



Internal Audit Charter

2015 to 2016

Last Reviewed: March 2015
Next Review : March 2016
V1

Contents

1. Introduction	3
PSIAS	3
Internal Audit Definition.....	3
Anti-Fraud and Corruption Team (A-FACT).....	3
Purpose of Internal Audit and A-FACT	3
2. Statutory Framework	4
The Accounts and Audit (England) Regulations 2011	4
Local Audit and Accounts Act 2014 – Section 32 (g),	4
Section 151 of the Local Government Act 1972.....	4
The Council’s Chief Financial Officer (CFO).....	4
3. Organisational and Internal Audit Structure	4
Current Internal Audit and A-FACT Structure.....	4
Proposed Internal Audit Structure	5
Senior Management Structure.....	5
4. Accountability	5
Internal Control Board (ICB).....	6
Audit Panel.....	6
Public Accounts Select Committee (PASC).....	6
Internal Audit Reporting Lines.....	6
5. Framework	7
Independence.....	7
In-house Internal Audit Team.....	7
Internal Auditors (Contractors / Outside partners)	8
Head of Internal Audit (HIA) – (In-house).....	8
Authorisation.....	8
Service Delivery	8
Anti-Fraud and Corruption Team (A-FACT).....	9
Quarterly Reports	9
Annual Assurance Report.....	9
Individual Audit Reports.....	9
Assurance Review	10
Consultancy Review.....	10
Advice	10
Grant Claims.....	10
Responsibility of Management.....	10
6. Professional Care	11
IIA Code of Ethics	11
Seven Principles of Public life.....	11
Role of Head of Internal Audit.....	11
Peer Review / Annual Assurance.....	11
7. Approval and Contacts.....	11
Appendix 1 – Corporate Internal Control Board Terms of Reference	13
Appendix 2 - Audit Panel Composition Terms of Reference.....	14
Appendix 3 - Public Accounts Select Committee Terms of Reference	15

1. Introduction

- 1.1. This charter replaces the previous Internal Audit Strategy and Terms of Reference, to bring it in line with the UK Public Sector Internal Audit Standards (PSIAS). The main purpose of this charter is to provide the Members, Management, Internal Audit and other relevant stakeholders with:
- The internal audit function strategy for the coming year;
 - The roles and responsibilities for the internal audit function; and
 - Members and Management responsibilities in relation to internal audit and the Council's control environment.

PSIAS

- 1.2. The Public Sector Internal Audit Standards (PSIAS), developed in collaboration by a number of bodies, including Chartered Institute of Internal Auditors and the Chartered Institute of Public Finance and Accounting (CIPFA), came into effect on the 1 April 2013. The standards were developed to create consistency in the practice of internal audit and establish the basis for quality assurance across the public sector.
- 1.3. The objectives of the PSIAS 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 add value to the organisation, leading to improved organisational processes and operations; and
 - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 1.4. The PSIAS state that an independent external assessment of the Internal Audit Service should be conducted at least every five years. However, an assessment (whether internal or review by a peer) should be done annually and results reported in the annual assurance report.
- 1.5. Lewisham's first formal independent external assessment will take place this year, 2015/16.

Internal Audit Definition

- 1.6. The Global Institute of Internal Auditors definition is "Internal auditing is 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."

Anti-Fraud and Corruption Team (A-FACT)

- 1.7. A-FACT is responsible for developing anti-fraud policies and procedures, promoting a counter fraud culture, and undertaking investigations of potential fraudulent activity committed against the Council. A-FACT also ensures that appropriate sanctions, including prosecution and the recovery of assets, are sought where fraud is proven. The Council's A-FACT policy and strategy is separate to this internal audit charter.

Purpose of Internal Audit and A-FACT

- 1.8. Internal Audit and A-FACT are Council resources that assist management in the achievement of the Council's corporate and service objectives. While management are responsible for risk management and the control environment, internal audit

assists management in providing advice on how to mitigate these risks and how to improve the control environment.

2. Statutory Framework

- 2.1. As defined by the following acts and guidance, Internal Audit is a statutory function of the Council. This means that the Council is required to have an internal audit function, whether it is in-house, outsourced or a combination.

