

	<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT PENSIONS AND STANDARDS COMMITTEE</p> <p>(27th June 2013)</p>
<p>Internal Audit Charter and Strategy Statement 2013 2014</p>	
<p>Report of the Executive Director of Finance and Corporate Governance</p>	
<p>Open Report</p>	
<p>For Review & Comment</p>	
<p>Key Decision: No</p>	
<p>Wards Affected: None</p>	
<p>Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance, Nicholas Holgate, Town Clerk and Executive Director of Finance</p>	
<p>Report Author: Michael Sloniowski, BiBorough Risk Manager</p>	<p>Contact Details: Tel: 020 8753 2587 E-mail: michael.sloniowski@lbhf.gov.uk</p>

1. EXECUTIVE SUMMARY

1.1. This report presents to the Committee the Council's Internal Audit Charter and Strategy Statement for 2013 – 2014 at **Appendix 1**. The Charter is a document which explains the processes and procedures required to be in place to enable the Internal Audit Service to carry out its functions effectively and professionally.

1.2. The statement has been produced following the Annual Review of Internal Audit and a fundamental review of the service against the Public Sector Internal Audit Standards, which came into effect on the 1st April 2013.

2. RECOMMENDATIONS

2.1. The committee are asked to note the Public Sector Internal Audit Standards (PSIA) came into effect on the 1st April 2013 and that these are now applicable.

- 2.2. The committee are asked to note the 2012 2013 review of Internal Audit was conducted against the PSIA Standards and concluded that the Internal Audit service was required to amend the h&f Audit Charter as outlined in the report.
- 2.3. The committee consider and note the 2013–2014 Internal Audit Charter and Strategy Statement.
- 2.4. The committee are recommended to keep the Charter and Statement under annual review to ensure it reflects the current and future demands of an Internal Audit Service and thereby the assurance provided of the system of internal control.

3. REASONS FOR DECISION

- 3.1. This report updates Members on the purpose of the Internal Audit Service and the Internal Audit framework together with the requirement to meet new standards from 1st April 2013.
- 3.2. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. This report informs Members on the statutory requirement in England for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control. The review of the professional standards of the Internal Audit service contributes to the overall evidence in support of the Annual Governance Statement that accompanies the Statement of Accounts.
- 3.3. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

4. INTRODUCTION AND BACKGROUND

- 4.1. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control that includes a review of the Internal Audit service.

4.2. Public Sector Internal Audit Standards

- 4.3. The relevant Internal Audit Standards setters have adopted a common set of Public Service Internal Audit Standards (PSIAS) from 1st April 2013. The PSIAS encompass the mandatory elements of the Chartered Institute of Internal Auditors (CIIA) and International Professional Practices Framework (IPPF).

5. PROPOSAL AND ISSUES

5.1. The objectives of the PSAIS are to;

- Define the nature of internal auditing within the UK public sector
- Set basic principles for carrying out internal audit in the UK public sector
- Establish a framework for providing internal audit services, which adds value and leads to improved organisational processes and operations and
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

Issues

5.2. The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced. In common with the CIIA professional practices the PSIAS comprise Attribute and Performance Standards. The Attribute Standards address the characteristics of the parties performing the internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of the service is evaluated.

5.3. While the Attribute and Performance Standards apply to all aspects of the internal audit service, the Implementation Standards apply to specific types of engagements and are classified into;

- Internal Audit Assurance activities
- Internal Audit Consulting activities

5.4. It has been necessary, therefore, to review the Internal Audit Charter to;

- Comply with the wider and more comprehensive Private Sector led approach which the Standards set
- Consider the wider implications of cross borough Internal Audit service work as part of the TriBorough enterprise.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. *Not applicable.*

7. CONSULTATION

The H&F Chief Internal Auditor, Risk Management Consultant, H&F Business Board and the Internal Audit Services of The Royal Borough of Kensington and Chelsea and Westminster City Councils.

8. EQUALITY IMPLICATIONS

8.1. *Not applicable.*

9. LEGAL IMPLICATIONS

9.1. *Not applicable*

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. *Not applicable*

11. RISK MANAGEMENT

11.1. *It is the responsibility of the Internal Audit Service to keep under review the system by which risk is managed as part of the Public Sector Internal Audit Standards in order that a reasonable system of internal control is maintained.*

11.2. Implications verified/completed by: Michael Sloniowski, BiBorough Risk Manager. 020 8753 2587

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. *Not applicable*

LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Public Sector Internal Audit Standards	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
2.	Public Sector Internal Audit Standards – Application Note	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith

[Note: Please list only those that are not already in the public domain, i.e. you do not need to include Government publications, previous public reports etc.]

Do not list exempt documents. Background Papers must be retained for public inspection for four years after the date of the meeting.

