



Audit Panel

Internal Audit Charter and Internal Audit Progress Update

Date: 6 December 2022

Key decision: No.

Class: Part 1

Ward(s) affected: All

Contributors: Rich Clarke, Head of Assurance

Outline and recommendations

The Internal Audit Charter is a formal document that translates the principles and objectives of the Public Sector Internal Audit Standard into their local application. It is a key document in providing internal audit with the authority to conduct its work and so requires annual endorsement from Members.

The 2022 Charter is a complete refresh of the document reflecting the broader role of the new Head of Assurance. In particular, the Charter discusses arrangements for ensuring continued independence and objectivity in providing assurance on areas where the Head of Assurance has a direct managerial role.

The report also includes an update on progress of the internal audit service.

We ask that Members **approve** the Internal Audit Charter.

We ask that Members **note** the Internal Audit Progress Update.

Timeline of engagement and decision-making

23 June 2021: Existing Internal Audit Charter approved.

24 August 2022: Updated Charter discussed in Directorate Management Team.

6 December 2022: Updated Charter presented to Audit Panel for approval.

1. Summary

- 1.1 To conform with Public Sector Internal Audit Standards (the “Standards”) each internal audit service must have a Charter. This document sets out how certain questions of Standards application that are left to individual organisations to determine will function, as well as providing a high-level statement on the position and authority of internal audit. The Standards require that the Charter undergoes periodic review and approval by Senior Management and Members.
- 1.2 The current Internal Audit Charter was approved by this Panel in June 2021. That document was a brief overview that omitted some Standards requirements and did not fully address how to maintain the service’s independence. In part this will have been due to the then Head of Audit being seconded from an external firm, which presents those independence and organisational questions in a different context. Now, the Chief Audit Executive role is held by the Head of Assurance, who also has operational responsibility for insurance, risk management, counter fraud and corporate health & safety. The role being a permanent post with a wider responsibility creates an opportunity to revisit the Charter entirely to ensure Standards compliance and fit with the permanent structure of the service.
- 1.3 This report also provides an update on the work of the Internal Audit service.

2. Recommendations

- 2.1 The Audit Panel **approves** the Internal Audit Charter.
- 2.2 The Audit Panel **notes** the Internal Audit Service Progress Update.

3. Policy Context

- 3.1 This report is consistent with the Council’s policy framework, supporting the priorities set out in the Corporate Strategy 2018-22. It helps towards all the Council’s priorities through supporting efficient and effective governance.

4. Background

- 4.1 The Standards (Standard 1000) require that each internal audit service must have an approved Charter:

“The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter consistent with [Standards]. The [Head of Audit] must periodically review the charter and present it to senior management and the board for approval.”

- 4.2 There are a number of specific requirements particular to the public sector:

Define the terms ‘board’ and ‘senior management’ for the purposes of the internal audit activity (see Charter Section 9)

Cover the arrangements for appropriate resourcing (see Charter Sections 3.3, 3.4 and 6.1)

Define the role of internal audit in any fraud-related work (see Charter section 5.5), and

Describe safeguards to limit impairments of independence or objectivity if internal audit or the chief audit executive undertakes non-audit activity (see Charter Section 4)

- 4.3 The [existing Charter](#) approved in June 2021 describes a service led by a secondee from an external firm, as was then the case. This meant the Charter left out a number of crucial requirements, most especially the arrangements to handle situations where the wider role of the Head of the service provides a challenge to its independence and objectivity.

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5. Revised Internal Audit Charter

- 5.1 The full proposed Charter is at **Appendix A**. The need for a new Charter was identified in the Annual Report for 2021/22, presented to Members in [June](#) this year. Below extracts the relevant section from that report.

The seconded Head of Internal Audit until January 2022 was completely free of operational responsibility for any service which was (or could be) subject to audit review. The position is slightly more complex after January 2022 as the new Head of Assurance has, as well as internal audit, operational responsibility for the Anti-Fraud and Corruption Team, the Insurance and Risk Management service and (from June 2022) the Corporate Health and Safety Team.