The Accounts and Audit (England) Regulations 2011

- 2.2. This Act requires the Council to 'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

Local Audit and Accounts Act 2014 – Section 32 (g),

- 2.3. "The Secretary of State may by regulations applying to relevant authorities other than health service bodies make provision about— (g) the maintenance by relevant authorities of systems of internal control (including arrangements for the management of risk).

Section 151 of the Local Government Act 1972

- 2.4. This act states that every local authority in England and Wales should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs".

The Council's Chief Financial Officer (CFO)

- 2.5. This role is fulfilled by the Executive Director for Resources and Regeneration. The CIPFA Statement on the Role of the CFO in Local Government states that they "must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively".

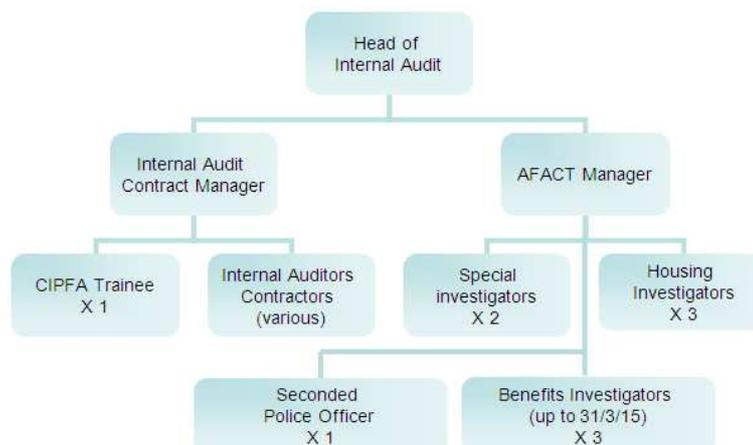
3. Organisational and Internal Audit Structure

- 3.1. Internal Audit and A-FACT are part of the Corporate Resources service area that sits within the Resources and Regeneration Directorate. The Head of Internal Audit (HIA) is also the Head of Corporate Resources. The HIA reports directly to the Executive Director of Resources and Regeneration, who is also the Section 151 officer and the CFO.

Current Internal Audit and A-FACT Structure.

- 3.2. The current (as at Feb 15) Internal Audit and A-FACT structure chart is as follows:

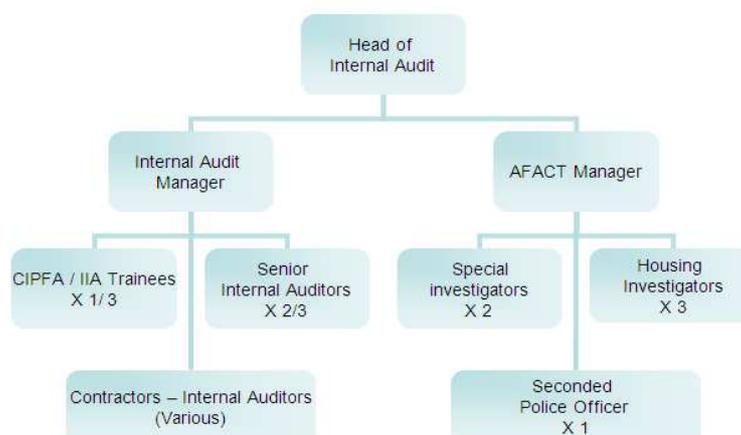
Internal Audit and AFACT Structure Chart as at Feb 2015.



Proposed Internal Audit Structure.

- 3.3. For 2015/16, the proposed structure chart will be similar to chart shown below. More details on the new Internal Audit structure can be found 5.12, Service Delivery:

Proposed Internal Audit and AFACT Structure Chart for 2015/16.



- 3.4. The reduction in benefit investigators for 2015/16 from A-FACT reflects the transfer of these staff to the Department for Work and Pensions from 1 April.

Senior Management Structure

- 3.5. The Council's senior management structure charts can be accessed via the link below. The top tier management for Resources and Regeneration chart shows where the HIA (Head of Corporate Resources) sits within the senior management structure of the Council.

