

London Borough of Hammersmith and Fulham

Internal Audit Charter

September 2020



1. The Internal Audit Charter

- 1.1 This Charter establishes the purpose, authority and responsibilities for the internal audit service for the London Borough of Hammersmith and Fulham, in accordance with the UK Public Sector Internal Audit Standards and the CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations.
- 1.2 The Internal Audit Strategy (Appendix 1) sets out how the Council's internal audit service will be developed and delivered in accordance with the Internal Audit Charter.
- 1.3 The Charter and Strategy will be reviewed annually and presented to the London Borough of Hammersmith and Fulham's Strategic Leadership Team (in its role as the SLT Assurance Board) and to the Audit and Pensions Committee to note.

2. Definitions

- 2.1 Internal Audit is defined by the Public Sector Internal Audit Standards (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."
- 2.2 For the purposes of the PSIAS and this Audit charter:
 - The Shared Services Director for Audit, Fraud, Risk and Insurance is designated as the "Chief Audit Executive";
 - The Audit and Pensions Committee are designated as the "Board";
 - The Council's Strategic Leadership Team is designated as "Senior Management".

3. Purpose of Internal Audit

- 3.1 Internal audit provides independent and objective assurance to the London Borough of Hammersmith and Fulham through its Members, the Strategic Leadership Team and, in particular, the Director of Finance, to help discharge responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.
- 3.2 In addition, the Accounts and Audit Regulations (2015) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council's governance, risk management and internal control systems.
- 3.3 The Internal Audit Service is led by the Shared Services Director for Audit, Fraud, Risk and Insurance and delivers audit reviews across three Councils: The London Borough of Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea (the host borough) and Westminster City Council.

4. Role of the Shared Services Director for Audit, Fraud, Risk and Insurance

- 4.1 The Shared Services Director for Audit, Fraud, Risk and Insurance is a senior and independent role within the Council and is responsible for:
 - ensuring that internal audit work is risk-based and aligned to the Council's priorities and will support the internal audit opinion;
 - Identifying where internal audit assurance will add the most value or do most to facilitate improvement;

- Producing an evidence-based annual internal audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control;
- Demonstrating the benefits of good governance and working with the Council to promote and support this and helping the Council to understand the risks to effective governance;
- Giving advice to Senior Management and others on the control arrangements and risks in relation to proposed policies, programmes and projects;
- Promoting the highest standards of ethics and standards across the organisation based on the principles of integrity, objectivity, competence and confidentiality;
- Offering advisory services where appropriate and providing advice on risk and internal control arrangements for new and developing systems, including major projects, programmes and policy initiatives whilst maintaining safeguards over independence (see section 9).

5. Role of the Council's Senior Management

5.1 To enable internal audit to fulfil their role, the Council's Senior Management (i.e. members of the Senior Leadership Team and service directors):

- Engage constructively with the internal audit service, facilitating their role throughout the organisation and recognising the role that audit can play in providing advice and assurance;
- Commit to the principles of good governance, recognising its importance for achieving the Council's values and behaviours;
- Take account of advice provided by the Shared Services Director for Audit, Fraud, Risk and Insurance in respect of new and developing systems.

5.2 The Director of Finance (S151 Officer), supports the role of the Shared Services Director of Internal Audit, Fraud, Risk and Insurance by:

- Establishing an internal accountability and assurance framework including how internal audit works with other providers of assurance and ensuring internal audit is independent of external audit;
- Setting out how the framework of assurance supports the annual governance statement (AGS) and identify internal audit's role within this (the Shared Services Director for Audit, Fraud, Risk and Insurance contributes to but is not responsible for the AGS);
- Ensuring the Audit and Pensions Committee's terms of reference includes oversight of internal audit including the monitoring of adherence to professional standards and the performance of the service;
- Ensuring the Shared Services Director of Internal Audit, Fraud, Risk and Insurance has clear lines of reporting to Senior Management;
- Ensuring the annual internal audit opinion and report is issued by the Shared Services Director for Audit, Fraud, Risk and Insurance reports in their own right;
- Ensuring that the Internal Audit Charter and Audit Plan are approved by the Audit and Pensions Committee in accordance with the PSIAS;
- Ensuring that an external review of internal audit quality is carried out at least once every five years and the Audit and Pensions Committee provides support for and participates in the quality assurance and improvement programme as set out in PSIAS.