For 2022/23 onwards we will address any independence conflicts through a revised Internal Audit Charter that will come to this Panel for approval in the Autumn. It is likely that Charter will seek independent reviews for areas also within the Head of Assurance's purview, including potentially peer-group arrangements set up by the London Audit Group.

- 5.2 Aside from providing comprehensive Standards conformance, the refreshed Charter has some specific additions and amendments to draw to your attention.
- Section 3.4: Which sets out the role of the Audit Panel. These roles are consistent with the Panel's terms of reference and the Standards and are, in essence, tasks designed to ensure Internal Audit can maintain appropriate status within the organisation and independence from management. This includes contributing feedback about the performance of the Head of Assurance and the internal audit service.
 - Section 3.5: Which sets out the right for independent meetings between the Audit Panel and internal audit.
 - Section 4. Which describes a range of possible measures to address independence threats caused by examining areas where the Head of Assurance has operational responsibility. Broadly, the Charter sets out a case-by-case approach with specific approaches to be endorsed by the Audit Panel as part of the audit plan. Examples might be commissioning work from a third party firm at cost, from another local authority on an exchange basis or having internal work overseen or peer reviewed by another Head of Audit.
 - Section 5.5. Which clarifies the principal counter-fraud role in the Council sits with the Anti-Fraud and Corruption Team.
 - Section 6. Which sets out the responsibilities of the Head of Assurance. This includes keeping the plan responsive to changing risks, communicating any significant plan changes to the Audit Panel. Also to ensure the service maintains appropriate procedures and quality standards.
- 5.3 The Charter does not propose any significant changes to the service's current operations. Rather, this document codifies those arrangements, setting out clearly internal audit's purpose, authority and responsibility.

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6. Internal Audit Service Update

Concluding 2021/22

- 6.1 In September, we reported that the only remaining outstanding engagements were a few school-based audits which were awaiting the resumption of the school year to finalise plus some finance-based audits held back to allow focus on the external audit. These are now all complete. In all cases we had completed the fieldwork and so had full oversight of the issues raised by the audit, but were typically awaiting a few items to conclude or responses to a draft report. The table overleaf sets out the final conclusions of this work.

Beginning 2022/23

- 6.2 We have started work towards completing the 2022/23 Audit Engagement plan. Mindful of upcoming changes to the team's structure (see below) our focus has been on planning out audits so new starters have work to begin immediately. Therefore we are not expecting to bring any engagements to full conclusion until later in the year. However, the following 2022/23 engagements are underway:

- Contract Procurement
- Contract Management
- Section 106 / Community Infrastructure Levy Payments
- Flood Management
- Elections
- Parking & Moving Vehicle Enforcement
- Bereavement Services
- IT Asset Management
- Wearside Depot Operations
- Key Financial Controls (part contracted to PWC)
- IT Network Infrastructure (contracted to PWC)

School Audit Approach

- 6.3 Following the experience of 2021/22 we have brought the school's audit programme back in-house for 2022/23. We have been able to do so largely thanks to taking on two new Apprentices, who started with us in September. We have also taken the opportunity to substantially revise the audit approach, working more closely with schools upfront and drawing more heavily on documents already held by the Council such as payroll records and Schools' Financial Value Standard self-assessments.
- 6.4 We recently completed the first pilot of this new approach, which has enabled us to go from beginning fieldwork to issuing a draft report of findings in less than two weeks. This compares to a more than three-month gap between fieldwork and report in the 2021/22 outsourced work.
- 6.5 We will update Members on findings from School audits alongside other work once we have concluded final reporting.

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Internal Audit Engagements 2021/22

