

## **Committee: General Purposes Committee**

**Date: 13 March 2013**

Agenda item: 11

Wards: All Wards

### **Subject: Internal Audit Plan Strategy and Terms of Reference 2013/14**

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Chair of the General Purposes Committee

Forward Plan reference number: N/A

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#### **Recommendation:**

- A. **That members review and comment upon the Draft Internal Audit Plan 13/14 and the Draft Internal Audit Strategy and Terms of Reference.**
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## **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1. The Draft Internal Audit Strategy, Audit Plan and Terms of Reference 2013/14 are included in Appendix 1.

## **2 DETAILS**

- 2.1. The Internal Audit Plan has been compiled using the following planning mechanism:
- a) The Corporate Risk Register
  - b) Financial systems work required by external audit
  - c) Strategic audit plan and audit previously identified as limited
  - d) Areas of concern arising from fraud investigations and Whistleblowing concerns.
  - e) Departmental requests
  - f) Best Practice and knowledge of significant new initiatives
  - g) The Contracts Register
  - h) The Capital Programme
  - i) Service Plans

- 2.2 The Head of Internal Audit provides copies of the draft plan to department directors and attends the departmental management teams where they may request audits to be added to provide assurance on their areas of risk. Comments are also obtained from their Heads of Services and key managers, business partners, departmental finance advisors.
- 2.3 Final Audit reports are sent to Directors and Heads of service as well as the business partners, in order to improve efficiencies.

#### Anti fraud work

- 2.4 Audit days are included in the plan on the basis of a contingency for potential joint working with the investigation section, and also Council-wide anti-fraud initiatives such as on-line fraud training and updating of anti fraud policies.
- 2.5 Other anti-fraud work is, as far as possible, integrated into individual audits, e.g. an audit of payments would evaluate the controls in place that mitigate the risk of fraud and error. Fraud alerts and information provided by London Audit Group provide areas of potential fraud risk to the authority. Audit are included in the plan where risk is considered high, an allocation has been included in the plan to set up a fraud risk register which takes into account emerging risk such as Personal Budgets.

#### Information Technology audits

- 2.6 The Internal Audit section will cover non specialist IT work, such as reviewing the controls in place on the main financial systems. Internal Audit also inputs into advice on new systems.
- 2.7 Where IT audits are of a specialist nature, they require the detailed technical knowledge and expertise of a skilled IT practitioner. A budget has been provided to Internal Audit to buy in external support for this function.
- 2.8 In 2013/14 the following IT audits will be outsourced
- IT audit on change management- This audit will look at the processes in place to ensure that ICT related changes to systems and infrastructure are controlled and managed
  - Firewall Security- IT audit review of the Council's arrangements in place
  - Mango system-IT audit on the new on-line booking system.
  - IT Confirm-IT audit on the procedures, input and output controls on the confirm system
  - IT Security in schools- a sample of schools has been selected; the audit will assess the level of assurance that management can be given on the effectiveness of the control framework for sensitive personal data

### **3 ALTERNATIVE OPTIONS**

- 3.1. None for the purpose of this report.

### **4 CONSULTATION UNDERTAKEN OR PROPOSED**

- 4.1. The Draft Audit Plan has been sent to all Chief Officers who have consulted with their management teams. The Head of Internal Audit met with the departmental business partners and financial advisors and has taken into account their comments.

### **5 TIMETABLE**

- 5.1. The Internal Audit Plan will be the basis of Internal Audit's programme of work throughout the 2013/14 financial year. The timing of individual audits is considered in consultation with the Departments where possible.

### **6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 6.1. The audit plan is completed within the provision of existing resources.

### **7 LEGAL AND STATUTORY IMPLICATIONS**

- 7.1. The requirement to maintain an Internal Audit function is defined within legislation, some of which is outlined below:-
- a) Section 151 of the **Local Government Act 1972** requires each Local Authority to *make arrangements for the proper administration of their financial affairs and to ensure that one of their officers is made responsible for the administration of those affairs.*
  - b) The **Accounts and Audit Regulations 2011** require the responsible financial officer of a body, whose accounts are to be audited in accordance with Part III of the Local Government Act 1982, '*A relevant body must 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*'

7.2. The Director of Corporate Services is the designated officer responsible for ensuring compliance with these pieces of legislation. In a similar manner to a private company:-

- a) Elected Members will look to the Director of Corporate Services to provide them with an assurance as to the adequacy of the Authority's financial systems and system of internal audit.
- b) Chief Officers will also seek an assurance that the financial dealings within their departments meet the standard required.

