



Audit Panel

Internal Audit Charter and Internal Audit Progress Update

Date: 8 September 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. This includes the conclusion of 2021/22 work and plans to undertake a significant quality assurance piece on current outstanding actions before embarking on a revised approach to follow-up.

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.

8 September 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 as we close 2021/22 and move onto 2022/23. It details a significant piece of work for 2022/23 in undertaking a quality assurance check on outstanding actions before embarking on a revised approach to following up. This revised approach will see internal audit becoming more active in supporting fulfilment, while ensuring responsibility for implementation remains with the appropriate service managers..

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

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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.

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 At the time of concluding the 2021/22 annual report there were a number of engagements not 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. We still have a few school audits outstanding on account of their not having staff over the summer to respond to a draft report. I will finalise our 2021/22 reporting in the next update to this Panel.

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 autumn. 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)

Audit Team Update

- 6.3 Inbetween writing and presenting this report the audit team will be joined by three new starters. These fill existing vacancies within the team and will double the number of operational auditors available to complete the plan. The first to join is our new Principal Auditor who is on the brink of completing a Level 7 Apprenticeship that will leave them a fully-qualified internal auditor.
- 6.4 We also successfully recruited through the apprenticeship scheme discussed in June's update. The scheme, that Lewisham joined alongside four other London Boroughs, received 79 applications for the 9 posts on offer. There was an extremely high standard of applicants and I'm pleased to report we were able to fill the posts. Our two apprentices, both Lewisham residents, begin work with us on 5 September and start at college later in the month. The two-year scheme will leave them with a certificate in Internal Audit, eligibility to seek the recognised 'Certified Internal Auditor' qualification and valuable workplace experience.

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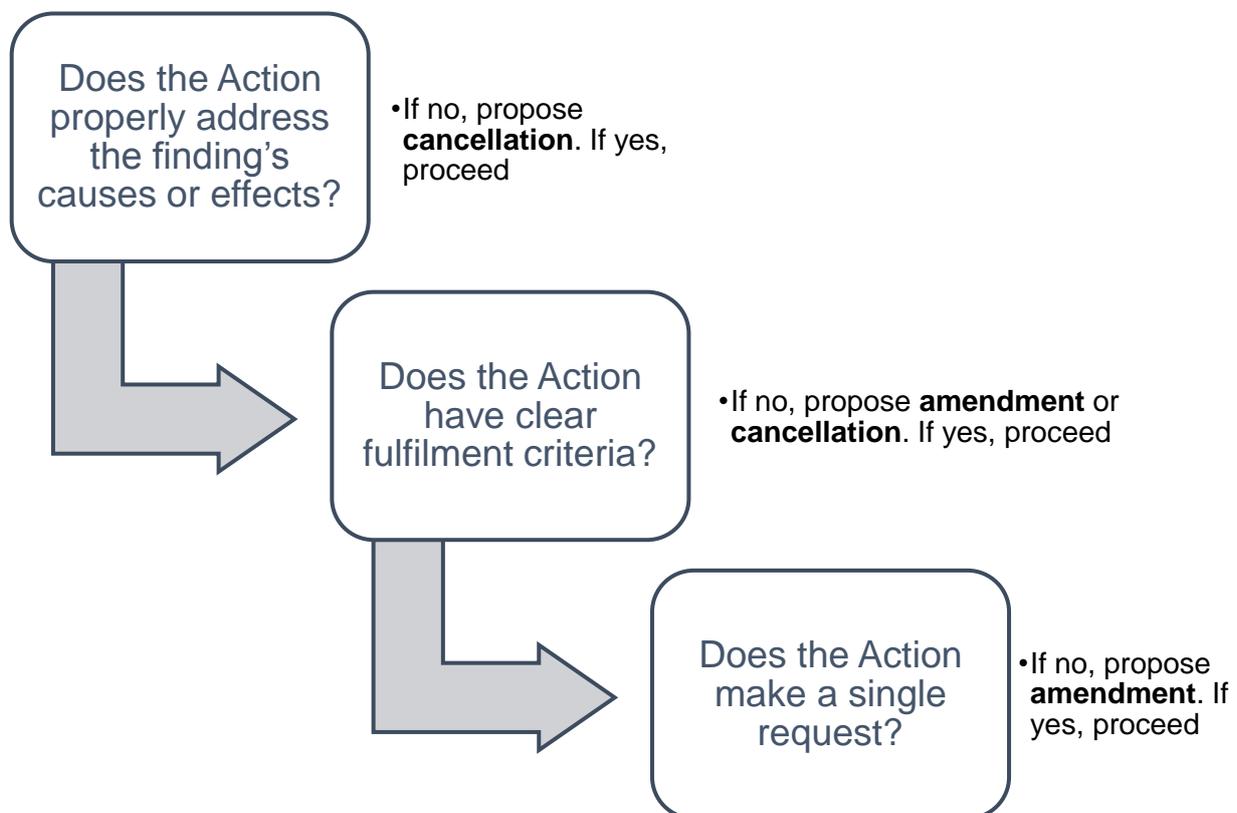
Internal Audit Engagements 2021/22