LIST OF APPENDICES:

Appendix 1

Internal Audit Charter 2012 - 2013

H&F Internal Audit Charter

APPENDIX 1

This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards.

The Charter will be reviewed annually and presented to the H&F Business Board and to Audit, Pensions and Standard Committee for final approval.

Definition

Internal Audit is defined by the Public Sector Internal Audit Standards (Relevant Internal Audit Standard Setters, 2012) 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.”

Purpose

In a local authority internal audit provides independent and objective assurance to the organisation, its Members, the Hammersmith & Fulham Business Board, the BiBorough Joint Management Team (JMT) and in particular to the Chief Financial Officer to help discharge responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

In addition, the Accounts and Audit Regulations (2011) 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.

Scope

Authority

The Internal Audit function has unrestricted access to all Council records and information, both manual and computerised, cash, stores and other Council property or assets it considers necessary to fulfil its responsibilities. Audit may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Council should be set out in the conditions of funding.

The Internal Audit function will consider all requests from the 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.

Responsibility

The Audit, Pensions and Standards Committee

The highest level of governing body is the Audit, Pensions and Standards Committee and is charged with the responsibility to direct and/or oversee the activities and management of the Council.

The Audit, Pensions and Standards Committee will advise the Executive on:

- the strategic processes for risk, control and governance and the Statement of Internal Control;
- the accounting policies and the annual accounts of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
- the planned activity and results of both internal and external audit;
- the adequacy of management responses to issues identified by audit activity, including the external auditor's annual letter
- the Chief Internal Auditor's annual assurance report and the annual report of the External Auditors.
- assurances relating to the corporate governance requirements for the organisation;
- (where appropriate) proposals for tendering for either Internal or External
- Audit services or for purchase of non-audit services from contractors who provide audit services.

BiBorough Director of Internal Audit

The Council's Head of Internal Audit (The BiBorough Director of Internal Audit) is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the Audit, Pensions and Standards Committee, on the adequacy and the effectiveness of the internal control system for the whole Council.

Objectives

In order 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 to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes

- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.
- 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 within the Council to aid the prevention and detection of fraud
- To investigate allegations of fraud, bribery and corruption

Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.

Where appropriate, Internal Audit may undertake audit or consulting work for the benefit of the Council in organisations wholly owned by the Council, such as Joint Venture Companies. 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 the contract.

Reporting

The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Strategy and Charter and any amendments to them are reported to the Hammersmith and Fulham Business Board (HFBB) who act as the Corporate Management Team and the Audit, Pensions and Standards Committee (APSC).
- The annual Internal Audit Plan is compiled by the Head of Internal Audit taking account of the Council's risk framework and after input from members of HFBB. It is then presented to HFBB and APSC at least annually for noting and comment.
- The internal audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Internal Audit) and the independence of internal audit will be reported annually to the APSC. The approach to providing resource is set out in the Internal Audit Strategy.
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to HFBB and APSC on a quarterly basis.
- 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 APSC.

- Results from internal audit's Quality Assurance and Improvement Programme will be reported to both HFBB and the APSC.
- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to HFBB and the APSC and will be included in the annual Head of Internal Audit report. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

Independence

The Head of Internal Audit (the BiBorough Director of Audit) has free and unfettered access to the following:

- Chief Financial Officer
- Chief Executive
- Chair of the Audit, Pensions and Standards Committee (APSC)
- Monitoring Officer
- Any other member of the Hammersmith & Fulham Business Board

The independence of the Head of Internal Audit is further safeguarded by ensuring that the annual appraisal is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of the APSC contribute to, and/or review the appraisal of the Head of Internal Audit.

All Council and contractor staff in the BiBorough Internal Audit service are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, 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 APSC. 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.

Internal Audit must remain independent of the activities that it audits to enable auditors to make impartial and effective professional judgements and recommendations. Internal auditors have no operational responsibilities towards the systems and functions audited.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Director of Internal Audit has the freedom to report without fear or favour to all officers and members, and particularly to those charged with governance.

Accountability for the response to the advice and recommendations of Internal Audit lies with management. Managers must either accept and implement the advice and recommendations, or formally reject them accepting responsibility and accountability for doing so.

Counter Fraud, Corruption and Irregularity

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.

The Council has a Corporate Anti-Fraud Service as part of the BiBorough Internal Audit Service and a protocol for close working relations with Internal Audit. The policies and procedures of the Corporate Fraud Service are detailed in the Council's Anti-Fraud and Corruption Strategy and risks identified in the Counter Fraud and Bribery Risk Assessments.

The role of the Contracted-Out Service

The Contractor shall provide the Services in accordance with the provisions of the Contract.

