

Committee: Standards & General Purposes Committee

Date: 9 March 2017

Wards: All

Subject: Internal Audit Strategy, Plan and Charter 2017/18

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Recommendation:

- A. That members review and comment upon the 2017/18 Draft Internal Audit Strategy, Plan and Charter.**
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1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. The Draft Internal Audit Strategy, Audit Plan and Audit Charter 2017/18 are included in Appendix 1.

2 DETAILS

- 2.1. The Internal Audit Plan has been compiled using the following planning mechanism:
- The Corporate Risk Register
 - Financial systems audit reviews
 - Strategic audit plan and audit previously identified as limited
 - Areas of concern arising from fraud investigations and Whistleblowing concerns.
 - Departmental requests
 - Best Practice and knowledge of significant new initiatives
 - The Contracts Register
 - The Capital Programme
 - Service Plans
 - On-going projects and new IT systems
- 2.2 The Head of Audit provides copies of the draft plan to department directors and attends the departmental management teams where they may request audits to

be added to provide assurance on their areas of risk. Comments are also obtained from their Heads of Services and key managers, business partners, departmental finance advisors.

- 2.3 Final Audit reports are sent to Directors and Heads of service as well as the Business Partners, in order to improve efficiencies.

Anti-fraud work

- 2.4 Audit days are included in the audit plan for Council-wide anti-fraud initiatives such as on-line fraud training and updating of anti-fraud policies.

- 2.5 Other anti-fraud work is, as far as possible, integrated into individual audits, e.g. an audit of payments would evaluate the controls in place that mitigate the risk of fraud and error. Fraud alerts and information provided by London Audit Group provide areas of potential fraud risk to the authority. Audits are included in the plan where risk is considered high.

- 2.6 In 2017/18, proactive fraud work will be undertaken by Internal Audit in relation to procurement and the threat of infiltration by organised crime.

- 2.7 A recent Home Office pilot explored the threat from Serious and Organised Crime pose to publicly procured services in Local Government. Their report recommends raising awareness, protecting and reducing vulnerability, and taking action collaboratively. To help achieve this, their report recommends that local authorities undertake a serious and organised crime threat audit using a suggested toolkit and checklist they have developed

Information Technology audits

- 2.10 The Internal Audit service will cover non specialist IT work, such as reviewing the controls in place on the main financial systems. Internal Audit also provides advice on new systems. In 2017/18 this will include the new E5 system and Corelogic (new social care system).
- 2.11 Where IT audits are of a specialist nature, they require the detailed technical knowledge and expertise of a skilled IT practitioner, the framework contract with Mazars is used.

3 ALTERNATIVE OPTIONS

- 3.1. None for the purpose of this report.

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1. The draft Audit Plan has been sent to all Chief Officers who have consulted with their management teams. The Head of Audit has met with the members of each

departmental management team to discuss the audit coverage.

5 TIMETABLE

- 5.1. The Internal Audit Plan will be the basis of Internal Audit's programme of work throughout the 2017/18 financial year. The timing of individual audits is considered in consultation with the Departments where possible.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1. The audit plan is completed within the provision of existing resources.

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. The requirement to maintain an Internal Audit function is defined within legislation, some of which is outlined below:-

- a) Section 151 of the **Local Government Act 1972** requires each Local Authority to *make arrangements for the proper administration of their financial affairs and to ensure that one of their officers is made responsible for the administration of those affairs.*
- b) The **Accounts and Audit Regulations 2015** require the responsible financial officer of a body, whose accounts are to be audited in accordance with Part III of the Local Government Act 1982, *'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.*

- 7.2. The Director of Corporate Services is the designated officer responsible for ensuring compliance with these pieces of legislation. In a similar manner to a private company:-

- a) Elected Members will look to the Director of Corporate Services to provide them with an assurance as to the adequacy of the Authority's financial systems and system of internal audit.
- b) Chief Officers will also seek an assurance that the financial dealings within their departments meet the standard required.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 8.1. Effective and timely auditing and advice enables Departments, Voluntary Organisations and Schools to provide quality services to their clients. These client groups are often vulnerable members of the community, e.g. elderly people, disabled people, asylum seekers and members of staff and voluntary organisations. The audit service helps to identify weak financial management and sometimes reflects weaknesses in other operational systems such as quality and ethnic monitoring. Audit, therefore, has a crucial role in ensuring that Council resources are used to enable a fair access to quality services.