<http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/council-structure/Pages/management-structure-charts.aspx>

4. Accountability

- 4.1. In addition to reporting to the Section 151 Officer, the HIA reports directly to the Internal Control Board (ICB) and the Audit Panel on a quarterly basis.

- 4.2. The PSIAS guidance uses the term 'The Board', which is not explicitly used within the Council's governance structures. The Council has three bodies that could potentially be categorised as 'The Board' in terms of the PSIAS. In this context, the following terms apply solely to the purposes of the Council's internal audit activities. They are:

Internal Control Board (ICB).

- 4.3. Membership of this board consists of an Independent Non-Executive Chair (external person), the Executive Directors, the Chief Executive Officer, the Head of Law, and the Group Manager of Insurance and Risk. The HIA reports quarterly to ICB. These meetings, where possible, are held before the next Audit Panel Meeting. Please see Appendix 1 for the ICB terms of reference.

Audit Panel

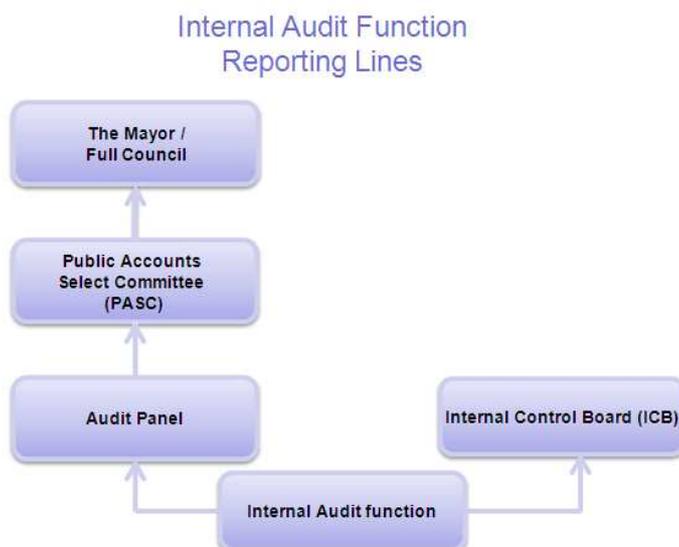
- 4.4. The Audit Panel consists of six Non-Executive Councillors, one of which serves as the Chair. In addition, there are up to four Independent Members. The remit of the Audit Panel in terms of Internal Audit, is to receive, review and, where appropriate, advise and make recommendations on the following:
- Review and approve the Internal Audit Strategy / Charter, Plans and Resources;
 - Review the progress reports on the Internal Audit Function;
 - Review the HIA Annual Assurance report;
 - Review the progress of implementation of recommendations; and
 - Monitor the effectiveness of Risk Management and associated Anti-Fraud and Corruption arrangements.
- 4.5. The Audit Panel reports to the Public Accounts Select Committee (PASC) where appropriate. Please see Appendix 2 for the Audit Panel terms of reference.

Public Accounts Select Committee (PASC)

- 4.6. PASC consists of at least seven and no more than 11 non-Executive Councillors. The remit in terms of Internal Audit is to:
- Receive reports from the Audit Panel; and
 - Scrutinise the effectiveness of the Audit Panel.
- 4.7. Please see Appendix 3 for PASC terms of reference.
- 4.8. For the purposes of this Charter and for the annual Internal Audit assessment against PSIAS, 'The Board' is the Audit Panel, unless otherwise stated.

Internal Audit Reporting Lines

- 4.9. In addition to the terms of references for PASC and the Audit Panel please see a simple structure showing the reporting lines for internal audit in relation to management and councillors.



- 4.10. A link to Council's Constitution is provided below, which details the whole governance of the Council.
<http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/Documents/TheConstitutionSeptember2014.pdf>

5. Framework

Independence

- 5.1. Internal auditors are mandated by the standards to be independent and objective concerning the business activities they audit. Both Internal Auditors and the HIA need to consider their independence and objectivity during the course of their work.
- 5.2. A definition of independence (in relation to Auditors') is, "The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner".
- 5.3. PSIAS definition of objectivity: "An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors to not subordinate their judgment on audit matters to others."
- 5.4. The HIA or Internal Auditors, who may have conflicts of interests, either real or perceived, must declare their interest to the Internal Audit Contract Manager. This ensures that when conducting individual audits or any other audit type work, the auditor in question will ensure that they retain their independence and objectivity. The Internal Audit Contract Manager will declare any interests to the HIA for him to monitor.
- 5.5. The HIA will not agree any internal audit scope for areas where he has operational responsibilities. The HIA delegates the responsibility for agreeing these scopes to the appropriate operational manager, with the Internal Audit Contract Manager overseeing the work to ensure that it fulfils internal audit requirements.

