

## **Committee: Standards and General Purposes**

**Date: 11 March 2021**

Wards:

**Subject:** Internal Audit Plan, Strategy and Charter 2021/22

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Peter McCabe -Chair of the Standards and General Purposes Committee

Forward Plan reference number: N/A

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### **Recommendation:**

- A. That members review and comment upon the 2021/22 Draft Internal Audit Plan, Strategy and Charter.**
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## **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1. The Draft Internal Audit Plan, Strategy and Charter 2021/22 are included in Appendix 1.

## **2 DETAILS**

- 2.1. A risk-based audit plan has been set based on the approach set out in the audit strategy (Annex 1). In preparing the plan, the Head of Audit has taken account of the adequacy and outcomes of the organisation's risk management, performance management and other assurance processes.
- 2.2 The Head of 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, departmental finance advisors.
- 2.3 The 2021/22 Audit Plan detailed in Appendix 1 may be subject to review during the year, due to changes in risk and priorities for the Council as result of COVID 19.

### Information Technology audits

- 2.4 Where IT audits are of a specialist nature, they require the detailed technical knowledge and expertise of a skilled IT practitioner; the framework contract with Mazars is used. An IT needs Assessment was undertaken by Mazars in 2020/21 and audits identified for the 2021/22 audit plan.

### Proactive Fraud Team

- 2.5 In 2021/22 a temporary Proactive team is being established across 4 of the 5 partnership Council, including Merton, to undertake analysis of vendor spend across the partnership, identifying areas at high risk of fraud and feeding this into a programme of deep dive end to end testing. This team will be in place for 2 years.
- 2.6 The service will be responsible for undertaking the following for each of the partners:
- Analysis of financial and other information as part of a robust assessment of risk, to identify possible fraud, error and/or mismanagement. This will include detailed analysis of vendor spend against contract registers and review of budgetary control information.
  - Targeted end to end testing on procurement activity directed by the risk assessment process (above). This will include ensuring that contract procedure rules and associated legislation have been followed at the point of commissioning, assessing the adequacy of the procurement process and decision to award to the chosen contractor, analysing and reconciling orders and invoice payments through to service delivery and/or receipt of goods.
  - Any fraud or error identified will be investigated by the proactive team in liaison with the South West London Fraud Partnership (SWLFP).
  - Provision of written reports making recommendations for action which may include improving controls/processes, taking disciplinary action against staff or seeking recompense from contractors/suppliers.

## **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 Audit attends Departmental Management Teams to discuss the audit coverage.

## **5 TIMETABLE**

- 5.1. The Internal Audit Plan will be the basis of Internal Audit's programme of work

throughout the 2021/22 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. The Proactive Fraud team cost of £68,945 over 2 years is covered from reserves.

## **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 2015** 3 (a) relevant authority must ensure that it has a sound system of internal control which—
    - (a) Facilitates the effective exercise of its functions and the achievement of its aims and objectives; (b) ensures that the financial and operational management of the authority is effective; and(c) includes effective arrangements for the management of risk.

5 (1) 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- 7.2. The Director of Corporate Services is the designated officer responsible for ensuring compliance with these pieces of legislation. The purpose of the Internal Audit Plan, Strategy and Charter is to:
- a) Provide Elected Members with an assurance as to the adequacy of the Authority's financial systems and system of internal audit.
  - b) Provide Chief Officers 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 Plan, Strategy and Charter 2021/22

## **12 BACKGROUND PAPERS**

12.1. Papers held within the Internal Audit Service.

# **INTERNAL AUDIT PLAN, STRATEGY AND CHARTER 2021/22**



## **Introduction**

This document sets out the council's Internal Audit Plan, Strategy and Charter for the year 2021/22

The purpose of the Internal Audit Plan, Strategy and Charter 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 2015

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

The Accounts and Audit Regulation 2015 require an annual review of the effectiveness of its system of internal control to be reported to the Standards and 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. We continually ensure compliance with these professional standards and reflected in our Charter attached.

An overall assurance on the adequacy of internal controls within the Council is provided in the Annual Report and the Annual Governance Statement.

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 General

Ledger and debtors/creditors systems.

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

- Full
- Substantial Assurance
- Limited Assurance
- No assurance

In addition, each recommendation is given a priority 1 (high), 2 (medium) or 3 (low). All recommendations are followed up by Internal Audit to ensure that they have been implemented.

### **Anti-Fraud and Corruption**

The Internal Audit service will review areas of high fraud risk to recommend improvements in controls.

#### 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
- Anti-Money Laundering Policy
- Whistleblowing 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 a newsletter to schools and share best practice.

### **Protocol for Audit Reviews**

For each audit review carried out, the responsible Head of Service/Assistant Director will be consulted in the scoping to ensure that the audit is appropriately focused on current key perceived risks and issues. A term 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.

### **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 2021/22**

A key focus of the Audit Plan for 2021/22 is to provide assurance on the core processes. In setting the plan, discussions take place with a range of officers including Directors, Assistant Directors, to identify key risk areas, as well as reviewing the Councils risk registers and using professional knowledge of changes or potential areas of risk.

Further significant changes in processes and policies are likely during the coming year due to the continued Covid 19 pandemic, and legislative changes. Internal audit will continue to support this work and provide advice on the governance, risk management and control implications of the changes as well as undertaking audit reviews.