9 CRIME AND DISORDER IMPLICATIONS

- 9.1. There are no specific crime and disorder implications arising from this report.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 10.1. The Audit Plan has a risk assessment formula built into the processing. This takes such aspects as expenditure, income, and previous audit findings into account and calculates priorities and the frequency of the audit.
- 10.2. In addition to the audit risk assessment formula the Corporate Risk Register is consulted during the production of the Draft Plan.

11. APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- Appendix 1 - Merton's Draft Internal Audit Strategy, Plan and Charter 2017/18

12 BACKGROUND PAPERS

- 12.1. Papers held within the Internal Audit Service.

INTERNAL AUDIT
STRATEGY, AUDIT PLAN AND CHARTER
2017/18



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Introduction

This document sets out the council's Internal Audit Strategy and Annual Audit Plan for the year 2017/18

The purpose of the Internal Audit Strategy and Annual Audit Plan is to:

- Ensure effective audit coverage and a mechanism to provide independent and objective overall assurance to Members, Director of Corporate Services and the Corporate Management Team (CMT);
- Optimise the use of audit resources available, given that they are limited;
- Add value and support senior management in providing effective control and identifying opportunities for improving value for money;
- Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2015

Responsibilities and Objectives of Internal Audit

As an independent appraisal function within the authority, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of the control environment comprising the systems of governance, risk management and internal control as a contribution to achieving the council's objectives and the proper, economic, efficient and effective use of resources.

In addition, the other objectives of the function are to:

- Support the Director of Corporate Services to discharge "Proper Officer duties" (S151 responsibilities)
- Provide an Anti-Fraud function
- Contribute to the overall effectiveness of corporate governance in the council's activities
- Promote the council's anti-fraud policies
- To provide assurance to management on the integrity, effectiveness and operation of the council's internal control system;
- Delivery of the Annual Audit Plan
- To be responsive to transformational change and service demands;
- To provide advice on new IT projects.
- To continue to meet the requirements of the council's external auditors;
- To follow up on agreed actions to ensure agreed they have been fully implemented;
- To continue to develop and have a lead in the council's corporate governance arrangements including production of the 'Annual Governance Statement' to provide assurance on the council's governance arrangements and any areas for improvement.

Internal Audits Role in the Risk, Internal Control and Assurance Framework

The Accounts and Audit Regulation 2015 require an annual review of the effectiveness of its system of internal control to be reported to the Standards/General Purposes committee for consideration. The system of internal control is broader than just the work of the internal audit section and includes the framework of assurance covering how the risks to the authority are identified with effective managed controls. Assurances are provided by a range of internal and external providers. The Head of Audit will assess whether the overall framework of assurances is adequately designed and effectively operated through a plan of internal audit work.

In addition to the above, the Director of Corporate Services has a statutory duty under Section 151 of the Local Government Act 1972, to establish a clear framework for the proper administration of the local authority's affairs. To perform that duty the Section 151 Officer relies on, amongst other things the internal audit work for reviewing systems of internal control, financial management and other assurance processes.

The standards for 'proper practice' in relation to internal audit are laid down in Public Sector Internal Audit Standards. We continually ensure compliance with these professional standards and reflected in our terms of reference contained in our Terms of Reference, shown at Appendix B.

An overall assurance on the adequacy of internal controls within the Council is provided in the Annual Report and the Annual Governance Statement.

In order to give such an assurance, a balanced programme of Internal Audit review is constructed each year. This Audit Plan contains elements of all audit work assessed by a "Risk Based" approach. There are many elements to this including undertaking systems reviews, regularity audits (e.g. schools), contract and computer audit, and an Annual Review of major financial systems such as Council Tax, the General Ledger and debtors/creditors systems.

