

# Agenda Item 8

## Committee: Standards and General Purposes Committee

Date: 14 March 2019

Agenda item:

Wards:

### Subject: Internal Audit Plan, Strategy and Charter 2019/20

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Peter McCabe -Chair of the Standards and General Purposes Committee

Forward Plan reference number: N/A

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#### Recommendation:

- A. That members review and comment upon the 2019/20 Draft Internal Audit Plan, Strategy and Charter.
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## 1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. The Draft Internal Audit Plan, Strategy and Charter 2019/20 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 across the Partnership and Whistleblowing concerns.
- Departmental requests
- Best Practice
- The Contracts Register
- The Capital Programme
- Service Plans
- Annual Governance Statement
- 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, departmental finance advisors.

- 2.3 Final Audit reports are sent to Directors and Heads of service in order to improve efficiencies.

Anti-fraud work

- 2.4 Audit days are included in the audit plan for Council-wide anti-fraud initiatives, for 2019/20 proactive fraud reviews cover CHAPS payments, procurement cards and No Recourse to Public Funds (NRTPF)
- 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.

Information Technology audits

- 2.6 The Internal Audit service will cover non specialist IT work, such as reviewing the controls in place on the main financial systems.
- 2.7 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 2019/20 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** 3 (a) relevant authority must ensure that it has a sound system of internal control which—  
(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives; (b) ensures that the financial and operational management of the authority is effective; and (c) includes effective arrangements for the management of risk.
- 5 (1) 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- 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 Plan, Strategy and Charter 2019/20

## **12 BACKGROUND PAPERS**

12.1. Papers held within the Internal Audit Service.

# **INTERNAL AUDIT PLAN, STRATEGY AND CHARTER 2019/20**



## **Contents**

Page 77

|   | <b>Page</b>  |
|---|--------------|
| Introduction  | <b>3</b>     |
| Responsibilities and Objectives of Internal Audit                           | <b>3</b>     |
| Internal Audit's Role in the Risk, Internal Control and Assurance Framework | <b>4</b>     |
| Anti-Fraud and Corruption   | <b>4</b>     |
| Internal Audits role providing advice                                       | <b>5</b>     |
| Audit Resources and Skills  | <b>5</b>     |
| Protocol for Audit Reviews  | <b>5</b>     |
| Implementation of Agreed Audit Recommendations                              | <b>6</b>     |
| Annual Audit Plan 2019/20   | <b>7</b>     |
| <b>Appendices</b>   | <b>8-11</b>  |
| A Detailed Annual Audit Plan 2019/20  |              |
| B Audit Strategy and Charter  | <b>12-21</b> |

## **Introduction**

This document sets out the council's Internal Audit Plan, Strategy and Charter for the year 2019/20

The purpose of the Internal Audit Plan, Strategy and Charter 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 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 and 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 Internal 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 priority 1 (high), 2 (medium) or 3 (low). All recommendations are followed up by Internal Audit to ensure that they have been implemented.

## **Anti-Fraud and Corruption**

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

## 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.

## **Audit Resources and Skills**

The staffing structure of the partnership (SWLAP) comprises a mix of qualified, experienced, technician, trainee auditors and apprentices, 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

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.

### **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 2019/20**

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 (priority 1, 2 and 3) 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 Standard and 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 2019/20**

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 and General Purposes Committee receiving regular progress reports against the plan, Corporate Management Team 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 Internal Audit will also attend Management Team meetings as required, to discuss audit coverage and outcomes.

# Internal Audit Plan 2019/20

| <b>Summary of days per department</b> | <b>2019/20</b> |
|---------------------------------------|----------------|
| Cross cutting                         | 54             |
| Corporate Services                    | 170            |
| Children's Schools and Families       | 115            |
| Community and Housing                 | 113            |
| Environment and Regeneration          | 109            |
| Support                               | 204            |
| <b>Total</b>                          | <b>765</b>     |

## **Cross cutting**

|                                   |   |           |
|-----------------------------------|---|-----------|
| Corporate Procurement follow up   | To follow up audit from 2018/19 to gain assurance on corporate procurement strategy, contract register, exemptions, to ensure adhere to public contract regulations 2015 and Contract Standing Orders | 8         |
| Procurement compliance            | To review a sample of contract across the councils to ensure compliance with CSO  | 15        |
| Foi's and Subject Access Requests | To review and test the councils arrangements for compliance with freedom of information and subject access requests   | 15        |
| Brexit (Business Continuity)      | To provide advice and input in the councils arrangements for Business Continuity in relation to Brexit  | 6         |
| Risk Management Process           | To review the risk management processes across the partnership  | 10        |
| <b>Total cross cutting</b>        |   | <b>54</b> |