In-house Internal Audit Team

- 5.6. The in-house team currently consists of the Internal Audit Contract Manager and a CIPFA trainee. They are currently responsible for:

- Conducting internal audit reviews and follow-up reviews;
- Monitoring the internal audit contracts and liaising with partners;
- Monitoring and reporting on the progress of management actions (recommendations) to ICB and Audit Panel;
- Assisting the HIA in the annual audit planning process;
- Providing management information as requested;
- Assisting the HIA in preparing the annual assurance report; and
- General management of the internal audit function.

Internal Auditors (Contractors / Outside partners)

- 5.7. Since September 2014, the following are engaged to assist the Council conduct the audits in the 2014/15 plan.
- Mazars – (under the London Borough of Croydon Framework) conducting the core financial reviews.
 - Pertinax Consulting Ltd conducting the IT audits.
 - Royal Borough of Greenwich conducting the schools audits, with the exception of special schools.

Head of Internal Audit (HIA) – (In-house)

- 5.8. In addition to the internal audit functions and A-FACT, the HIA is responsible for operational functions within the Council. They are:
- Insurance;
 - Risk Management;
 - Corporate Health & Safety;
 - Procurement; and
 - Strategic Finance, including Treasury and the Pension Fund investments and accounts.
- 5.9. Insurance, Corporate Health and Safety, and Risk Management have a three-year audit cycle. Procurement and Strategic Finance will continue to be audited on an annual audit basis.

Authorisation

- 5.10. Both the HIA and the Internal Audit Contract Manager have unfettered access to the following:
- Chief Executive Officer;
 - Executive Director of Resources and Regeneration (Section 151 officer/ CFO); and
 - The Chair of the Audit Panel.
- 5.11. The CFO has given authorisation to all Internal Auditors (both in-house and contractor) and A-FACT staff to:
- Enter Council premises at all reasonable times;
 - Have access to and remove as necessary Council records (paper or electronic);
 - Require explanations from Council officers as necessary; and
 - Require any person holding Council property to produce it for examination.

Service Delivery

- 5.12. The restructuring of the internal audit function will complete in 2015/16. The proposed restructure is to have an in-house team, instead of a fully outsourced service, with external contractors supporting the service. The proposed structure is set out at 3.12 above.

- 5.13. The HIA must ensure that there are enough resources and qualified staff to provide the annual opinion on the control environment of the Council. Where the HIA believes that there are insufficient resources, the HIA will bring this to the attention of the Section 151 officer and the Audit Panel, and a qualification to the annual assurance report may be required.

Anti-Fraud and Corruption Team (A-FACT)

- 5.14. The HIA oversees the A-FACT. The team has three main areas of work:
- Benefits (up until 31/3/15, when this work and the staff transfer to the DWP);
 - Housing; and
 - Special Investigations.
- 5.15. A-FACT has a separate policy and strategy. The Whistleblowing policy (see link below) is overseen by Legal, and any fraud or concerns about fraud can be reported to A-FACT.

Whistleblowing Policy

<http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/Documents/Whistleblowing%20Policy%20Final%202014.pdf>

How to report fraud

Telephone 24hr: 08000 850 119

Email: reportfraud@lewisham.gov.uk

Website detailing the types of fraud the A-FACT can investigate:

<http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/fraud/Pages/default.aspx>

Quarterly Reports

- 5.16. Internal audit reports to ICB and the Audit Panel on a quarterly basis. The reports contain the following information:
- Progress against the agreed audit plan and assurance opinions that result;
 - Details of 'Limited' or 'No assurance' reports and any consultancy reviews;
 - High and Medium recommendations not accepted by management;
 - Progress on implementation of internal audit recommendations; and
 - Results of follow-up reviews conducted.