In order to contribute to the Annual Governance Statement all Internal Audit reports give an audit assurance as follows:

- Full
- Substantial Assurance
- Limited Assurance
- No assurance

In addition each recommendation is given a high, medium or low risk priority. All recommendations are followed up by Internal Audit to ensure that they have been implemented.

Key Issues and Priority Areas for 2017/18

Having regard to the current risk profile of the council, the following areas have been identified as key issues and priority areas of our work for 2017/18.

Governance Arrangements

The council's governance framework covers all aspects of its business, including risk management, internal control and ethical standards. We have a key role to play in assessing the effectiveness of governance arrangements by comparison with principles contained in the CIPFA/SOLACE Governance Framework (Delivering Good Governance in Local Government, 2007). A number of audits will support this assessment and will take account of the emerging governance arrangements as the council implements its new operating model. The statutory Annual Governance Statement will be produced in June, for approval by the Standards/General Purposes Committee and then signed by the Leader and Chief Executive.

Key Financial Systems

The effectiveness of controls and management of risks within key financial systems remains a core part of our audit work. Key Financial systems are carried out on a 3 year rolling cycle. This work is important in providing annual assurance to the council and to meet the requirements of the External Auditor. We continue to develop our audit approach to give greater assurance and ensuring it meets the External Auditor's requirements, including carrying out testing to assist with the annual audit of accounts.

Additional work was provided in 2016/17 on the pre implementation of the new E5 system, replacing the main financial ledger, accounts payable and accounts receivable systems. Internal audit work will continue into 2017/18 on the post implementation.

Transformation

Considering the significant financial challenges facing the public sector and the council's continuous transformation program, our Annual Audit Plan will need to be flexible enough to respond to emerging issues and risks from change.

Value for money (VFM) will continue to be an integral part of our risk based audit approach, in particular being alert to opportunities and ensure reporting of issues raised and agreed management actions from audit recommendations. In addition we will support transformation projects, consider changes to the control environment and risk exposure and provide assurance on program management and realisation of benefits.

Risk Management

We will assess the council's risk management arrangements, including risk management strategy, adequacy of strategic and operational risk registers, risk reporting and the extent to which it is embedded. The Head of Audit is a member of the Corporate Risk Management Group.

ICT and Information Governance

Information technology is fundamental to the delivery of the council's services and is an area of rapid change. Due to this high risk to the council, providing assurance on the adequacy of electronic systems and controls is a key part of our Annual Audit Plan. Our work recognises the pace of change and adoption of new information technology and as such will be well informed to focus our resources on areas of highest risk and benefit.

Partnerships

The council is increasingly operating and delivering services jointly through partnerships. This also brings risks and opportunities to the council and the delivery of services. We will continue to review key partnerships. Internal Audit is part of a 5 borough audit partnership and can benefit from sharing knowledge and experience. Some of the audits in the 2017/18 are across the partnership, such as income generation and serious fraud work.

Contracts, Procurement and Major Projects

Changing approaches to procurement and contract management are a key part of delivering improved services. This also brings additional inherent risks that need to be managed. Major projects also represent a high risk to the council in terms of corporate importance and resources. Our audit work will continue to focus on embedding risk management and controls. In 2016/17 and into 2017/18 we will be involved in providing advice on key new systems, such as the financial system E5, the social care system Corelogic and the new Phase C contracts on the South London Waste Partnerships.

A sample of procurement spend will be examined to ensure that VFM has been obtained and councils procedures adhered to. Compliance work will also be carried out on procurement card expenditure.

Anti-Fraud and Corruption

The Internal Audit team will review areas of high fraud risk to recommend improvements in controls.

During 2017/18 proactive fraud work will be undertaken on Serious Organised crime threat to the public sector. A recent Home Office pilot explored the threat from Serious and Organised Crime pose to publicly procured services in Local Government.

They concluded that public procurement is attractive to and is therefore at risk of infiltration by organised criminals (particularly in areas such as waste, taxi and transport services, and lower-level spend) and recommended action is taken to address their concerns.