## **8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

8.1. Effective and timely auditing and advice enables Departments, Voluntary Organisations and Schools to provide quality services to their clients. These client groups are often vulnerable members of the community, e.g. elderly people, disabled people, asylum seekers and members of staff and voluntary organisations. The audit service helps to identify weak financial management and sometimes reflects weaknesses in other operational systems such as quality and ethnic monitoring. Audit, therefore, has a crucial role in ensuring that Council resources are used to enable a fair access to quality services.

## **9 CRIME AND DISORDER IMPLICATIONS**

9.1. There are no specific crime and disorder implications arising from this report.

## **10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

10.1. The Audit Plan has a risk assessment formula built into the processing. This takes such aspects as expenditure, income, and previous audit findings into account and calculates priorities and the frequency of the audit.

10.2. In addition to the audit risk assessment formula the Corporate Risk Register is consulted during the production of the Draft Plan.

## **11. APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT**

- Appendix 1 - Merton's Draft Internal Audit Strategy Terms of Reference and Internal Audit Plan 2013/14

## **12 BACKGROUND PAPERS**

12.1. Papers held within the Internal Audit Section

**INTERNAL AUDIT  
STRATEGY, TERMS OF REFERENCE AND  
AUDIT PLAN 2013/14**



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## **Introduction**

This document sets out the council's Internal Audit Strategy and Annual Audit Plan for the year 2013/14.

The purpose of the Internal Audit Strategy and Annual Audit Plan is to:

- Ensure effective audit coverage and a mechanism to provide independent and objective overall assurance to Members, Director of Corporate Services and the Corporate Management Team (CMT);
- Optimise the use of audit resources available, given that they are limited;
- Add value and support senior management in providing effective control and identifying opportunities for improving value for money;
- Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2011

## **Responsibilities and Objectives of Internal Audit**

As an independent appraisal function within the authority, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of the control environment comprising the systems of governance, risk management and internal control as a contribution to achieving the council's objectives and the proper, economic, efficient and effective use of resources.

In addition, the other objectives of the function are to:

- support the Director of Corporate Services to discharge "Proper Officer duties" (S151 responsibilities)
- liaise with the Investigations Section on internal fraud investigations.
- contribute to the overall effectiveness of corporate governance in the council's activities
- Promote the council's anti fraud policies

- To provide assurance to management on the integrity, effectiveness and operation of the council's internal control system;
- Delivery of the Annual Audit Plan
- To be responsive to transformational change and service demands;
- To continue to meet the requirements of the council's external auditors;
- To follow up on agreed actions to ensure agreed they have been fully implemented;
- To continue to develop and have a lead in the council's corporate governance arrangements including production of the 'Annual Governance Statement' to provide assurance on the council's governance arrangements and any areas for improvement.

### **Internal Audits Role in the Risk, Internal Control and Assurance Framework**

The Accounts and Audit Regulation 2011 require an annual review of the effectiveness of its system of internal audit to be reported to the General Purposes committee for consideration. The system of internal control is broader than just the work of the internal audit section and includes the framework of assurance covering how the risks to the authority are identified with effective managed controls. Assurances are provided by a range of internal and external providers. The Head of Internal Audit will assess whether the overall framework of assurances is adequately designed and effectively operated through a plan of internal audit work.

In addition to the above, the Director of Corporate Services has a statutory duty under Section 151 of the Local Government Act 1972, to establish a clear framework for the proper administration of the local authority's affairs. To perform that duty the Section 151 Officer relies on, amongst other things the internal audit work for reviewing systems of internal control, financial management and other assurance processes.

The standards for 'proper practice' in relation to internal audit are laid down in Public Sector Internal Audit Standards (effective from 1<sup>st</sup> April 2013). We continually ensure compliance with these professional standards and reflected in our terms of reference contained in our Terms of Reference, shown at Appendix B.