| Ref | Title | Findings Summary | Assurance Rating | Report Date | Notes |
|---|---|---|---------------------|-------------|------------|
| 2021/22 Engagements Not Yet Finalised in September 2022 Update | | | | | |
| 21/22-17 | New Woodlands Special School | 3 x Med , 5 x Low | Satisfactory | Sep-22 | |
| 21/22-19 | Sir Francis Drake Primary School | 1 x Med , 6 x Low | Satisfactory | Sep-22 | |
| 21/22-10 | Gordonbrock Primary School | 6 x Med , 6 x Low | Satisfactory | Sep-22 | |
| 21/22-09 | Eliot Bank Primary School | 2 x Med , 3 x Low | Substantial | Sep-22 | |
| 21/22-25 | St Winifred's Catholic Primary School | 8 x Med , 5 x Low | Satisfactory | Sep-22 | |
| 21/22-44 | Banking | 3 x Hi , 1 x Med | Limited | Sep-22 | See Note 1 |
| 21/22-04 | Brent Knoll Special School | 5 x Med , 2 x Low | Satisfactory | Oct-22 | |
| 21/22-15 | John Ball Primary School | 10 x Med , 6 x Low | Satisfactory | Nov-22 | |
| 21/22-46 | Budget Mgmt – Community Services | 6 x Med , 2 x Low | Satisfactory | Nov-22 | |
| 21/22-26 | Our Lady and Philip Neri Catholic Primary | 1 x Hi , 3 x Med , 3 x Low | Satisfactory | Nov-22 | See Note 2 |

Note 1: We originally completed the fieldwork on the Banking review in the Spring, but the finalisation of the report was delayed while the finance team dealt with, first, issues with Oracle Systems and then with the external audit of the financial statements. The high-risk findings concern:

- Limited supporting documentation to support fund transfers. While we were able to support the transactions following further investigation, the documentation was not accessible or held with the reconciliations. The finance team have since revised their procedures to ensure documentation is held with transactions.
- Bank reconciliations being reviewed a considerable time after month end (up to four months late in our sample). Our rating for this finding also reflected it being a recurrence of similar issues reported back to 2018. The finance team have responded by streamlining their reconciliation approach across the board to ensure they have adequate capacity to undertake timely and accurate reviews.
- No up-to-date review of access permissions to the banking system. The service has now completed a review and included an annual update in its revised procedures.

Note 2: The High-Risk finding at Our Lady and Philip Neri Catholic Primary School concerned the school not holding an asset register to record and track high-value (over £1,000) property and equipment. The school agreed to develop a full register before the end of 2022.

7. Agreed Action Follow Up

- 7.1 Earlier in the Autumn we undertook a substantial quality assurance exercise on outstanding agreed actions. This resulted in a significant number (slightly more than 50%) being written off either for quality reasons, because they had been resolved by other means or due to changes in the service making them irrelevant.
- 7.2 This review has left **95** open High (36) and Medium (59) priority actions. When compared with their original due date (that is, the date agreed when publishing the final report) these break down as:
- **28** are not yet due (5 high, 23 medium)
 - **2** are overdue by 3 months or less (0 high, 2 medium).
 - **4** are overdue by 3-6 months (1 high, 3 medium)
 - **46** are overdue by 6-12 months (28 high, 18 medium)
 - **15** are overdue by more than one year (2 high, 13 medium). There are no agreed actions older than originally due September 2021.
- 7.3 For some context, the total number of actions raised with a due date on or after September 2021 was 397, with (113 high) and (284 medium). This means that 82% of actions due on or after September 2021 are now complete, excluding those not yet due (72% high, 86% medium).
- 7.4 We have reported on outstanding actions linked to high risk findings to the Executive Management Team. In each instance we are satisfied that remedial work is underway and interim controls are mitigating current risk. So there are no outstanding actions currently we wish to draw to Members' attention.

8. Financial implications

- 8.1 The Internal Audit Charter proposes no new work. All safeguards proposed will work within agreed budgets.

9. Legal implications

- 9.1 There are no legal implications arising direct from this report.

10. Equalities implications

- 10.1 There are no equalities implications arising direct from this report.

11. Climate change and environmental implications

- 11.1 There are no climate change or environmental implications arising direct from this report.

12. Crime and disorder implications

- 12.1 There are no crime and disorder implications arising direct from this report.

13. Health and wellbeing implications

- 13.1 There are no health and wellbeing implications arising direct from this report.

14. Background papers

- 14.1 There are no relevant background papers not otherwise referenced direct in the report.

15. Report author and contact

15.1 For any queries on the report please contact Rich Clarke, Head of Assurance on 020 8314 8730 or by email at rich.clarke@lewisham.gov.uk.

16. Appendices

Appendix A – Full revised Internal Audit Charter.

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