The report recommended raising awareness, protecting and reducing vulnerability, and taking action collaboratively. To help achieve this, the report recommends that local authorities undertake a serious and organised crime threat audit using a suggested toolkit and checklist they have developed.

One of the actions suggested in the report is to ensure that there is a strong link between the procurement team and internal audit.

Related Documents

This document is one of a series that, together, constitute the policies of the authority in relation to anti-fraud and corruption. The other documents are:

- Anti-fraud and Corruption Strategy
- Anti-Money Laundering Policy
- Whistle-blowing policy

Internal Audit's Role Providing Advice

Internal Audit can provide support and advice to managers, particularly regarding the interpretation and application of Council Policies and Procedures.

Internal Audit advice and recommendations are given without prejudice to the right of Internal Audit to review the relevant policies, procedures and operations at a later date.

We provide advice, support and training to schools. We provide templates for schools to improve controls and share best practice. We also issue a guidance manual to schools called 'On the Right Track 5' which covers guidance on all areas of good financial practice.

In order to establish an audit presence and to create sound informal lines of communication as much audit work as possible will be done on location.

Audit Resources and Skills

The staffing structure of the partnership (SWLAP) section comprises a mix of qualified, experienced, technician and trainee auditors, with a mix of professional expertise to reflect the varied functions of the section. There is a sum available to buy in some expertise from a framework agreement set up by Croydon Council to use Mazars.

As far as is practicable, Internal Audit will not participate in the day-to-day operation of any systems of internal financial control. However, in strict emergency situations only, audit personnel may be called upon to carry out non-audit work on a short-life basis.

Members of the internal audit partnership will be expected to contribute to the general management and conduct of business through membership of working groups and participation in ad hoc exercises. Upon request from the Director of Corporate Services, appropriate specialists from departments other than Corporate Services should be made available to take part in any audit or review requiring specialist knowledge.

The Head of Audit will carry out a continuous review of the development and training needs of all audit personnel and will arrange through the audit partnership in-service training covering both internal and external courses.

Protocol for Audit Reviews

For each audit review carried out, the responsible Head of Service/Assistant Director, and Service Manager will be consulted in the scoping to ensure that the audit is appropriately focused on current key perceived risks and issues. A terms of reference (Audit Brief) will be produced for each audit review and agreed to ensure

the scope, objectives, approach, timetable are understood and agreed.

Draft internal audit reports will be issued for discussion with the appropriate levels of management and normally set-out in the terms of reference.

Final internal audit reports will be issued after the agreement of draft reports and contain completed management actions plans that will identify those responsible for implementation and timescales. The final reports will always be issued to the 'Lead Client' responsible for the area reviewed.

External Audit

We work closely with the council's external auditors to minimise duplication and maximise the benefits the council receives from total audit resources. We will continue to ensure full reliance is placed on our work and continue to seek opportunities for minimising the external audit fee.

Implementation of Agreed Audit Recommendations

At the end of each audit review, an audit report will be produced containing agreed management actions to audit recommendations made. We will ensure these agreed actions to audit recommendations are fully implemented to ensure improvements to the council's control environment and value for money. We will follow-up on all audit recommendations. We will get confirmation from officers responsible for implementation that required actions have taken place.

Developing the Annual Audit Plan 2017/18

The methodology used for developing the Annual Audit Plan focuses upon the quantification of the risks associated with achieving corporate and departmental objectives. Auditable areas have been selected and prioritised on a rational and objective basis following a systematic assessment using the following predictive factors:

- Control and previous assurance;
- Corporate importance including criticality to the achievement of priorities, legislative and regulatory impact;
- Materiality;
- Value for money and service delivery; and
- Corporate sensitivity and management concern.

The predictive factors are used to determine a risk rating of high, medium or low to reflect the inherent risk or vulnerability. We ensure our coverage is proportionate and appropriately aligned.

Based on past experience and good practice, the Annual Audit Plan includes a contingency for unplanned work requirements to ensure we are able to respond to changing needs and demands.