The standard and quality of internal audit is principally scrutinised in three ways:

An annual review of the effectiveness of internal audit required by the Accounts & Audit Regulations 2011 reported to the General Purposes Committee

- The external auditor seeks to place reliance upon the quality and standard of work our work through principally the 'managed audit' process and reports this to the Council in the annual audit and inspection letter



- Customer feedback and perceptions

This gives an overall assurance on the adequacy of internal controls within the Council in the Annual Report and the Assurance Statement.

In order to give such an assurance, a balanced programme of Internal Audit review is constructed each year. This Audit Plan contains elements of all audit work assessed by a “Risk Based” approach. There are many elements to this including undertaking systems reviews, regularity audits (e.g. schools), contract and computer audit, and an Annual Review of major financial systems such as Council Tax, the Financial Ledger and debtors/creditors systems.

In order to contribute to the Annual Governance Statement all Internal Audit reports give an audit assurance as follows:

- Very Good – Full Assurance
- Good – Substantial Assurance
- Satisfactory or fair – Satisfactory Assurance
- Below the required Standard – Limited Assurance
- Unsatisfactory – No assurance

In addition each recommendation is given a high, medium or low risk priority. All recommendations are followed up by Internal Audit to ensure that they have been implemented.

### **Key Issues and Priority Areas for 2013/14**

Having regard to the current risk profile of the council, the following areas have been identified as key issues and priority areas of our work for 2013/14

### **Governance Arrangements**

The council’s governance framework covers all aspects of its business, including risk management, internal control and ethical standards. We have a key role to play in assessing the effectiveness of governance arrangements by comparison with principles contained in the CIPFA/SOLACE Governance Framework (Delivering Good Governance in Local Government, 2007). A number of audits will support this assessment and will take account of the emerging governance arrangements as the council implements its new operating model. The statutory Annual Governance Statement will be produced in June, approved by the General Purposes Committee and signed by the Leader and Chief Executive.

### **Key Financial Systems**

The effectiveness of controls and management of risks within key financial systems remains a core part of our audit work. This work is important in providing annual assurance to the council and to meet the requirements of the External Auditor. We continue to develop our audit approach to give greater assurance and ensuring it meets the External Auditor’s requirements, including carrying out testing to assist with the annual audit of accounts.

## **Transformation**

Considering the significant financial challenges facing the public sector and the council's continuous transformation program, our Annual Audit Plan will need to be flexible enough to respond to emerging issues and risks from change.

Value for money (VFM) will continue to be an integral part of our risk based audit approach, in particular being alert to opportunities and ensure reporting of issues raised and agreed management actions from audit recommendations. In addition we will support transformation projects, consider changes to the control environment and risk exposure and provide assurance on program management and realisation of benefits.

## **Risk Management**

We will assess the council's risk management arrangements, including risk management strategy, adequacy of strategic and operational risk registers, risk reporting and the extent to which it is embedded. The Head of Internal Audit is a member of the Corporate Risk Management Group.

## **ICT and Information Governance**

Information technology is fundamental to the delivery of the council's services and is an area of rapid change. Due to this high risk to the council, providing assurance on the adequacy of electronic systems and controls is a key part of our Annual Audit Plan. Our work recognises the pace of change and adoption of new information technology and as such will be well informed to focus our resources on areas of highest risk and benefit.

## **Partnerships**

The council is increasingly operating and delivering services jointly through partnerships. This also brings risks and opportunities to the council and the delivery of services. We will continue to review key partnerships and also work with auditors from partner organisations for effective coverage and assurance.

## **Contracts, Procurement and Major Projects**

Changing approaches to procurement and contract management are a key part of delivering improved services. This also brings additional inherent risks that need to be managed. Major projects also represent a high risk to the council in terms of corporate importance and resources. Our audit work will continue to focus on embedding risk management and controls.

## **Internal Audit's Role in Fraud and Corruption**

The Head of Internal Audit will also seek to develop pro-active anti-fraud work through a series of specifically focused audits into areas of high risk of fraud or irregularity.

Internal Audit will liaise with the Investigation Section on all cases of fraud and in some instances will carry out joint fraud investigations. Internal Audit will also identify all areas of control risks and make appropriate recommendations to reduce the risk of further fraud occurring.

Other training sessions may be provided to school staff and governors covering audit issues and good practice.

