

# APPENDIX 1

London Borough of Hammersmith  
and Fulham

Internal Audit Charter 2022



## 1. Introduction

- 1.1 This Charter establishes the purpose, scope, authority and responsibilities for the internal audit service for the London Borough of Hammersmith and Fulham, in accordance with the mandatory 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 (Annex A of this Charter) 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 Council's Strategic Leadership Team and to the Audit Committee to approve.

## 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 Committee are designated as the "Board"; and
  - The 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 strategic objectives 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 (SLT):
- 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 strategic objectives; and
  - 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 identifying 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 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 for 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 in their own right;
  - Ensuring that the Internal Audit Charter and Audit Plan are approved by the Audit Committee in accordance with the PSIAS; and
  - Ensuring that an external review of internal audit quality is carried out at least once every five years and the Audit Committee provides support for and participates in the quality assurance and improvement programme as set out in the PSIAS.

## **6. Authority & Access to Records**

- 6.1 Internal audit's remit extends to the entire control environment of the organisation.
- 6.2 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.

- 6.3 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.
- 6.4 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 compliance with GDPR.

## 7. The Audit Committee

7.1 The Shared Services Director for Internal Audit, Fraud, Risk & Insurance is required to provide the Council, SLT Assurance and the Director of Finance with an annual opinion, reported through the Audit 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 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 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 Committee;

- The 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 Strategic Leadership Team and will be reported to the Audit Committee for noting and comment;
- The Internal Audit budget is reported to the 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 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 Officer 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 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 Committee;
- Any instances of non-conformance with the Public Sector Internal Audit Standards will be reported to the Audit 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 Committee;
  - The Monitoring Officer;
  - All Members of the Strategic 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 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 and Insurance 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 Undertaking internal audits is the primary purpose of the internal audit service to provide an objective assessment of the framework of governance, risk management and control to inform the annual internal audit opinion. Consulting engagements (also known as advisory engagements) are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control. This may include providing advice and guidance on current best practice in governance, risk management, systems design and development, internal controls and management.
- 9.5 Non-audit consulting services may impair, or appear to impair, the independence of the internal audit activity or the individual objectivity of the internal auditor and therefore safeguards will be implemented to avoid this.
- 9.6 Any significant consulting activity (over 5% of planned annual audit days) which might affect the level of assurance work undertaken, will be reported to the Audit 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.

- 9.7 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.
- 9.8 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.
- 9.9 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.
- 9.10 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 Committee and the Strategic 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 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. This is managed through the performance management and appraisal process. Both the Shared Services Director for Audit, Fraud, Risk and Insurance and the Head of Internal Audit are required to hold a professional qualification (CCAB or CMIAA) and be suitably experienced.

**Internal Audit Charter and Strategy Reviewed and Agreed:**

<b>Date</b>	<b>Reviewed by</b>	<b>Comments</b>	<b>Approved by</b>
Oct 2022	Moira Mackie Head of Internal Audit	Reviewed, only changes minor typos and changed date of document.	David Hughes Shared Service Director for Audit, Fraud, Risk & Insurance
Oct 2021	James Graham, Audit Manager and Moira Mackie Head of Internal Audit	Reviewed and updated to reflect the requirements of the PSIAS	David Hughes Shared Service Director for Audit, Fraud, Risk & Insurance
Sep 2020	Moira Mackie Head of Internal Audit	Reviewed no material change	David Hughes Shared Service Director for Audit, Fraud, Risk & Insurance
Sep 2019	Moira Mackie Senior Audit Manager	Reviewed no material change	David Hughes Shared Service Director for Audit, Fraud, Risk & Insurance
Sep 2018	Moira Mackie Senior Audit Manager	Revised Charter	David Hughes Shared Service Director for Audit, Fraud, Risk & Insurance

## 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 Committee for information.

### Internal Audit Objectives

Internal Audit will provide independent and objective assurance to the organisation, its Members, the Strategic 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 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.

The Internal Audit Service is a shared service hosted by the Royal Borough of Kensington and Chelsea. The audit service works with the London Borough of Hammersmith & Fulham and Westminster City Council, to deliver audit reviews across the three Councils for sovereign as well as shared services.

## Internal Audit Planning

### Strategic Audit Plan

A strategic audit plan is maintained to document significant, persistent risks that the Council faces and outlines, in broad terms, business areas or themes to be covered over a five-year period. This plan is intended to support the annual planning process and ensure that, in being agile and responsive to a changing risk and assurance environment, internal audit continues to provide assurance over the breadth of the Council's operations and does not become a purely reactive function.

### Annual Audit Planning

Historically the full annual audit plan was prepared for submission to Committee prior to the start of the financial year. The traditional annual audit planning approach has become unsuitable as the original plan fails to keep pace with the organisation's changing assurance needs.

From 2021/22 onwards, the approach to audit planning changed, moving to a '3 plus 9' annual audit plan. We plan out the next three months in detail whilst keeping the remaining nine months more flexible. The plan will then be revisited each quarter to firm up the following quarter's work. Areas for consideration in the plan include:

- Risks to achieving strategic objectives;
- Issues currently affecting the department including emerging risk areas;
- Core operations / Business as usual/ Business Continuity;
- Governance;
- Transformation (Programmes, projects and new initiatives);
- Procurement and Contract Management;
- Information Management, IT and Continuity;
- Compliance;
- Areas where Internal Audit input may be helpful (including outside of that department); and
- Previous Internal Audit Coverage (or lack of) and alternative sources of assurance.

The audit plan will be presented to the Audit Committee each quarter.

### Follow Up

Internal Audit will evaluate the Council's progress in implementing audit recommendations against set targets for implementation. Progress will be reported to SLT Assurance and the Audit 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 SLT Assurance and the Audit 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.