## **Corporate Services**

|                           |   |    |
|---------------------------|---|----|
| Itrent                    | Joint review of the controls on Itrent (Sutton, Merton and Kingston)  | 8  |
| Insurance                 | To review the arrangements in place for schools to submit returns in line with scheme for financing schools | 10 |
| Council Tax Systems Based | Review of key financial system  | 15 |
| Pensions                  | Review of arrangements with Wandsworth  | 15 |
| Procurement cards         | To carry out substantive testing on a sample of procurement card expenditure                                | 5  |
| Translators/Interpreters  | To review procurement/appointment process and recharges.  | 8  |
| Duplicate payment check   | Duplicate payment testing on the councils payments to suppliers   | 6  |

|                      |   |            |
|----------------------|---|------------|
| Accounts Receivable  | Key financial audit to include a review of reconciliation to Civica ICON  | 15         |
| Capital Programme    | Review of key financial system, review of budgeting and accounting arrangements                                       | 15         |
| Cash and Bank        | To review the controls on cash and bank, including reconciliations (to include new Civica)                            | 15         |
| IT disaster recovery | To review the councils arrangements in place for disaster recovery preparation  | 12         |
| Customer Contact     | Advisory work   | 3          |
| Staff recruitment    | To ensure that recruitment to established posts are in compliance with the Councils recruitment policy and procedures | 15         |
| Mayors Account       | Annual review of mayors accounts  | 10         |
| MSJCB                | To audit annual accounts  | 8          |
| BACS/CHAPS           | To review controls for BACS and CHAPS payments  | 10         |
|                      | <b>Total Corporate Services</b>   | <b>170</b> |

### Community and Housing

|   |   |            |
|---|---|------------|
| Deferred payments and adult debt management | To review and test the arrangements in place for deferred payments in respect of adult care-collection of client contributions including charges against properties | 15         |
| Block and Spot Contracts                    | To review the arrangement in place for awarding, monitoring and payment of block and spot contracts   | 15         |
| Joint Funded Arrangements                   | To review the joint arrangements with the CCG- to review invoicing and charging for joint funded clients  | 15         |
| Direct Payments                             | To review the processes and monitoring arrangements for direct payments.  | 15         |
| Public Health Contracts                     | To review compliance with CSO   | 15         |
| CM2000 follow up                            | To review progress on the previous limited assurance audit  | 8          |
| Supported Living                            | To review compliance with council processes, monitoring and review  | 15         |
| Adult Safeguarding                          | To review strategy, policies, training, roles and responsibilities in relation to safeguarding  | 15         |
|   | <b>Total Community and Housing</b>  | <b>113</b> |

### Children, Schools and Families

|                |  |    |
|----------------|--|----|
| Pre paid cards | The review the arrangements in place for pre paid cards, including issuing cards and monitoring usage. | 15 |
|----------------|--|----|

|   |  |            |
|---|--|------------|
| Intervention/prevention commissioning       | To review the commissioning arrangements for the intervention and prevention commissioning   | 15         |
| Troubled families grant                     | To review a sample of submissions for the TFG to ensure that claims are clearly supported by evidence.   | 12         |
| Leaving care                                | Review commissioning arrangements for 16+ to include support and placements.   | 15         |
| No Resource to Public Funds                 | To review the assessment and review process for NRTPF. To undertake proactive fraud checks.  | 12         |
| 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. | 48         |
| <b>Total Children, Schools and Families</b> |  | <b>115</b> |

### **Environment and Regeneration**

|   |  |            |
|---|--|------------|
| Housing Company                           | To review the councils governance arrangements in relation to the council owned housing company  | 15         |
| Tree Maintenance                          | To review the arrangements in place for inspecting and maintaining trees   | 15         |
| Valuations                                | To review the councils arrangements for valuation of asset   | 15         |
| 3Sixty FPN application system             | To review the IT system controls for littering   | 12         |
| Highway Maintenance contract              | To review the monitoring arrangements for this contract  | 15         |
| Penalty Charge Notices                    | To review the controls and process for the issuing of PCN's including reconciliation to income collection, cancellations and write off's | 15         |
| Events in Parks                           | To review the governance, and income generation process for events in parks  | 12         |
| SLWP                                      | Review of waste disposal contract  | 10         |
| <b>Total Environment and Regeneration</b> |  | <b>109</b> |

### **Support**

|                              |   |    |
|------------------------------|---|----|
| 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   | 20 |

|  |  |            |
|--|--|------------|
| Audit Planning / Monitoring                      | allocation of time for audit planning and monitoring   | 20         |
| Follow up audits                                 | follow up of reviews carried out in 18/19 to ensure implementation of recommendations                                  | 15         |
| Carry over of 18/19 audit plan                   | To finalise all draft reports from 2018/19   | 60         |
| Contingency                                      | To cover additional request for audit work   | 29         |
| Corporate Governance/Annual Governance statement | Advice and guidance on corporate governance issues including attendance at risk management group and preparing the AGS | 25         |
| Fraud Management and reactive work               | Allocation of time for managing the fraud partnership. Updating whistleblowing and referring cases.                    | 15         |
|  | <b>Total support</b>   | <b>204</b> |

Annex 1

## **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 Governance and Standards 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 and Risk 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.