The Annual Audit Plan will be indicative and it is inevitable that changes will be made during the year as the risk profile of the council changes. This will be achieved through ongoing review and amendment, in consultation with the relevant lead clients and service managers to reflect the changing needs of the council and to add

maximum value.

The General Purposes Committee will be kept informed of progress against the Annual Audit Plan and agree any significant changes during the year.

The Three Lines of Defence

There are three lines of defence in place on controls in the council. The first line of defence is the day to day operational controls, the second line is the management controls which include trend analysis, budget monitoring etc. The third line of defence is independent inspection such as Internal Audit or other assurance providers.

Internal audit provides assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defence achieve risk management and control objectives

Annual Audit Plan 2017/18

Appendix A shows the detailed Annual Audit Plan and provides a brief summary of each review under thematic areas.

Contingency has been provided for unplanned reactive work. This will be used to respond to emerging issues, risks and to have the capacity to respond to requests from senior managers.

Timing of the audit review will be agreed with management during the planning process. There is however flexibility to respond for example to pressures on services audited and audit resource availability.

In addition to the Standards/General Purposes Committee receiving regular progress reports against the plan, Corporate Management Team Members will be provided with progress reports as necessary through the year summarising the outcome of reviews and other audit work for the quarter and planned for the quarter ahead. The Head of Audit will also attend Management Team meetings as required, to discuss audit coverage and outcomes.

Internal Audit Plan 2017/18

Summary of days per department	2017/18
Cross cutting	130
Corporate Services	231
Childrens Schools and Families	153
Community and Housing	90
Environment and Regeneration	100
Support	204
Total	908

Cross cutting

Corporate Procurement	Review of the corporate procurement strategy, contract register, exemptions.	25
Income Generation	A review of income generation - to include the councils approach to income generation and a comparison with other neighbouring authorities	25
Acting up and Honoraria Payments	To review the arrangements for acting up and honoraria payments across all Departments are in accordance with Council's policy and that such payments are approved, controlled, monitored and reviewed.	10
Asset Management	Review of the councils arrangements in place for managing its assets. This audit covers CS/ E&R and CSF.	25
Annual Governance Statement	To produce Annual report for use in the AGS and attendance at AGS meetings	25
Proactive fraud work	Proactive fraud work on the Home Office serious fraud organisation recommendation in relation to suppliers	20
	Total cross cutting	130

Corporate Services

E5	To carry out a post implementation review of the new financial system	10
Staff Declaration of Interests	To review the systems for declaration of interests by staff across Department to ensure that they are sound and secure	10

Pension investment (follow up)	to follow up the limited assurance audit 2016/17	6
Management and Control of Information Security Breaches and Incidents	to examine the effectiveness of current arrangements for reporting, investigating and actioning information security breaches and incidents to ensure that rules and regulations are complied with.	12
Procurement cards	To carry out substantive testing on a sample of transactions to ensure that expenditure is appropriate.	15
Interims/agency IR35	To review the arrangements in place for the use for interims/agency to ensure compliance with procedure and follow up on 2016/17 audit.	15
Fixed Assets	To review the fixed asset register to ensure completeness, accuracy	15
Itrent	Joint review of the controls on Itrent (Sutton, Merton, Kingston and part Richmond)	15
Creditors	Key financial system review	15
General Ledger	Key financial system review	15
Business Rates	Key financial system review	15
Blue Badge	Review of the procedures for applying and issue of blue badges. To include the arrangements for corporate cards	15
Staff recruitment	To ensure that recruitment to established posts are in compliance with the Councils recruitment policy and procedures	15
Pension Administration	review of the pension admin arrangements with Wandsworth	10
Mayors Account	Annual review of mayors accounts	10
MSJCB	To audit annual accounts	8
Cyber security	To review the councils cyber security arrangement and analysis against the Governments Cyber essential initiative	15
Change management	To review the arrangements in place for change management including software, hardware and asset changes	15
	Total Corporate Services	231