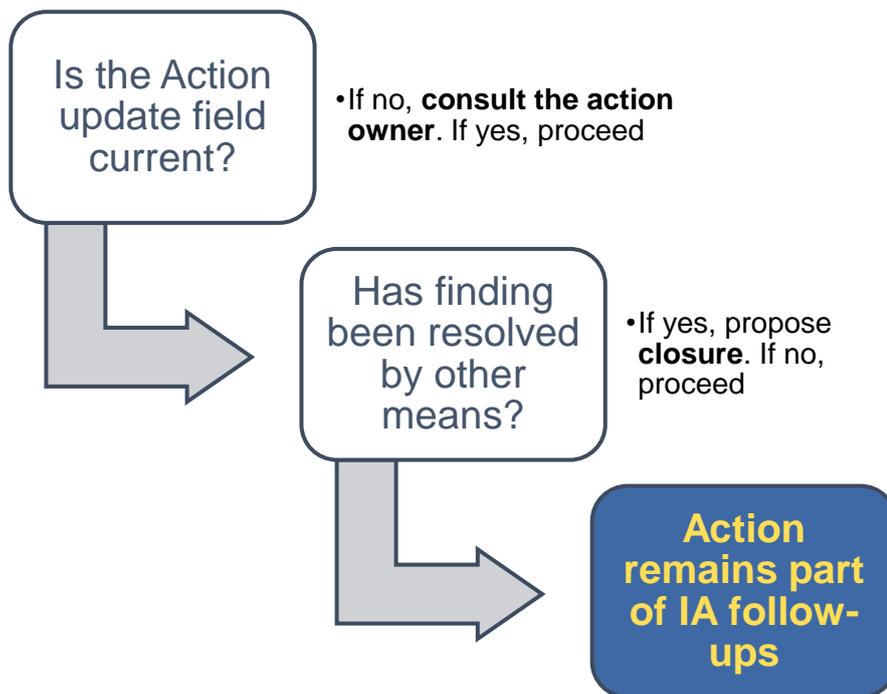
| Ref | Title | Findings Summary | Assurance Rating | Report Date | Notes |
|--|---|----------------------------------|---|-------------|-------------------|
| 2021/22 Engagements In Progress at time of 2021/22 Opinion Reporting [20] | | | | | |
| 21/22-12 | Grinling Gibbons Primary School | 3 x Med , 6 x Low | Satisfactory | Jul-22 | |
| 21/22-13 | Haseltine Primary School | 1 x Low | Substantial | Jul-22 | |
| 21/22-16 | Kelvin Grove Primary School | 4 x Med , 2 x Low | Substantial | Jul-22 | |
| 21/22-43 | Council Tax Reduction Scheme | None | Substantial | Jul-22 | |
| 21/22-59 | Asset Management | 2 x Med , 2 x Low | Satisfactory | Jul-22 | |
| 21/22-64 | Fairlawn Primary School | 3 x Med , 1 x Low | Substantial | Jul-22 | |
| 21/22-37 | Homelessness | N/A | N/A | Aug-22 | See note 1, below |
| 21/22-51 | Child Safeguarding – QA Arrangements | 4 x Med , 3 x Low | Satisfactory | Aug-22 | |
| 21/22-54 | Payroll | 4 x Med , 3 x Low | Satisfactory | Aug-22 | |
| 21/22-32 | IT Security Arrangements | 1 x High , 1 x Med | Satisfactory | Sep-22 | |
| 21/22-44 | Banking | Draft Report | Finalisation deferred to allow finance team focus on system and external audit. | | |
| 21/22-46 | Budget Mgmt – Community Services | Draft Report | | | |
| 21/22-09 | Eliot Bank Primary School | Draft Report | Awaiting return of schools in September to finalising reporting. | | |
| 21/22-15 | John Ball Primary School | Draft Report | | | |
| 21/22-17 | New Woodlands Primary School | Draft Report | | | |
| 21/22-10 | Gordonbrock Primary School | Draft Report | | | |
| 21/22-25 | St Winifred's Catholic Primary School | Draft Report | | | |
| 21/22-26 | Our Lady and Philip Nery Catholic Primary | Draft Report | | | |
| 21/22-19 | Sir Francis Drake Primary School | Draft Report | | | |
| 21/22-04 | Brent Knoll Special School | Draft Report | | | |

Note 1: We originally published the draft report on *Homelessness* in January 2022 following fieldwork in October-November 2021. For various reasons, the report was not put to final until July 2022 by which point the service had taken significant steps to alter its processes such that the report's original findings and conclusions no longer held the same salience. I took the view that publishing the report now with an assurance rating derived from work that historic would be misleading. Consequently, we published the final report without an assurance update and with additional information on how the service had developed.

7. Agreed Action Follow Up

- 7.1 Currently there are **117** open High (57) and Medium (60) priority actions. When compared with their original due date (that is, the date agreed when publishing the final report) these break down as:
- **10** are not yet due (3 high, 7 medium)
 - **10** are overdue by 3 months or less (3 high, 7 medium).
 - **20** are overdue by 3-6 months (10 high, 10 medium)
 - **55** are overdue by 6-12 months (35 high, 20 medium)
 - **22** are overdue by more than one year (4 high, 18 medium). The oldest was due on 31 December 2019.
- 7.2 Our previous approach has strongly emphasised the role of the action owner in driving implementation with internal audit's role primarily administrative. While this has merit in making roles clear it has, demonstrably, led to some drift. This is especially so as action owners have had the facility to update due dates for changing circumstances, leading to some confusion at what point it is proper to describe an action as 'overdue'. Spot check quality assessment on the actions also suggests the approach may have led to some actions being agreed more for administrative convenience than their capacity to bring about genuine, lasting improvement.
- 7.3 Therefore, before embarking on our new approach we will undertake a comprehensive quality assurance check on the existing action stock. This check will involve asking a number of questions of each action, as below:





7.4 Our aim will be to bring a robust set of remaining actions into Q4. This will coincide with implementation of the latest version of our audit software that will allow action owners (and other interested parties) to review actions directly and provide updates. The software will also permit a degree of automation in monitoring, allowing us to focus on working with action owners on higher risk and more delayed actions.

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.

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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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