6. Authority & Access to Records

6.1 In undertaking their duties and responsibilities, Internal Audit (which includes in house staff and contractors) and the Corporate Anti-Fraud Service shall be entitled to have full access to all of the Council's data, records, cash, stores, property, assets, personnel and information whether manual or computerised, it considers necessary to fulfil its responsibilities. Audit and Investigation staff may enter Council property and have 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 and investigations.

- 6.2 Access rights apply equally to third parties and organisations, as permitted through the associated contract and partnering arrangements. Right of access to other bodies funded by the Council should be set out in the associated conditions of funding.
- 6.3 All records, documentation and information accessed during the course of audit reviews and investigations shall be used solely for that purpose. All audit and investigation staff are responsible for maintaining the confidentiality of information received in the course of their work and in compliance of GDPR.

7. The Audit and Pensions Committee

7.1 The Shared Services Director for Internal Audit, Fraud, Risk & Insurance is required to provide the Council and the Director of Finance with an annual opinion, reported through the Audit and Pensions Committee, on the adequacy and the 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 operations and helps protect public resources;
- To provide assurance that the Council's operations are being undertaken in accordance with relevant internal and external regulations, legislation, internal policies and procedures;
- To provide assurance that significant risks to the Council's objectives are being identified and managed;
- To provide independent assurance over the corporate governance arrangements in place across the Council;
- To provide advice and support to management to enable an effective control environment to be maintained;
- To promote an anti-fraud, anti-bribery and anti-corruption culture with the Council to aid the prevention and detection of fraud;
- To evaluate specific operations or issues at the request of the Audit and Pensions Committee, as appropriate;
- To undertake investigations where there is suspected fraud, bribery or corruption; and
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.

7.2 There are inherent limitations in any system of internal control and thus error or irregularities may occur and may not be detected by internal audit's work. When undertaking audit reviews, internal audit will provide management with comments and report on failures or weaknesses in internal control systems together with recommendations for remedial action. It remains a management responsibility to maintain an effective system of internal control and to have adequate systems in place to prevent and detect fraud.

7.3 Where appropriate, Internal Audit may undertake consulting work for the benefit of the Council. Internal Audit may also provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of any associated contract.

7.4 The Shared Services Director for Internal Audit, Fraud, Risk & Insurance contributes to the review of the effectiveness of the Audit and Pensions Committee, advising the Chair and relevant managers of any suggested improvements.

8. Reporting

8.1 The UK Public Sector Internal Audit Standards require the Shared Services Director for Internal Audit, Fraud, Risk and Insurance to report directly to the top of the organisation and those charged with governance. This is achieved through the following framework:

- The Internal Audit Strategy and Charter and any amendments to them will be reported to the Audit and Pensions Committee;
- The Annual Internal Audit Plan is compiled by the Shared Services Director for Audit, Fraud, Risk and Insurance, taking account of the Council's risk framework and following discussions with

stakeholders, including senior managers. The audit plan is subject to review by the Council's Senior Leadership Team and will be reported to the Audit and Pensions Committee for noting and comment;

- The Internal Audit budget is reported to the Senior Leadership Team and Full Council for approval, as part of the overall Council budget;
- The adequacy, or otherwise, of the level of internal audit resources as determined by the Shared Services Director for Audit, Fraud, Risk and Insurance and the independence of service will be reported to the Audit and Pensions Committee (see also the Internal Audit Strategy);
- Internal audit outcomes and progress with the Internal Audit Plan will be reported regularly to the Council's Section 151 Office and to the Council's Senior Managers;
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work will be reported regularly to the Audit and Pensions Committee;
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit and Pensions Committee;
- Any instances of non-conformance with the Public Sector Internal Audit Standards will be reported to the Audit and Pensions Committee and will be included in the annual report of the Shared Services Director for Audit, Fraud, Risk and Insurance. If there is significant non-conformance this may be included in the Council's annual governance statement.