Community and Housing

Corelogic	To carry out a Post implementation review of new social care system	15
Contract Monitoring of Commissioned Services	To examine systems and procedures for monitoring a sample of commissioned services to ensure that providers effectively deliver the services to vulnerable service users and that payments are made in line with the rates set out in the contract.	15
Reviews of Care Plans	To review the controls in place to ensure that Care Plans for vulnerable adults are completed within the statutory time period and that the plans are properly costed and budgeted for.	15
Adult Social Care Debt management	To review the debt management arrangements in Adult social services	15
Direct Payments	To review the processes and procedures for direct payments.	15
Adult Safeguarding	To review strategy, policies, training, roles and responsibilities in relation to safeguarding	15
	Total C&H	90

Children, Schools and Families

APS cards and alternatives	The review the arrangements in place for paying clients and whether alternative methods should be considered	15
Troubled families grant	To review a sample of submissions for the TFG to ensure that that claims are clearly supported by evidence.	10
Leaving care	review commissioning arrangements for 16+	15
Commissioning of Special Education Placements	To review the effectiveness of procuring and monitoring placements for SEN pupils to ensure that the placements provide good value for money and that Council's procedures are complied.	15
Schools Probity Audit	The school visits will cover areas of Leadership and Governance; Budget Management; Procurement; Income and Expenditure controls; Payroll and Personnel; Asset Management; and other key areas of schools' business.	68

Nursery Grants	To review a sample of nurseries to ensure compliance with new requirement for 2 and 3 year old funding	15
Transport	To review the arrangements in place following the transfer from E&R. To include new e procurement arrangements.	15
Total CSF		153

Environment and Regeneration

EAMS (confirm replacement)	IT audit on new system	12
Penalty Charge Notices	To review the systems and controls for processing and management of PCNs, including the effectiveness of debt recovery through the bailiff contract.	15
Section 106/CIL	To review the arrangements in place for managing and monitoring S106 and CIL	15
Planning Permissions and Approvals	To provide assurance that the Council's arrangements for granting and approving planning permissions are in accordance with rules and regulations.	15
Market Street traders - follow up	Follow up review of previous limited assurance report. (to include Richmond)	8
SLWP	Review of Parks contract (joint with Sutton) and Waste contract monitoring arrangements	25
Service tenancies f/u	follow up review of previous limited assurance report	10
Total E&R		100

Consultancy and advice	Audit has an important role to play in advising management on an ad-hoc basis on a range of issues affecting services. This provision is used to offer advice and assistance throughout the year.	25
Committee and member support	Providing support including advice and reporting to Committee	25
Audit Planning / Monitoring	allocation of time for audit planning and monitoring	20
Follow up audits	follow up of reviews carried out in 16/17 to ensure implementation of recommendations	25
Carry over of 16/17 audit plan	To finalise all draft reports from 2016/17	60

Contingency	To cover additional request for audit work	14
Corporate Governance	Advice and guidance on corporate governance issues including attendance at risk management group	15
Fraud Management and reactive work	Allocation of time for managing the fraud partnership. Updating whistleblowing and referring cases.	20
	Total support	204

Internal Audit Charter 17/18

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 Governance and Standards Committee¹ 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 6 (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. 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.

¹ References to 'Audit Committee' throughout the Charter and Strategy document includes Standards/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.

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 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 ²is 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 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

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

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

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.

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 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). It will then be considered by the Shared Service Board who will agree the number of audit days to be commissioned each year, 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/Resources/Corporate Services (S151 officer)
- Chief Executive
- Chair of the Audit Committee or equivalent 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 (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)
- External Audit

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 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 is line managed by the Head of the SWLAP who is responsible for carrying out the Deputy Head of SWLAP appraisal. The Deputy Head of SWLAP is the statutory Head of Internal Audit for Sutton and Merton, both the Director of Corporate Services / Assistant Director of Corporate Governance (Merton) and the Executive Head of Finance (Sutton) Chair of Audit 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 (this function is 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. Risk Management work is also undertaken across a number of the other partners. 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 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 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 Wandsworth, 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 5 Borough's 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 pro-active fraud checks.
- **Follow up work:** Follow up work on outstanding audit recommendations will be regularly undertaken. Progress will be reported to 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.