### Related Documents

This document is one of a series that, together, constitute the policies of the authority in relation to anti-fraud and corruption. The other documents are:

- Anti-fraud and Corruption Strategy
- Prosecution Policy
- Fraud Response Plan
- Anti-Money Laundering Policy
- Whistle-blowing policy

### **Internal Audit's Role Providing Advice**

Internal Audit can provide support and advice to managers, particularly regarding the interpretation and application of Council Policies and Procedures.

Internal Audit advice and recommendations are given without prejudice to the right of Internal Audit to review the relevant policies, procedures and operations at a later date.

We provide advice, support and training to schools. We provide templates for schools to improve controls and share best practice. We also issue a guidance manual to schools called 'On the Right Track 4' which covers guidance on all areas of good financial practice.

In order to establish an audit presence and to create sound informal lines of communication as much audit work as possible will be done on location.

### **Audit Resources and Skills**

The staffing structure of the section comprises a mix of qualified, experienced, technician and trainee auditors, with a mix of professional expertise to reflect the varied functions of the section. There is a sum available in the Internal Audit budget to buy in some expertise from external suppliers of internal audit services; this will be used to purchase IT specialist skills.

As far as is practicable, Internal Audit will not participate in the day-to-day operation of any systems of internal financial control. However, in strict emergency situations only, audit personnel may be called upon to carry out non-audit work on a short-life basis.

Members of the internal audit section will be expected to contribute to the general management and conduct of business through membership of working groups and

participation in ad hoc exercises. Upon request from the Director of Corporate Services, appropriate specialists from departments other than Corporate Services should be made available to take part in any audit or review requiring specialist knowledge.

The Head of Internal Audit will carry out a continuous review of the development and training needs of all audit personnel and will arrange in-service training covering both internal and external courses.

### **Protocol for Audit Reviews**

For each audit review carried out, the responsible Head of Service/Assistant Director, and Service Manager will be consulted in the scoping to ensure that the audit is appropriately focused on current key perceived risks and issues. A terms of reference (Audit Brief) will be produced for each audit review and agreed to ensure the scope, objectives, approach, timetable are understood and agreed.

Draft internal audit reports will be issued for discussion with the appropriate levels of management and normally set-out in the terms of reference.

Final internal audit reports will be issued after the agreement of draft reports and contain completed management actions plans that will identify those responsible for implementation and timescales. The final reports will always be issued to the 'Lead Client' responsible for the area reviewed.

### **External Audit**

We work closely with the council's external auditors to minimise duplication and maximise the benefits the council receives from total audit resources. We will continue to ensure full reliance is placed on our work and continue to seek opportunities for minimising the external audit fee.

### **Implementation of Agreed Audit Recommendations**

At the end of each audit review, an audit report will be produced containing agreed management actions to audit recommendations made. We will ensure these agreed actions to audit recommendations are fully implemented to ensure improvements to the council's control environment and value for money. We will follow-up on all audit recommendations. We will get confirmation from officers responsible for implementation that required actions have taken place.

### **Developing the Annual Audit Plan 2013/14**

The methodology used for developing the Annual Audit Plan focuses upon the quantification of the risks associated with achieving corporate and departmental objectives. Auditable areas have been selected and prioritised on a rational and objective basis following a systematic assessment using the following predictive factors:

- Control and previous assurance;
- Corporate importance including criticality to the achievement of priorities, legislative and regulatory impact;

- Materiality;
- Value for money and service delivery; and
- Corporate sensitivity and management concern.

The predictive factors are used to determine a risk rating of high, medium or low to reflect the inherent risk or vulnerability. We ensure our coverage is proportionate and appropriately aligned.

Based on past experience and good practice, the Annual Audit Plan includes a contingency for unplanned work requirements to ensure we are able to respond to changing needs and demands.

The Annual Audit Plan will be indicative and it is inevitable that changes will be made during the year as the risk profile of the council changes. This will be achieved through ongoing review and amendment, in consultation with the relevant lead clients and service managers to reflect the changing needs of the council and to add maximum value.

The General Purposes Committee will be kept informed of progress against the Annual Audit Plan and agree any significant changes during the year.

### **The three lines of defense**

There are three lines of defence in place on controls in the council. The first line of defence is the day to day operational controls, the second line is the management controls which include trend analysis, budget monitoring etc. The third line of defence is independent inspection such as Internal Audit or other assurance providers.