In relation to the performance of the Services, the Contractor or its Operatives carrying out such Services:

- in a good, safe, skilful and efficient manner
- in accordance with all relevant provisions of the Contract Documents and Specification.
- in accordance with all applicable statutes, statutory instruments, rules, regulations and byelaws.
- in a manner which meets all applicable financial standards specified by the Council.
- in a manner which shall promote and enhance the image and reputation of the Council.
- in accordance with all applicable standards set by the British Standards Institute and equivalent EC Standards and all applicable professional and financial authorities
- in accordance with Good Industry Practice.

The Relationship of Head of Internal Audit (the BiBorough Director of Audit) and the Contractor

The Authorised Council Officer responsible for the management of the contract shall be the Executive Director of Finance delegated to the BiBorough Director of Audit.

Relationship between the Council and the Contractor

The Contract governs the relationship between the Council and the Contractor in respect of the provision of the Services by the Contractor to the Council and to any Other Councils.

The Contractor is responsible and accountable to the Director of Audit and their nominees for the provision of the audit service that they are contracted to provide. The Director of Audit is responsible and accountable to the Section 151 Officer, the Business Board as the Council's Executive and to the Audit, Pensions and Standards Committee for the Audit Service including the service provided by the Contractor.

Due Professional Care

The Internal Audit function is bound by the following standards:

- The Chartered 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 relevant legislation

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.

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 Director of Audit and the Audit Manager are required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

Audit Strategy

Scope

Strategic planning, audit planning, documenting, evaluating, testing and reporting are phases within audit process.

Process

1. The internal audit process can be seen on the following diagram:



2. **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, Pensions and Standards Committee and to Hammersmith & Fulham Business Board for approval.

Internal Audit Objectives

Internal Audit will provide independent and objective assurance to the organisation, its Members, Hammersmith & Fulham Business Board and in particular to the Chief Financial Officer 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's Remit

The internal audit service is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control

environment supports and promotes the achievement of the council's objectives.

Under the direction of a suitably qualified and experienced Head of Internal Audit (the 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, Pensions and Standards 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 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 does not deliver the design, installation and operation of controls so as to compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice.

Service Delivery

The Service will be delivered by a mixture of in-house staff and the Council's internal audit partner (currently Deloitte) under the direction of the Council's Head of Internal Audit.

The Internal Audit Service is moving to a Bi-borough Service from 1 July 2013 hosted by the Royal Borough of Kensington and Chelsea. The audit service is currently working with the Royal Borough of Kensington and Chelsea and Westminster City Council, to deliver audit reviews across the services which are either tri or bi borough. Sovereign audits will continue on services which remain unchanged.

Internal Audit Planning

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

- Discussions with Hammersmith and Fulham Business Board and management.
- Discussions with Tri and Bi borough Executive Directors.
- The Tri, Bi and Sovereign risk registers

- Outputs from other assurance providers
- Requirements as agreed in the joint working protocol with External Audit

Management views and suggestions are taken into account when producing the audit plan and the Head of Internal Audit will ensure feedback from or attendance at Departmental Management Team meetings will take place as part of the annual planning process

The Internal Audit Plan 2013-14 was based on the following:

- **Risk Based Systems Audit:** Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they operating correctly. The selection of work in this category is driven by Departments' own risk processes and will increasingly include work in areas where the Council services are delivered in partnership with other organisations.

Internal Audit planning is already significantly based on the Tri, Bi and Sovereign risk registers. The move to a bi-borough shared risk resource will continue to have a significant role in risk management with audit planning being focused by risk and the results of audit work feeding back into the risk management process to form a 'virtuous circle'.

- **Key Financial Systems:** Audits of the Council's key financial systems where External Audit require annual assurance as part of their external audit work programme.
- **Probity Audit (schools & other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice are confirmed. For schools this includes assessment against the Schools Financial Value Standard.
- **Computer Audit:** The review of ICT infrastructure and associated systems, software and hardware.
- **Contract Audit:** Audits of the procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.
- **Fraud and Ad Hoc Work:** The Corporate Anti Fraud Service, within 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.

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, Pensions and Standards 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 and in summary to departmental and corporate management on a quarterly basis. Summary reports are also provided to the Audit, Pensions and Standards Committee four times per year. This includes the Head of Internal Audit's annual report which contributes to the assurances underpinning the Annual Governance Statement of the Council.

Reviewed and Agreed

Date	Reviewed by	Position	Authorised by	Position
May 2013	Michael Sloniowski	BiBorough Risk Manager	Geoff Drake	Chief Internal Auditor
March 2012	John Kanes	Internal Audit Manager	Geoff Drake	Chief Internal Auditor
March 2011	John Kanes	Internal Audit Manager	Geoff Drake	Chief Internal Auditor
March 2010	John Kanes	Internal Audit Manager	Geoff Drake	Chief Internal Auditor