procedures that comply with the Public Sector Internal Audit Standards
- Maintaining a professional audit team with sufficient knowledge, skills and experience to carry out the Audit Plan. This includes undertaking appraisals and ensuring that training needs are identified and addressed
- Undertaking, reviewing and acting on client satisfaction surveys and feedback
- Reviewing audit methodology and benchmarking against best practice.

In line with the Public Sector Internal Audit Standards, Internal Audit has a quality and improvement programme in place. The results of the quality and assurance programme and progress against any improvement plans will be reported in the Annual reports to each Borough’s Audit Committees.