In formulating the Annual Audit Plan, consideration has been given to the work of other assurance providers, both internal and external. Examples include:

- Operational managers identifying, managing risks and improvement actions; (1<sup>st</sup> line of defence)
- Oversight functions such as finance, commercial services, Legal and Health & Safety (2<sup>nd</sup> line of defence)
- Independent assurance providers such as external audit, inspectors (3<sup>rd</sup> Line of defence)

Internal audit provides assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defence achieve risk management and control objectives

### **Annual Audit Plan 2013/14**

Appendix A shows the detailed Annual Audit Plan and provides a brief summary of each review under thematic areas.

Contingency has been provided for unplanned reactive work. This will be used to respond to emerging issues, risks and to have the capacity to respond to requests from senior managers.

The Annual Audit Plan includes the quarter when the audit review is planned to be

undertaken. Wherever possible this has been agreed with management during the planning process. There is however flexibility to respond for example to pressures on services audited and audit resource availability.

In addition to the General Purposes Committee receiving regular progress reports against the plan, Corporate Management Team Members will be provided with progress reports as necessary through the year summarising the outcome of reviews and other audit work for the quarter and planned for the quarter ahead. The Head of Audit will also attend Management Team meetings as required, to discuss audit coverage and outcomes.

### **Our Performance Management**

To achieve planned coverage, deliver a high standard of customer care and demonstrate effectiveness of the service, we have well established performance targets based on best professional practice and easily comparable with other organisations.

Performance indicators and targets are shown at Appendix C for six aspects of our service:

- Effectiveness of time
- Productivity and process efficiency;
- Quality of output;
- Compliance with professional standards;
- Outcomes and degree of influence; and
- Our Staff.

We will ensure continuous improvement of the Internal Audit Service and adopt new approaches. It is regularly benchmarked with other public sector providers to ensure efficient, effective and competitive.

# Internal Audit Plan 2013/14

## Key Financial Systems

Area of Review	Description of work	Days
review of key controls across fundamental and financial systems	Review of key controls within the councils key financial systems. Ensure compliance with external audit requirements. Systems	<b>90</b>
	Housing Benefit	15
	Fixed assets	15
	Payroll	15
	Cash and Bank	15
	Income and Debt Management	15
	General Ledger	15

## Corporate Services

Area of Review	Description of work	Days
iTrent- expense claims	The Council requires the submission of overtime claims and the reimbursement of travel expenses and subsistence through iTrent The review will examine the controls for the submission, approval and payment of such claims. New	15
Firewall Security	IT audit review of the councils arrangements in place	12
Telecommunications	This audit will focus on the council's arrangements for procuring and managing phones, including mobile phones, ensuring that the arrangements meet the criteria of VFM.	15
control and monitoring of gifts and hospitality	This audit will provide assurance in relation to the policy and procedures for staff hospitality and gifts and compliance with these procedures	10
Facilities Management - school contracts	To review the procurement arrangements in place for contracts	8
Social Fund	review of the arrangements in place for the new social fund	10
Procurement cards	To review the council's procedures in place for the use of procurement cards	15
Petty Cash Imprest accounts	To review the council's arrangements in place for petty cash imprests	12
IT audit Council Tax NNDR, Housing Benefits: Civica Open Revenues (IBS) Application Audit	A control framework is in place designed to ensure the confidentiality, integrity and availability of Council Tax and Housing Benefits processing	12
IT Proactis	IT audit on the controls in place on the Proactis system	12
IT Ash	IT audit on the controls in place on the Ash system	12

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## Community and Housing

Area of Review	Description of work	Days
Merton Priory Homes agreement	Review of the arrangements in place for sharing housing sales, VAT etc as part of the housing stock agreement	15
Housing allocations	Review of housing allocation process and allocation of temporary accommodation	15
Rent deposit scheme	Review of Rent Deposit Scheme financial support to landlord and tenants, cash deposits, guarantees, rent in advance.	10
CM2000	Review of care monitoring system	15
Block and spot purchase contracts	Review of commissioning and monitoring arrangements in place	15
No recourse to public funds	Review of expenditure to residents not entitled to public funds	15
Pre-paid cards	Review of the control relating to the expenditure on pre paid cards	12
Integrated community equipment	Review of the commissioning arrangements in place for integrated community equipment	10
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## Childrens Schools and Families

