

## APPENDIX B

### INTERNAL AUDIT CHARTER and STRATEGY 2019-20

**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 (SWLAP) will be developed and delivered in accordance with these standards.**

**The Charter and Strategy will be reviewed annually and presented to the Audit Committee<sup>1</sup> 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 (Directors Board in Wandsworth and Richmond's Shared Staffing Arrangement (SSA), 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 5 (1), requires 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 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 forms part of the third line of defence and 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.

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<sup>1</sup> References to 'Audit Committee' throughout the Charter and Strategy document includes Standards/General Purposes Committee at LB Merton, Audit and Governance at LB Sutton, the Audit, Governance and Standards Committee at RB Kingston and Audit Committees at LB Richmond and AfC.

Internal audit can place reliance on assurances provided by third parties, although depending on the source, this may require some independent validation.

## **MISSION**

The Mission of the SWLAP is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight across the 5 Borough partnership.

## **AUTHORITY and ACCESS TO RECORDS**

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 fulfill 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<sup>2</sup> 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

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<sup>2</sup> 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 5 Boroughs and AfC will be delivered by the Assistant Director of Resources (Financial Services) Head, Deputy Head and Audit Manager of the SWLAP.

- 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 undertaken by the South West London Fraud Partnership (SWLFP) but will be overseen by the Head of Internal Audit (see Counter 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.

### **Counter Fraud**

- (1) 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.

(2) Fraud work is undertaken by the South West London Fraud Partnership which is a five Borough Shared Service led by the SSA. This service is overseen by the Shared Service Board which includes the Directors of Finance from each of the partners or their delegated representatives. 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 (Directors Board at the SSA, Corporate Management Teams at Sutton and Merton, and Strategic Leadership Team at Kingston)
- The internal audit budget is agreed each year by the Shared Service Board.
- 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 (Directors Board at the SSA, Corporate Management Teams at Sutton and Merton, and Strategic Leadership Team at Kingston and AfC).. This will then be reported to the Audit Committee for approval
- Performance against the annual internal audit plan days and number of audits, 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 the 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 the 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/Corporate Services/Strategic Director -Resources/ (S151 officer)
- Chief Executive
- Chair of the Audit Committee (including AfC)
- The Council's Monitoring Officer
- The Head of Corporate Governance (Kingston)
- The Assistant Director of Corporate Governance (Merton)
- The Chief Executive and Director of Children's Services (AfC)
- All members of the senior management team (Directors Board at the SSA, 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 Assistant Director of Resources (Financial Services) (SSA), who is responsible for carrying out the Head of SWLAP's annual appraisal. The Director of Finance and / or the Head of Corporate Governance, Kingston can participate in this appraisal review. The standards require that the Chief Executive, SSA, reviews, provides feedback and signs off this appraisal, also that the Chair of the Audit Committee (Richmond and Kingston) can 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 Head of Audit for Sutton and Merton, both the Director of Corporate Services / Assistant Director of Corporate Governance (Merton) and the Strategic Director Resources (Sutton) Chair of Audit and Governance Committee (Sutton) and Chair of Standards/General Purposes Committee (Merton) can participate in this appraisal review.

The Assistant Director of Resources (Financial Services) is line managed by the Director of Resources and Assistant Chief Executive who will undertake the annual appraisal and this will be signed off by the SSA's Chief Executive.

The Audit Manager who performs the statutory Head of Internal Audit role for AfC is line managed by the Deputy Head of the SWLAP who will undertake the annual appraisal and the Director of Finance for AfC 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.

Internal Audit must remain independent of the activities that it audits to enable auditors to make impartial and effective professional judgements and recommendations. Within the SSA, the service does have operational responsibilities for Procurement and Pensions (these functions are overseen by the Assistant Director of Resources (Financial Services) in his role of Statutory Head of IA for Wandsworth) and for Risk Management and Insurance.. Since these roles may involve establishing and maintaining the control environment, these functions will be audited independently by Mazars. Internal auditors have no other operational responsibilities towards the systems and functions audited.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Head of Internal Audit has the freedom to report without fear or favour to all officers and Members, and particularly to 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.

## **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 Internal 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 CMIIA) 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**

### **Internal Audit Objectives**

Internal Audit will provide independent and objective assurance to the organisation, its Members, senior management and in particular to the Directors of Finance/Resources/Corporate Services/Strategic Director-Resources to support them in discharging their responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

It is the Council's intention to provide a best practice, cost efficient internal audit service through the SWLAP which adds value to the partner organisation's it serves.

