

## **Committee: Standards and General Purposes**

**Date: 27 April 2023**

Wards:All

### **Subject: Internal Audit Plan, Strategy and Charter 2023/24**

Lead officer: Roger Kershaw, Interim Director of Finance and Digital

Lead member: Mike Blunt, Chair of the Standards and General Purposes Committee

Forward Plan reference number: N/A

Contact officer: Margaret Culleton, Head of Internal Audit

Email: [margaret.culleton@merton.gov.uk](mailto:margaret.culleton@merton.gov.uk)

---

#### **Recommendation:**

**That members review and comment upon the 2023/24 Draft Internal Audit Plan, Strategy and Charter.**

---

## **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1. The Public Sector Internal Audit Standards (PSIAS) requires the Head of Audit to prepare a risk-based audit plan designed to implement the audit strategy. The Draft Internal Audit Plan, Strategy and Charter 2023/24 are included in Appendix 1.

## **2 DETAILS**

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) introduced Public Sector Internal Audit Standards (PSIAS) from 1st April 2013, (updated in March 2017).
- 2.2 Internal Audit is defined by the PSIAS 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”.
- 2.3 Internal Audit is required to complete an internal self-assessment against the standards on an annual basis and an external review to be undertaken every 5 years. An external review has been arranged to be undertaken during 2023/24.

### **Internal Audit Plan 2023/24**

- 2.4 In preparing the audit plan, the PSIAS standards require the Head of Audit to take account of the adequacy and outcomes of the organisation’s risk

management, performance management and other assurance processes. Where the outputs from these processes are not judged to be sufficiently reliable, the Head of Audit should undertake their own risk assessment. The Head of Audit should consult stakeholders on the draft plan and revise the plan if appropriate. Internal Audit met with all Assistant Directors in 2022/23 and attended DMT's and CMT to discuss the areas of high risk and the audits plan proposed for 2023/24.

- 2.5 To ensure sufficient coverage is delivered across the organisation, Internal Audit combined the corporate assessment of risk with its own assessment of risk (the Audit Universe) and knowledge of any emerging risks to produce a plan with sufficient coverage of the Council's activities. This enables the Head of Audit to provide the Council with an opinion on the adequacy and effectiveness of the internal control environment.
- 2.6 As always, the audit plan must remain flexible to accommodate changing management and organisational priorities during the year and officers from Internal Audit will attend DMTs throughout the year to agree which audits should be prioritised each quarter and whether new areas need to be added and / or areas removed or postponed. A contingency has been included in the plan to enable the officers to be flexible and respond to changes that the council will undergo during the 2023/24 year.
- 2.7 In addition, sufficient flexibility is required on an on-going basis to ensure that appropriate levels of audit staff are available for deployment on unprogrammed work with the minimum disruption to the achievement of planned targets.
- 2.8 The Audit Plan is assessed with an audit risk rating of High, Medium and Low. This rating is based on a scoring covering financial cost, statutory requirement, reputation, fraud risk, safeguarding and key Council objectives and risks. Audits rating with a High or Medium rating will be given priority over the low risk rated audits.

#### **Revised Assurance Levels 2023/24**

- 2.9 Audit opinion definitions will be changed for work commencing in the 2023/24 plan. The current opinions Full, Substantial, Limited and No assurance will be replaced with those recommended by CIPFA following analysis of existing practice.
- 2.10 The changes are minor however the removal of the 'Full Assurance' opinion is welcomed and aligns us with Institute of Internal Audit guidance that states that assurance can never be absolute.

<b>Levels of Assurance</b>	
Substantial Assurance	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks to the achievement of objectives in the area audited.

<b>Priority of recommendations</b>	
1	Major issues that we consider need to be brought to the attention of senior management and should be implemented within 3 months.
2	Important issues which should be addressed by management in their areas of responsibility to avoid exposure to significant risk and should be implemented within 6 months.
3	Minor issues where the risk is low. Action is advised to enhance control or improve operational efficiency

## **INTERNAL AUDIT CHARTER AND STRATEGY**

2.11 Internal Audit Standards, state that “The purpose, authority and responsibility of Internal Audit must be formally defined in an internal audit charter, consistent with the Definition of Internal Audit, the Code of Ethics and the Standards. The chief audit executive (Head of Audit) must periodically review the internal audit charter and present it to senior management and the board for approval”. The charter should: -

- define internal audit’s purpose, authority and responsibility.
- establish internal audit’s position within the organisation, including the nature of the chief internal audit executive’s functional relationship with the board (committee);
- authorise access to records, personnel and physical properties relevant to the performance of engagements.
- define the scope of internal audit activities.
- define the terms “board” and “senior management”;
- cover the arrangements for appropriate resourcing.
- define the role of internal audit in any fraud-related work; and

- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

2.12 The Strategy sets out how the Council's Internal Audit Service will be developed and delivered in accordance with the Internal Audit Charter. The Head of Audit reviews the Strategy and Audit Plan on an annual basis. The Strategy communicates the contribution that Internal Audit makes to the organisation and includes: -

- Internal Audit objectives and outcomes.
- how the Head of Audit will form and evidence their opinion on the control environment to support the Annual Governance Statement.
- how Internal Audit's work will identify and address significant local and national issues and risks.
- how the services will be provided, i.e., internally, externally or a mix of the two; and
- the resources and skills required to deliver the Strategy.

### **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 attends Departmental Management teams 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 2023/24 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 service is defined within legislation, some of which is outlined below:-

- 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.*
- The **Accounts and Audit Regulations 2015**

3 (a) A relevant authority must ensure that it has a sound system of internal control which 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 Finance and Digital is the designated officer responsible for ensuring compliance with these pieces of legislation. The purpose of the Internal Audit Plan, Strategy and Charter is to:

- a) Provide Elected Members with an assurance as to the adequacy of the Authority's financial systems and system of internal audit.
- b) Provide Chief Officers with 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 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 the priority 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 2023/24

## **12 BACKGROUND PAPERS**

12.1. Papers held within the Internal Audit Service.

# INTERNAL AUDIT PLAN, STRATEGY AND CHARTER 2023/24



## **Introduction**

This document sets out the Council's Internal Audit Plan, Strategy and Charter for the year 2023/24.

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, the Director of Finance and Digital 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.

## **Internal Audit's Role in the Risk, Internal Control and Assurance Framework**

The Accounts and Audit Regulation 2015 requires an annual review of the effectiveness of the 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 effectively 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 Finance and Digital 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 work of internal audit 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 the Public Sector Internal Audit Standards. We continually ensure compliance with these professional standards these are reflected in our Charter attached.

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

To give such an assurance, a balanced programme of Internal Audit reviews 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.

To contribute to the Annual Governance Statement all Internal Audit reports give an audit assurance (updated from 2023/24) as follows:

- Substantial Assurance
- Reasonable
- 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
- Whistleblowing 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 a newsletter to schools and share best practice.

### **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 term of reference (Audit Brief) will be produced for each audit review and agreed to ensure the scope, objectives, approach, and timetable are understood and agreed.

Draft internal audit reports will be issued for discussion with the appropriate levels of

management which are 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 2023/24**

A key focus of the Audit Plan for 2023/24 is to provide assurance on the core processes. In setting the plan, discussions take place with a range of officers including Directors and Assistant Directors, to identify key risk areas, as well as reviewing the Council's risk registers and using professional knowledge of changes or potential areas of risk.

Further significant changes in processes and policies are likely during the coming year due to legislative changes. Internal audit will continue to support this work and provide advice on the governance, risk management and control implications of the changes as well as undertaking audit reviews.

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

### **Lines of Defence**

There are three lines of defence in place on controls in the Council.

- 1st line of defence is the day-to-day operational controls.
- 2<sup>nd</sup> line of defence is functions (such as finance, HR and Procurement).
- 3<sup>rd</sup> third line of defence is independent inspection such as Internal Audit or other assurance providers.

Internal Audit audits will look to ensure that managers in the 1<sup>st</sup> and 2<sup>nd</sup> line defence have sound controls and monitoring in place and that their management function is properly discharged. Given the limitations on internal audit resources there is an increasing need for more reliance to be placed by the Council's 2<sup>nd</sup> line of defence and audit will increasingly need to provide assurance on the effectiveness of those functions especially as budget constraints impact on these areas.

## **Annual Audit Plan 2023/24**

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

Risk rating has considered the following factors: Financial Cost, Change in Systems / Personnel, Reputation / Sensitivity / Political, Statutory & Legal / Health & Safety, Safeguarding, Potential for Fraud & Corruption, Strategic Objective/ Corporate Priority, Risk Register to frequency of audits.

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. The Head of Internal Audit will also attend Management Team meetings as required, to discuss audit coverage and outcomes.