Area of review	Description	days
Pupil place planning	review adequacy of forward planning, demand, timing of capital funding and the integration of the Capital Investment Strategy in relation to pupil place planning.	15
Transforming families	To provide advise and assistance to the arrangements in place for monitoring targets and achievements	8
IT Security in schools	Sample of schools selected to review IT security and data handling arrangements	15
School funding formula	To review the new funding formula for schools and test	12
Schools - Probity reviews	Financial and Governance reviews of a sample of nine schools selected based on risk methodology,	72
Youth Service	Follow up review of the 2012/13 audit of the youth service.	8
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## Environment and Regeneration

Area of Review	Description of work	Days
Future Merton	To review the procurement arrangements in place for future Merton.	15
SLWP	To provide assurance on vehicles registration records completeness and reconciliation to waste data	8
Commercial Waste	This audit will examine management and control of commercial waste to ensure that sound systems and procedures are in place	15
Passenger Transport	follow up audit review on the commissioning arrangements for passenger transport to include review of information from departments	10
Parks Income	To review the controls around collection and reconciliation of parks income	8
Grant claim sign off	Allocation of days for grant sign off	8
Merton and Sutton Joint Cemetery Board	To audit the accounts and sign off.	8
Trading Standards	To review the arrangements in place for trading standards, including reviewing procedures in relation to cash or purchases	12
Management and control of markets	To review the council's arrangements for management, control and enforcement of street trading activities	12
Leisure centre contract	to review the monitoring arrangements on the leisure centre contracts	15
Car Parking - Residents Permits	To review the controls in place in relation to the issue and recording of residential parking permits and collection of income	10
Mango system	IT audit on the new on-line booking system.	12
IT Confirm	IT audit on the confirm system	12

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## Support

Area of Review	Description of work	Days
consultancy and advice	Audit has an important role to play in advising management on an ad-hoc basis on a range of issues affecting services. This provision is used to offer advice and assistance throughout the year.	70
Committee and member support	Providing support including advice and reporting to Committee	25
follow up audits	follow up of reviews carried out in 12/13 to ensure implementation of recommendations	25
management time	this is a provision for management time to direct, control and monitor the work of the internal audit team and outsourced provision	45
Carry over of 12/13 audit plan	To finalise all draft reports from 2012/13	67

<b>Area of Review</b>	<b>Description of work</b>	<b>Days</b>
Annual Governance Statement	To produce Annual report for use in the AGS and attendance at AGS meetings	30
Commissioning to voluntary organisations	To review the council's arrangements in place in relation to the allocation and monitoring of grants to voluntary organisations, for all departments	25
Budget management	To review arrangement in place to manage budgets robustly ensuring good financial management and planning	15
Risk Management	Assessment of the effectiveness of risk management arrangements throughout the council.	15
Corporate procurement	To review the effectiveness of corporate procurement.	15
Contract compliance	to review a sample of procurement expenditure within all areas of the council and test compliance to CSO.	15
Fees and charges	To provide assurance that the council has a clear policy on levying fees and charges for services it provides to external customers across the council and that fees and charges are annually reviewed and correctly charged to customers in accordance with financial regulations	15
Public health	To review new Public Health arrangements following transfer April 13. In relation to the commissioning arrangements	15
Frauds	To review controls in place where frauds have occurred and to undertaken joint working with the investigation team	60

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### Terms of Reference for the provision of Internal Audit Services

#### 1. Purpose

- 1.1 The Terms of Reference is for the provision of Internal Audit Service within the London Borough of Merton. It is reviewed and approved on an annual basis to ensure that current needs are met.

#### 2. Scope of Internal Audit

- 2.1 Internal audit is an assurance function that primarily provides an independent and objective opinion and adds value to the council environment comprising risk management, control and governance and its effectiveness in achieving the organisation's objectives. The priorities for Audit will be determined by a process of risk assessment
- 2.2 It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. The service is delivered within the Corporate Governance Division.
- 2.3 The control environment comprises the systems of governance, risk management and internal control.
- 2.4 The scope of Internal Audit allows for unrestricted coverage of the authority's activities and unrestricted access to all records and assets deemed necessary in the course of the audit. In addition, Internal Audit will have unrestricted access to:
- the Chief Executive
  - Members
  - individual chief officers
  - all authority employees.
  - School governors

#### 3. Internal Audit Rights of Access

- 3.1 In carrying out their duties and responsibilities, Internal Audit shall be entitled to have full and unrestricted access to all of the Council's activities, records, property, personnel and information, which they consider to be necessary to properly fulfill their function. Access also applies to other third parties / organisations as permitted through contract, shared services and partnering

arrangements. In some instances, reliance may be placed on opinions of other external or internal auditors on behalf of external partners. Other Council staff are expected to provide every possible assistance to facilitate the progress of audits.