Annual Assurance Report

- 5.17. The HIA issues an annual assurance report to the Audit Panel. This informs the Annual Governance Statement (AGS) which incorporates the Statement of Internal Control. The HIA annual assurance report includes:
- An opinion on the overall adequacy and effectiveness of the Council's control environment,
 - Any qualifications to the opinion,
 - Summary of audit work completed that helped form the opinion,
 - Summary of reliance placed on the work by other assurance bodies,
 - Confirmation on compliance with the PSIAS, and
 - Internal Audit's quality assurance and improvement plan.

Individual Audit Reports

- 5.18. For each individual review, (whether assurance or consultancy), a report is sent to management with the following information.
- Audit Opinion of the controls in place (for assurance reviews) only;
 - Executive Summary;
 - Scope and any changes to the original scope;
 - Auditor findings;

- Recommendations made (ranked high, medium or low);
- Management comments relating to the recommendations, and
- Expected date of implementation of recommendations.

Assurance Review

- 5.19. An Assurance review is an objective assessment that provides an opinion on the effectiveness of the controls in place. In addition, internal auditors will recommend actions to management on how to improve controls in their area. Any High or Medium recommendations made are followed-up by internal audit. This type of review forms the majority of the work in the internal audit plan.

Consultancy Review

- 5.20. A consultancy review is an advisory review that intends to add value and improve the Council's governance, risk management and controls processes. Management agree the scope of the review. Internal audit does not provide an opinion on the effectiveness of the controls in place but does provide recommendations to management to improve their service. Any High or Medium recommendations made are followed-up by internal audit.

- 5.21. Consultancy reviews make up a small part of the audit plan. Where management request a large consultancy review the Audit Panel would need to approve the request before the work is committed to.

Advice

- 5.22. It is not always appropriate to conduct an assurance or consultancy review when management just require help and advice. Where internal audit provides advice to management or attends a project meeting to give advice, management will receive an informal memo detailing any advice or recommendations made. An opinion is not provided in these memos and any recommendations made to management are not monitored or followed-up by internal audit.
- 5.23. Where an auditor has provided significant advice to management, they will be prevented from auditing that area for the next 12 months (or longer if applicable), so that internal audit independence and objectivity is retained.

Grant Claims

- 5.24. Central Government Bodies sometime require internal audit to certify a grant claim. In these instances, internal audit will confirm management have met the qualifying criteria of the grant. A memo type report is issued to management certifying the grant. Any recommendations to management are not normally monitored or followed-up by internal audit.

Responsibility of Management

- 5.25. Management are responsible for the control environment. They also have a responsibility to assist internal audit in the audit process to ensure it runs as smoothly as possible. They should ensure that they:
- Respond to any requests for information promptly;
 - Do not cancel meetings with auditors unless absolutely necessary;
 - Query any findings or recommendations prior to the finalisation of the audit.
 - Update the progress of implementation of their recommendations when required.
- 5.26. Management may be required to attend the Audit Panel to explain to members if they do not comply with any of these requirements.

6. Professional Care

- 6.1. Internal Auditors (both in-house and contractors) must adhere to their professional codes of conduct. In addition, they should adopt the CIIA Code of Ethics, and Seven Principles of Public Life.

IIA Code of Ethics

- 6.2. The CIIA Code of Ethics is a statement of principles and expectations governing behaviour of individuals and organisations in the conduct of internal auditing.
- Integrity - The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
- Objectivity - Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
- Confidentiality - Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- Competency - Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Seven Principles of Public life

- 6.3. The 'seven principles of public life' apply to anyone who holds a public office or works in the public sector. Internal auditors have adopted these principles in addition to adhering to any professional code of conducts. They are: Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.

Role of Head of Internal Audit

- 6.4. CIPFA issued the statement on the role of the Head of Internal Audit in December 2010. Although not a mandatory like the PSIAS, the statement provides the framework to ensure that the HIA role is up to the required standard to run the statutory internal audit function. The framework consists of five principles. The Role of the HIA is reviewed annually and is reported in the Annual Assurance Report. The main principals are:
- Principle 1 – Championing best practice in governance,
 - Principle 2 – Objectivity,
 - Principle 3 – Governance,
 - Principle 4 – Leadership, and
 - Principle 5 – Qualification and Experience.