## **AUTHORITY and ACCESS TO RECORDS**

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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, the Audit and Governance Committee at LB Sutton, the Audit, Governance and Standards Committee at RB Kingston and Audit Committees at LB Richmond 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 <sup>2</sup>is required to provide the Council, via the S151 officer 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 Heads 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 Heads of Internal Audit.

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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.

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**

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 Shared Service Board will agree the number of audit days to be commissioned each year, and the resource required to deliver this. 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). It will then be reported to the Audit Committee for approval
- 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/Strategic Director Resources/Corporate and Commercial (S151 officer)
- Chief Executive
- Chair of the Audit Committee (including AfC)
- The Council's Monitoring Officer
- The Head of Law and Governance (Kingston)
- Head of Finance Operations and Resident Support (Sutton)
- The Assistant Director of Corporate Governance (Merton)
- The Managing Director and Directors 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)
- Each authority's External Auditors

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 Audit's annual appraisal. The Director of Corporate and Commercial and / or the Head of Law and Governance, Kingston; and Head of Finance Operations and Resident Support (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, SSA, reviews, provides feedback and signs off this appraisal, also that the Chair of the Audit Committee (Richmond and Kingston) 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 Strategic Director Resources and Head of Finance Operations and Resident

Support (Sutton) Chair of Audit and Governance Committee (Sutton) and Chair of Standards and 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 Head of the SWLAP who will undertake the annual appraisal and the Director of Finance and Resources 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. 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. The work undertaken by Internal Audit is a key part of the Council's Annual Governance Statement (AGS) process and the annual audit opinion forms part of the AGS.

Under the direction of a suitably qualified and experienced Heads 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. This type of work is key for our service in ensuring that it works closely with the partner organisations to provide proactive advice and guidance. The ability to bring in knowledge and experience from our other partners is an important way for the service to add value.

## **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.

One of the key objectives of the shared service is the provision of an efficient and cost-effective service to its partners. This is achieved through the review and standardization of audit methodology which takes on board best practice, ensuring staff are properly trained and developed, developing and delivering shared audits across more than one partner and reviewing and restructuring the service where needed to drive out cost savings. Key objectives and performance targets are included within the annual Service Plan.

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, Audit and Risk Committee at AfC, Audit and Governance Committee at LB Sutton, Audit and Standards Committee at LB Richmond, Standards and 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.
- Deputy Head of the SWLAP will take the lead as statutory Head of Internal Audit for LB Merton and LB Sutton.
- Assistant Director of Resources (Financial Services) will take the lead as the statutory Head of Internal Audit for LB Wandsworth and
- 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 Service Plan and Risk Register have also been established and are 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 and 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:

- Issues identified in the Annual Governance Statement and Action Plan
- 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. Key to ensuring that the service adds value is maintaining a dynamic audit plan which responds to changes in the organisation's risk profile. This is managed through quarterly reporting and attendance at DMT meetings during the year to discuss the audit plan and departmental risks.

The Internal Audit Plans are based on the following:

- **Governance Arrangements:** Internal Audit have a key role in assessing the effectiveness of governance arrangements by comparison with principles contained in the CIPFA/SOLACE Governance Framework. A number of audits will support this assessment and will take account of any emerging governance arrangements.
- **Transformation:** Considering the significant financial challenges facing the public sector and the all the council's ambitions, the annual audit plan will need to be flexible enough to respond to emerging issues and risks from change.
- **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 the AGS, Corporate Risk Registers, and Departments' own risk processes and will increasingly include work in areas where the Council services are delivered in partnership with other organisations.
- **Value for money:** This is an integral part of our risk-based audit approach, in particular being alert to opportunities and reporting issues and agreed management actions
- **Key Financial Systems:** The effectiveness of controls and management of risks within key financial systems remain a core part of our audit work. We continue to develop our audit approach to give greater assurance.
- **Probit 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:** Information technology is fundamental to the delivery of all the councils services and is an area of rapid change. Due to this high risk, providing assurance on the adequacy of electronic systems and controls is a key part of our Annual audit plan.

- **Contract Audit:** 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. Audits of the procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.
- **Special Projects:** 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.
- **Risk Management:** 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. This review will assess the risk management arrangements, including risk strategy, adequacy of strategic and operational risk registers and the extent to which it is embedded.
- **Partnerships:** Councils are increasingly operating and delivering services jointly through partnerships. This brings risks and opportunities to councils and the delivery of services. We will review key partnerships.
- **Provision of advice and support:** Increasingly Internal Audit are involved in providing advice and support on an ad hoc 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. The Heads of Audit also sit on boards, such as Information governance boards and working groups; corporate governance and risk management.
- **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 and Deputy 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.
- Independent review of all audit assignments undertaken.

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.