### **Internal Audit Remit**

The internal audit service is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control environment supports and promotes the achievement of the Council's objectives.

Under the direction of a suitably qualified and experienced Head of Internal Audit, Internal Audit will:

- Provide management and Members with an independent, objective assurance and consulting activity designed to add value and improve the Council's operations.
- Assist the Audit Committees 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 and;
- Participate in local and national bodies and working groups to influence agendas and developments within the profession.

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.

### **Service delivery**

The Internal Audit service will be delivered by the South West London Audit Partnership (SWLAP) which is the 5 borough shared internal audit service hosted by the SSA providing internal audit services to LB Wandsworth, 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 resources 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 Wandsworth, LB Richmond and AfC, Audit and Governance Committee at LB Sutton General Purposes Committee at LB Merton and Audit, Governance and Standards Committee at RB Kingston).

The statutory Head of Internal Audit roles across the 5 Boroughs will be undertaken by the Assistant Director of Resources (Financial Services), Head, Deputy Head and Audit Manager 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 and RB Kingston.

The Deputy Head of the SWLAP will take the lead as statutory Head of Internal Audit for LB Merton and LB Sutton. The Assistant Director of Resources (Financial Services) will take the lead as the statutory Head of Internal Audit for LB Wandsworth and the Audit Manager for the SWLAP will fulfill this role for AfC. All of these 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 the SSA. This is a shared service which is overseen by the Shared Service Board.

### **Key Performance Targets**

Key Performance Targets are established and monitored on a quarterly basis by the Shared Service Board. 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 6 monthly reports made to Audit Committee (Standards/General Purposes committee).

### **Audit Planning**

The Head of Audit has responsibility for preparing a balanced internal audit plan, ensuring audit maintains its independence, ensuring independence and sufficient coverage to support the annual opinion.

Each year, an audit plan will be discussed and agreed by the respective Directors, Senior Leadership Teams and Audit Committees which will be based on the following:

- Discussions with the Council's Departmental Management teams (DMT).
- Discussions with Council's Corporate Management teams (CMT) if required
- Discussions with the Shared Service Board.
- Review of Corporate and Service Risk Registers
- Outputs from other assurance providers
- Outputs from previous audit or fraud assignments
- Requirements as agreed with External Audit

The Head of Internal Audit will ensure attendance at all DMT meetings as part of the annual planning process to ensure that management views and suggestions are taken into account when producing the audit plan.

The Internal Audit Plans are based on the following:

- **Risk Based Systems Audit:** Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through a risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they operating correctly. The selection of work in this category is driven by Corporate Risk Registers, Departments' own risk processes and will increasingly include work in areas where the Council services are delivered in partnership with other organisations.
- **Key Financial Systems:** Audits of the Council's key financial systems
- **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.
- **Computer Audit:** The review of ICT infrastructure and associated systems, software and hardware.
- **Contract Audit:** Audits of the procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.
- **Special Projects/Value for Money:** Specific areas of Council business which may be subject to change through the development and implementation of new systems, or delivery models, where poor value for money or failing service standards have been identified or where there are new or significant risks will be targeted for review as part of the audit planning process. Value for money work is generally incorporated within the main functional areas of audit activity.
- **Risk Management support:** Risk management support is provided to some of the partners to facilitate the review and implementation of risk management strategies and to take the lead in compiling the Annual Governance Statement. Where this function is provided by the SWLAP, an independent review is undertaken by the Internal Audit contractor under the Croydon Framework contract to ensure independence.
- **Provision of advice and support:** Increasingly Internal Audit are involved in providing advice and support on an adhoc basis. This may involve the provision of general advice on risks and controls or more detailed work with

specific business areas where there are significant changes to systems and processes or decisions which require independent due diligence.

- **Fraud, Corruption and Financial Irregularities:** The SWLFP will investigate fraud and irregularity arising during the year and may work alongside officers from the SLWAP on cases particularly where there are significant control issues requiring audit and fraud input. The audit plan will also include a programme of proactive fraud checks.
- **Follow up work:** Follow up work on outstanding audit recommendations will be regularly undertaken. Progress will be reported to the Audit Committee and where progress is unsatisfactory or management fail to provide a satisfactory response to follow up requests this will be reported to the relevant Assistant Director, Director, or Audit Committee where required.

### **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.