#### **4. Reporting Lines and Relationships**

- 4.1 The Head of Internal Audit reports to the Assistant Director Corporate Governance and the General Purposes Committee. The Head of Internal Audit also has a direct reporting line to the Director of Corporate Services with monthly one to one meetings.
- 4.2 All audit assignments and studies will be the subject of formal reports. Draft Reports will be sent to the managers, head of service and directors for comments to the actions in the action plan.
- 4.3 Once comments have been received, these are incorporated in the report and a final audit report issued to the manager, head of service/directors.
- 4.4 The External Auditor will be given full access to these reports upon request. The Assurance Opinion for all audits and the, Management Summary and summary of agreed actions for audits given a 'limited or no assurance rating, are reported to the General Purposes Committee and members of this Committee may request to see the full report.
- 4.5 Follow-up reports will be done for all agreed actions, where there are outstanding issues; these will be escalated to the Head of Service.

#### **5. Organisational Independence**

- 5.1 The main determinant of the effectiveness of Internal Audit is that it is seen to be independent. To ensure this, Internal Audit will operate within a framework that allows:
  - o unrestricted access to senior management
  - o reporting in its own name
  - o Segregation from line operations.
  - o Direct line to General Purposes and Members and the Director of Corporate Services
- 5.2 Every effort will be made to preserve objectivity by ensuring that all audit members of staff are free from any conflicts of interest and do not undertake any non-audit duties. All audit staff complete an annual declaration of interests form and would not be assigned audit work if there was any potential conflict.
- 5.3 The Council has established a General Purposes Committee, which meets at least 4 times a year. The Head of Internal Audit shall report directly to the Council via the General Purposes Committee, and shall have a right of access to the Chairman of the General Purposes Committee.
- 5.4 Notwithstanding the above, the Head of Internal Audit shall have the right of direct access to any officer and member of the Council.

5.5 The existence of an Internal Audit function within the council does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well ordered manner.

## **6 . Statutory Role**

6.1 Internal auditing is provided as a statutory service in the context of the Accounts & Audit Regulations 2011, which states, 'A relevant body must 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'

6.2 The statutory role is recognised and endorsed within the council's Financial Regulations, which provides the authority for unlimited access to officers, Members, documents and records and to require information and explanation necessary.

## **7 Advisory Role**

7.1 Internal Audit also performs an advisory role on an ad hoc basis or as part of the Annual Audit Plan, as commissioned by management. Reports from this type of work contain findings and recommendations particularly to add value to the council's services in achieving value for money in its use of resources. Any consultancy and advisory work carried out shall not jeopardise the Internal Audit independence.

## **8. Internal Audit Standards**

8.1 There is a statutory requirement for Audit work in accordance with the 'proper audit practices'. These are effectively the Public Sector Internal Audit Standards and the Accounts & Audit Regulations 2011

## **9 Internal Audit Skills and Resources**

9.1 The Annual Audit Plan is resourced by calculating the number of productive days available within the Internal Audit Section. The Internal Audit Section's establishment for 2013/14 is 6 FTEs comprising the Head of Audit and Principal Auditors. The projected productive internal audit days available for 2013/14 are 1,042.

9.2 Audit will ensure as far as possible that it is appropriately staffed in terms of numbers, skills and experience. The Head of Internal Audit is responsible for appointing staff and will ensure these are made in order to achieve the appropriate mix of qualifications, experience and skills.

9.3 The Head of Internal Audit is responsible for ensuring that the resources of Audit are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby he/she concluded that resources were insufficient, he/she must formally report this to the Director of Corporate Services (Section 151 Officer)

and the General Purposes Committee.