# Internal Audit Plan 2023/24

## Environment, Civic Pride and Climate

Audits	Comments / Key risks / Focus
Climate Change	Review of Councils' strategies and progress against the accompanying action plans. review of progress against agreed milestones, implementation of strategy, compliance across departments with changes made to policies and funding.
Building Checks	Review statutory compliance - gas safety, legionella, asbestos, and check in terms of processes and assurance re meeting statutory requirements for Council owned buildings.
Air Quality Control	Review of the function and arrangement in place with funding – co-ordinated through Merton for 30 other London Boroughs.
Arboriculture Contract	Review of contract monitoring arrangements in place.
Watersport Centre	Review of the financial controls in place at the centre.

## Housing and Sustainable Development

Audits	Comments/key risks/focus
Homelessness and Housing Registration Processes	Review of Councils arrangement for the Housing application process. Review of housing register. To include contract/agreement arrangements with providers for temporary accommodation. monitoring and oversight.

## Adult Social Care, Integrated Care and Public Health

Audits	Comments / Key risks / Focus
Care Act Assessments for Adult Social Care	Audit to focus on the timeliness of Care Act assessments and evidence has been retained on Mosaic. New CQC assurance from April 2023.
Home Care Contracts	Request for audit input in June/July to provide assurance that processes required in specification / contract are adequate. All packages will be transferred to new providers.
Financial Assessments	Review of the procedures and processes in place and management oversight.

## Children Lifelong Learning and Families

Audits	Comments / Key risks / Focus
Transitions from children to adult services	To review transition planning, identification of children requiring continued support, tracking, monitoring. transitions to ensure that, for those who will need help as an adult, a smooth transfer occurs between Children's Social Care and Adult Social Services. work with Education, Health and Care Plans (EHCP) and Pathway Plans so that young people have personalised input and control over the type of support they receive.
Schools PFI contract	To review the arrangements in place, for expiry contract management. Handover risk and opportunity assessment undertaken covering for example, contract conditions, assets, future provision.
Schools' assurance audits	To review governance, and financial management arrangements including contracts for a sample of schools.

## Finance and Digital

Audits	Comments / Key risks / Focus
Medium term financial planning, Savings plans, Budget monitoring	To review the arrangements for MTFP, savings plans and budget monitoring and oversight
Corporate Procurement	A review of the procurement process and sample testing on expenditure to ensure compliance with Contract Standing Orders. Sample checking across departments, to include procurement planning.
Accounts Payable	Key Financial Audit – review controls in place for setting up creditors, authorisation and payment. Access level controls on the system.
Cash and Bank	Review of the process for setting up and monitoring direct debit payments and controls in place for cash received and completion of e returns.
Council Tax	Review of controls on the Council Tax system. Updates to standing date, collection, debts, refunds and write offs. (
Treasury Management	Review of the governance and management oversight on treasury management arrangements.
Household Support grant	Review of the adequacy and effectiveness of the control environment relating to the provision of Cost-of-Living support and distribution of Government funding.
Client Financial Affairs	Review of administration of scheme. Monitoring of arrangements in place to manage client assets.
Galpins Road	Bellwin Claim, review of process in place for cash payments made.
Duplicate Payment Testing - quarterly review	Quarterly payment data checks to identify any duplicate payments made. Queries checked by Transactional services.

## Innovation and Change

Audits	Comments / Key risks / Focus
Information Governance	Review of the framework for Information Governance. Include Retention & Disposal of data, Records management, Information Sharing Agreements etc.
Control and monitoring of Agency staff	A review of the arrangements in place for the process for appointing agency staff, checking and sign off on timesheets and management oversight. (To include IR35 checks).
Shared Payroll/HR System (joint review with Merton and Kingston)	Key Financial System (Joint audit across Sutton, Merton and Kingston).

## Grants/Annual Accounts

Audits	Comments / Key risks / Focus
MSJCB	Review of annual accounts.
Supporting Families grant	Monthly sample check on grant claims and on-going support and advice.
Signing off grant claims	To review grants as required
Annual Governance Statement	Annual review of the Councils governance arrangements
Follow ups	Follow up on audit actions to ensure timely implementation.

## **Charter and Strategy 2023-24**

**This Charter and Strategy sets out the purpose, authority, and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards. It also sets out how the South West London Audit Partnership (SWLAP) will be developed and delivered in accordance with these standards.**

**The Charter and Strategy will be reviewed annually and presented to the Audit Committee<sup>1</sup> for approval.**

### **Public Sector Internal Audit Standards**

The UK Public Sector Internal Audit Standards (PSIAS), which came into effect from 1 April 2013, and were revised in April 2017, provide a consolidated approach across the whole of the public sector providing continuity, sound corporate governance and transparency.