9. Independence

9.1 The Council's governance arrangements give the Shared Services Director for Audit, Fraud, Risk and Insurance free and unfettered access to the following:

- The Chief Executive;
- The Chair of the Audit and Pensions Committee;
- The Monitoring Officer;
- All Members of the Senior Leadership Team.

9.2 The independence of the Shared Services Director for Audit, Fraud, Risk and Insurance is further safeguarded by ensuring that any appraisal of personal performance is not unduly influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of the Audit and Pensions Committee have an opportunity to contribute to, and/or review the appraisal of the Shared Services Director for Audit, Fraud, Risk and Insurance. The Shared Services Director has responsibility for Fraud, Insurance and Risk Management at the Council. Independence is maintained by ensuring that internal audit reviews of these functions are carried out and supervised independently of the Shared Services Director, including the scoping of the review and provision of the draft and final reports.

9.3 All Council and contractor staff in the Shared Services Internal Audit Service and Corporate Anti-Fraud Service are required to make an annual declaration of any potential conflicts to ensure that auditors' objectivity is not impaired and that any requirements of the Council are complied with.

9.4 Internal Audit may provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity (over 5% of planned annual audit days) not already included in the audit plan and which might affect the level of assurance work undertaken, will be reported to the Audit and Pensions Committee. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

9.5 Internal Audit must remain independent of the activities that it audits to enable auditors to make impartial and effective professional judgments and recommendations. Internal auditors have no operational responsibilities towards the systems and functions audited. If additional responsibilities are taken on by the Shared Services Director for Audit, Fraud, Risk and Insurance, appropriate safeguards will be put in place to ensure that these responsibilities do not compromise the independence and objectivity of the service.

9.6 Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Shared Services Director for Audit, Fraud, Risk and Insurance has the freedom to report without fear or favour to all officers and particularly to those charged with governance.

- 9.7 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.
- 9.8 The Shared Services Director for Internal Audit, Fraud, Risk and Insurance is responsible for escalating any concerns about maintaining independence through the Chief Executive, the Audit and Pensions Committee and the Senior Leadership Team or the external auditor as appropriate.

10. Counter Fraud, Corruption & Irregularity

- 10.1 Managing the risk of fraud and corruption is the responsibility of management. Internal audit procedures alone cannot guarantee that fraud or corruption will be prevented or detected. Auditors will, however be alert in their work to risks and exposures that could allow fraud, corruption or other irregularity.
- 10.2 The Council has a shared Corporate Anti-Fraud Service as part of the Shared Internal Audit, Fraud, Risk and Insurance Service and the Service has a protocol for close working relations with Internal Audit. The policies and procedures of the Corporate Anti-Fraud Service are detailed in the Council's Anti-Fraud and Corruption Strategy.

11. Due Professional Care

11.1 The Internal Audit Function is bound by the following:

- Institute of Internal Auditors' (IIA) International Code of Ethics
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards;
- The CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations (2019);
- All Council Policies and Procedures;
- All relevant legislation.

11.2 All internal audit staff and contractors are required to sign an annual statement confirming their compliance with the IIA code of Ethics.

11.3 Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

11.4 A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. Both the Shared Services Director for Audit, Fraud, Risk and Insurance and the Senior Audit Manager are required to hold a professional qualification (CCAB or CMIAA) and be suitably experienced.