- 9.4 Where necessary to provide an adequate, effective and professional service the Head of Internal Audit will outsource internal audit work to supplement internal resources but will ensure quality is not compromised.
- 9.5 If Internal auditors are appointed from operational roles elsewhere within the council, they do not undertake an audit in that area directly within one year unless by prior agreement.
- 9.6 In line with the CIPFA Statement on the Role of the Head of Internal Audit (2010), the Head of Internal Audit is a professional qualified CIPFA Accountant. In addition there is high mix of professionally qualified staff throughout the Internal Audit Team to meet delivery requirements of the service.

## **10 Fraud and Corruption**

- 10.1 Managing the risk of fraud and corruption is the responsibility of management. Internal audit reviews alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Audit will however be alert in all their work to risks and exposures that could allow fraud or corruption.

## **11. Reporting Accountabilities**

- 11.1 The majority of audit reviews include a formal audit report being produced and issued to management. The primary purpose of the audit report is:
- To provide an opinion on the effectiveness of the control framework operating for the mitigation of risks;
  - To make practical audit recommendations and agree management actions;
  - To prompt management action to implement audit recommendations for change leading to improvements in control and where applicable value for money and performance; and
  - To provide a formal record of points arising from an audit review and agreement with management.
- 11.2 Management is expected to implement all agreed recommendations within a reasonable timeframe. Each outstanding action will be followed up when it reached its due implementation date, in order to ascertain whether agreed actions have been implemented effectively.
- 11.3 The Head of Internal Audit reports regularly to the General Purposes Committee on progress made against the Annual Audit Plan and the summarised outcomes of individual audits.
- 11.4 The Head of Internal Audit provides an Annual Audit Report to the General Purposes Committee that includes an opinion on the adequacy and effectiveness of the control environment.

## **12 Responsibilities**

- 12.1 In meeting its responsibilities, the activities of Audit will be conducted in

accordance with the council's objectives, established policies and procedures. In addition, internal auditors comply with the Public Sector Internal Audit Standards.

- 12.2 Audit will co-ordinate effectively with the External Auditors for optimal audit coverage and to ensure that appropriate reliance can be placed on internal audit work.
- 12.3 Audit will work the internal audit functions of the council's partner organisations to ensure the robustness of controls and risk management arrangements, to protect the council's interests.

## Service Performance Targets

Aspect of	Performance Indicators	Target
<b>Effectiveness of time</b>	Productive/direct time as % of total time	<ul style="list-style-type: none"> <li>• 70%</li> </ul>
<b>Productivity and Process</b>	<ul style="list-style-type: none"> <li>• Achievement of annual plan by 30<sup>th</sup> April 2013 (%)</li> <li>• Issue of draft report after completion of fieldwork</li> <li>• Client responses received to draft audit reports from issue</li> <li>• Issue of final report after agreement with client of draft</li> <li>• Time between start of audit (entry meeting) and exit meeting</li> <li>• Audit reviews delivered within budgeted time</li> </ul>	<ul style="list-style-type: none"> <li>• 90%</li> <li>• Within 10 Days</li> <li>• Within 15 Days</li> <li>• Within 10 Days</li> <li>• Days not exceeding 3x total planned time for audit review</li> <li>• 100%</li> </ul>
<b>Quality of Output</b>	<ul style="list-style-type: none"> <li>• Client satisfaction levels (including added value from audit recommendations), source customer satisfaction questionnaires</li> <li>• External audit reliance on work</li> </ul>	<ul style="list-style-type: none"> <li>• 90% of scores within good to excellent</li> <li>• Reliance placed</li> </ul>
<b>Compliance with Professional Standards</b>	<ul style="list-style-type: none"> <li>• Public Sector Internal Audit Standards</li> </ul>	<ul style="list-style-type: none"> <li>• 100% compliant</li> </ul>
<b>Outcomes and degree of influence</b>	<ul style="list-style-type: none"> <li>• Implementation of agreed recommendations</li> </ul>	<ul style="list-style-type: none"> <li>• 90% of Recommendation</li> </ul>
<b>Our Staff</b>	<ul style="list-style-type: none"> <li>• Professionally Qualified/ Part qualified CPD</li> <li>• Annual Training &amp; Development Received</li> </ul>	<ul style="list-style-type: none"> <li>• 80%</li> <li>• 5 Day (Minimum).</li> </ul>