Peer Review / Annual Assurance

- 6.5. The HIA will annually self-assess the service against the PSIAS. The HIA will also endeavour to get a peer to review the service against the PSIAS, prior to the external assessment. The outcomes of these reviews will be included in the Annual Assurance report.

7. Approval and Contacts

- 7.1. Main Contacts for Internal Audit and A-FACT

Head of Internal Audit – david.austin@lewisham.gov.uk

Internal Audit Contract Manager – julie.hetherington@lewisham.gov.uk

A-FACT Manager – carol.owen@lewisham.gov.uk

Internal Audit Charter - 2015/16

7.2. Charter Approved by Audit Panel on : TBC

7.3. Next Review : March 2016

Corporate Internal Control Board

Membership

- Independent non-executive Chair
- Chief Executive
- Executive Director for Resources & Regeneration
- Executive Director for Children & Young Persons
- Executive Director for Community Services
- Executive Director to Customer Services
- Head of Law
- Group Manager Insurance & Risk
- Head of Corporate Resources (for monitoring and control)

Terms of Reference

1. To identify and manage key strategic risks that could prevent the Council from meeting its objectives
2. To link risks to the corporate priorities and assess the likely impact and consequences of those risks
3. To allocate responsibilities for controlling identified risks
4. To complete the Corporate Risk Register, reviewing and monitoring this on a quarterly basis
5. To receive and review quarterly reports from the Risk Management Working Party (RMWP)
6. To receive regular reports on Internal Control within the Authority
7. To ensure a corporate approach to the management of risk, health and safety and emergency planning
8. To approve the Risk Management Policy and Risk Management Strategy
9. To support the risk management reporting and review framework, detailed in the Risk Management Strategy
10. To oversee the annual review of the System of Internal Control and Annual Governance Statement

Appendix 2 - Audit Panel Composition Terms of Reference

As per The Constitution Dated Sept 14:-

The Council will also appoint an advisory Audit Panel with the composition set , the terms of reference set out in the third column.

Composition

Audit Panel Composition consists of six non-executive Councillors, one of whom shall serve as chair and up to four independent members.

ToR

To receive, review and where appropriate advise and make recommendations to the Council on the following matters:

- The review and approval of the Council's Internal Audit's strategy, plans and resources.
- Internal Audit progress reports on a quarterly basis summarizing the audit reports issued and performance of the Internal Audit function.
- The annual report of the Council's Head of Internal Audit and Inspection Agencies.
- Reports from Internal Audit on the implementation of agreed recommendations where management have failed to undertake the necessary actions within the planned audit time frame.
- The external auditor's Annual Plan, relevant reports, and reports to those charged with governance.
- External inspection reports and specific reports as agreed with the external auditor.
- The monitoring of the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
- An overview of the Council's Constitution in respect of audit procedure rules, contract procedure rules, and financial regulations.
- The Council's assurance arrangements including the Statement of Internal Control.
- The Council's Annual Statement of Accounts, to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Executive.
- The external auditor's opinion and reports to members, and monitoring of management action in response to issues raised

Appendix 3 - Public Accounts Select Committee Terms of Reference

As per The Constitution Dated Sep 14:-

- To make reports and recommendations to the Council or the Executive which promote the better custodianship of the Council's finances and to make recommendations for best financial practice across the authority.
- To investigate the possibilities for improving the Council's financial management practice and to make reports and recommendations to Executive or Council as appropriate.
- To encourage the highest standards of financial custodianship where necessary overseeing training activity for all members in this area.
- To consult on and to comment on and make recommendations to the Executive in respect of the actual and proposed contents of the Council's budget and without limiting the general remit of the committee, to hold the Executive to account for its performance in respect of all budgetary matters.
- To receive reports as appropriate from the Audit Panel in respect of their overview of contract procedure rules and financial regulations.
- To make recommendations and reports for consideration by the Executive or Council to improve procurement practice.
- To scrutinise the effectiveness of the Audit Panel.