Internal Audit Charter and Strategy Reviewed and Agreed:

Date	Reviewed by	Comments	Approved by
Sep 2020	Moira Mackie Head of Internal Audit	Reviewed and no material change	David Hughes Shared Service Director for Audit, Fraud, Risk & Insurance
Sep 2019	Moira Mackie Head of Internal Audit	Reviewed and no material change	David Hughes Shared Service Director for Audit, Fraud, Risk & Insurance
Sep 2018	Moira Mackie	Revised Charter	David Hughes Shared Service Director for Audit,

	Head of Internal Audit		Fraud, Risk & Insurance
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INTERNAL AUDIT STRATEGY

This Strategy sets out how the Council's Internal Audit service will be developed and delivered in accordance with the Internal Audit Charter.

The Strategy will be reviewed annually and presented to the Audit and Pensions Committee for information.

Internal Audit Objectives

Internal Audit will provide independent and objective assurance to the organisation, its Members, the Senior Leadership Team and, in particular, to the Director of Finance in support of 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.

Internal Audit Remit

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

Under the direction of a suitably qualified and experienced Chief Audit Executive (the Shared Services Director for Audit, Fraud, Risk and Insurance), 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 and Pensions Committee 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 function; and
- Participate in local and national bodies and working groups to influence agendas and developments within the profession.

Service Delivery

The service will be delivered by a mixture of in-house staff and the Council's internal audit partners under the direction of the Shared Services Director for Audit, Fraud, Risk and Insurance.

Internal Audit Planning

Audit planning will be undertaken on an annual basis and audit coverage will be based on the following:

- Discussions with the Council's Senior Leadership Team and senior managers;
- The risk registers;
- Outputs from other assurance providers (including Hampshire County Council's Internal Audit Service regarding the Finance, HR and Payroll Solution);
- Requirements as agreed with External Audit.

Management views and suggestions are taken into account when producing the audit plan and the Shared Services Director for Audit, Fraud, Risk and Insurance will ensure feedback from or attendance at Service Area Management Team meetings as part of the annual planning process.

The Internal Audit Plan will include the following elements:

- **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 Service Areas' risk processes and will increasingly include work in areas where the Council services are delivered in partnership with other organisations;
- **Key Financial Systems:** Audits of the Council's key financial systems including any additional work where External Audit require annual assurance as part of their external audit work programme;
- **Probity & Compliance Audits (schools and other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice is reviewed.
- **ICT Related Audits:** The review of ICT governance, infrastructure and associated systems, software and hardware;
- **Procurement:** Audits of the procedures and processes for procuring goods, services and works including the letting and monitoring of contracts;
- **Contract Management:** Review of processes in place to ensure that services/goods provided are delivered within the expectations and at the agreed price;
- **Fraud and Ad Hoc Work:** The Corporate Anti-Fraud Service, with the Internal Audit function, will continue to investigate any fraud and irregularity arising during the year. Internal Audit may undertake additional work due to changes or issues arising in-year.

Impact of Covid-19

As a result of the Council's need to focus on responding to Covid-19, the commencement of audit work in respect of 2020/21 has been slightly delayed. This provided an opportunity to review the original Audit Plan and to ensure that appropriate audit coverage can be achieved by including wider use of data analytics and cross-departmental reviews.

In addition, resources are available to proactively support the Council where systems and processes have changed as a result of Covid-19.

Follow Up

Internal Audit will evaluate the Council's progress in implementing audit recommendations against set targets for implementation. Progress will be reported to the Audit and Pensions Committee on a regular basis.

Where progress is unsatisfactory or management fail to provide a satisfactory response to follow up requests, Internal Audit will implement the escalation procedure as agreed with management.

Reporting

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work. Summary reports are also provided to the Audit and Pensions Committee on a regular basis. This includes the annual report of the Shared Services Director for Audit, Fraud, Risk and Insurance which contributes to the assurances underpinning the annual governance statement of the Council.