The PSIAS are mandatory, and the Heads of Audit will report on compliance with the Standards as part of their Annual Internal Audit Report. An independent external quality assessment (EQA) review of SWLAP compliance with the Standards will be undertaken at least every five years, as required by the PSIAS, and will be supplemented by an annual self-assessment to ensure the SWLAP ongoing compliance with them.

The PSIAS require SWLAP to implement and maintain an 'Internal Audit Charter' for each partner council. The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority and responsibility. This Charter will be reviewed on a regular basis and presented to the relevant audit committees for review and 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 Achieving for Children (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 and Core Principles**

The mandatory elements of the International Professional Practices Framework (IPPF) for Internal Audit are incorporated into the PSIAS and include an overarching 'Mission' for Internal Audit services '...to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'.

The 'Core Principles' that underpin delivery of the IPPF mission require internal audit functions to:

- Demonstrate integrity.
- Be objective and free from undue influence (independent)
- Align with the strategies, objectives and risks of the organisation.
- Be appropriately positioned and adequately resourced.
- Demonstrate quality and continuous improvement.
- Communicate effectively.
- Provide risk-based assurance.
  - Be insightful, proactive, and future-focused; and
- Promote organisational improvement.

### **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 has the authority to obtain such information and explanations as it considers necessary to fulfil its 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 Audit Committees for each of the partner councils fulfil the functions of 'The Board'; and the Corporate Management Teams for each council will fulfil the functions of 'Senior Management', as defined by PSIAS.



The responsibility for maintaining an adequate and effective system of internal audit within each Council lies with the authority's Chief Finance Officer (S151 Officer).

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

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

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

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

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

The Heads of Audit considers relying on the work of other internal or external assurance and consulting service providers when forming their annual opinion.

### **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 achieved 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 Heads of Internal Audit have full and unrestricted access to the following (where relevant):

- The Director of Finance/Resources/Finance and Digital/Corporate and Commercial (S151 officer)
- Chief Executive
- Chair of the Audit Committee
- The Council's Monitoring Officer
- The Council's General Counsel (RBK)
- All members of the senior management team (Directors Board at the SSA, Corporate Management teams at Sutton and Merton, and Strategic Leadership Team at Kingston and AfC)

The Head of the SWLAP performs the statutory role of Head of Internal Audit for RB Kingston and AfC and is line managed by the Assistant Director of Resources (Financial Services) (SSA), who is responsible for carrying out the Head of the SWLAP's annual appraisal. The Director of Corporate and Commercial and / or the Assistant Director Governance and Law, Kingston; Strategic Director of Resources (Sutton) and Managing Director - 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 must give feedback.

The Deputy Head of the SWLAP performs the statutory role of Head of Internal Audit for LB Merton and LB Sutton and is line managed by the Head of the SWLAP who is responsible for carrying out the annual appraisal. The Strategic Director of Resources (Sutton), Director of Finance and Digital (Merton), Managing Director- Legal Services (Merton) and the Chairs of the Audit and Governance Committees (Sutton) and Standards and General Purposes Committee (Merton) can participate in this appraisal review.

The Assistant Director of Resources (Financial Services) performs the statutory Head of Internal Audit role for the LB of Wandsworth and Richmond and is line managed by the Director of Resources who will undertake the annual appraisal and this will be signed off by the SSA's Chief Executive.

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.

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.

The Heads of Audit will confirm to the board, at least annually, the organisational independence of the internal audit activity.

### **Non-audit Areas**

The PSIAS require the Internal Audit Charter to identify any 'Non-audit' areas that fall under the remit of the Head of Audit as 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 Assistant Director of Resources (Financial Services), who covers the Statutory Head of Audit role for Richmond and Wandsworth, has operational responsibilities for: Health & Safety, Procurement and Pensions and for Risk Management and Insurance.

Since these roles may involve establishing and maintaining the control environment, these functions will be audited independently by Mazars or other such appropriately qualified persons.

## **EXTERNAL AUDITORS**

Internal Audit will consider all requests from each partner council's external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, which external audit would need to discharge their responsibilities.

## **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. An external review was last completed in 2018.

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 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. 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. Resources can also be sourced through the CCAS framework.

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, Standards and Statutory Accounts 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 of the SWLAP. Unless amended and agreed by the Shared Service Board, the Head of the SWLAP is the statutory Head of Internal Audit for RB Kingston and AfC. The Deputy Head of the SWLAP is the 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 LB Richmond for the SWLAP. 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.

### **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/ Risk Returns
- 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 are operating correctly. The selection of work in this category is driven by the AGS, 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.
- **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.
- **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:** Information technology is fundamental to the delivery of all the council's 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 Audit Manual and 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.
- 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