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

### **Lines of Defence**

There are three lines of defence in place on controls in the council.

- 1st line of defence is the day-to-day operational controls.
- 2<sup>nd</sup> line of defence is functions (such as finance, HR and Procurement).
- 3<sup>rd</sup> third line of defence is independent inspection such as Internal Audit or other assurance providers.

Internal Audit audits will look to ensure that managers in the 1<sup>st</sup> and 2<sup>nd</sup> line defence have sound controls and monitoring in place and their management function is properly discharged. Given the limitations on internal audit resources there is an increasing need for more reliance to be place by the Councils 2<sup>nd</sup> line of defence and audit will increasingly need to provide assurance on the effectiveness of those functions especially as budget constraints impact on these areas.

## **Annual Audit Plan 2021/22**

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

Whilst a full year plan has been submitted to Standards and General Purposes Committee for approval, it must be recognised that the Covid-19 pandemic will continue to impact on the Council in the coming months and the work of the audit team will need to adapt where required.

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. Timing of the audit review will be 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 Standards and General Purposes Committee receiving regular progress reports against the plan. The Head of Internal Audit will also attend Management Team meetings as required, to discuss audit coverage and outcomes.

# Internal Audit Plan 2021/22

## Corporate Services

### Key Financial systems

Shared Payroll Audit	Key Financial system review
General Ledger	Key Financial system review
NNDR	Key Financial system review

### IT Audits

IT governance policy and strategy	To review the IT Governance arrangements in place to identify, develop, implement, and manage the Information Communication and Technology (ICT) related policies, procedures, and strategy
Core infrastructure/IT skills gap	To review the Council's core IT infrastructure and application environment, consider the life cycle of hardware and software, replacement/procurement processes and suitability of the solution.
IT change management	To ensure that the IT Change Management process facilitates a consistent and authorised roll out of changes to IT infrastructure and systems/applications.

### HR

Review of agency and interim staff	To review the Councils arrangements for employing interims and agency staff
Recruitment	To review the new recruitment system and processes including validation checks
Staff Inductions	To review the staff induction training (moved online) and compare to best practice

### Other reviews

Debt Management	To review the Councils arrangements for managing debts including the use of enforcement action
Recharges to health	To review the joint arrangements with the CCG- to review invoicing and charging for joint funded clients

### Annual accounts/grants

Mayors Account	Annual review and sign off
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Merton and Sutton Joint Cemetery Board	Annual review and sign off
Covid 19 post payment assurance reviews	Review as and when requested
Infection Control grants	To continue to review infection control grant to ensure expenditure in line with grant conditions
Contain Outbreak Management Fund	Review of supporting evidence
Further Grant sign off	Review as and when requested
Troubled families grant	To review a sample of submissions on a quarterly basis to ensure that that claims are clearly supported by evidence.

### **Continuous audits- quarterly**

Duplicate Payment Testing	Quarterly testing on data
Procurement card testing	Quarterly testing on data

### **Cross cutting**

Information Governance	To review the arrangements in place in the council and compliance with Data Protection.
Annual Governance	Advice and guidance on corporate governance issues including attendance at risk management group and preparing the AGS.
Use of Consultants	To review the arrangements in place for appointing consultants and adherence to these procedures.

### **Community and Housing**

Adult Safeguarding	To review strategy, policies, training, roles, and responsibilities in relation to safeguarding
Adult Social Care Debt Management	To review councils' arrangements for managing social care debt
Block and Approved providers Contracts	To review the arrangement in place for awarding, monitoring and approved providers
CM2000	To review the processes and controls following additional contracts being added.

## **Children, Schools and Families**

Commissioning arrangements for CSF child placements, short breaks and respite.	To review the commissioning arrangements in place, to ensure adherence to Contract Standing Orders.
Leaving care	This review will examine policy and procedures for commissioning living accommodation for Care Leavers, procedures for monitoring of commissioned contracts and for making payments to the providers
Safeguarding concerns	To review arrangements in place for when safeguarding concerns are raised.
Adoption, fostering and Special guardianship payments	Review of assessments and process for payments of adoption, fostering and special guardianship payments.
Schools Probity Audit	The school visits will cover areas of Leadership and Governance; Budget Management; Procurement; Income and Expenditure controls; Payroll and Personnel; Asset Management; and other key areas of schools' business.

## **Environment and Regeneration**

Regulatory service review	To review the services within the shared Regulatory Services function.
Transport – fleet management	To review the arrangements in place for fleet management including commissioning
Greenwich Leisure Ltd	To review the contract monitoring arrangements in place and adjustments made during Covid 19.
Highway Contract	To review the monitoring arrangements in place to ensure compliance with Councils procedures and CSO's

## **Support**

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.
Committee and member support	Providing support including advice and reporting to Committee
Follow up audits	Follow up of audit actions carried out to ensure implementation of recommendations
Fraud Management and reactive work	Allocation of time for managing the fraud partnership. Updating whistleblowing and referring cases.

**INTERNAL AUDIT CHARTER and STRATEGY  
2021-22**

**This Charter and Strategy sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards. It also sets out how the South West London Audit Partnership (SWLAP) will be developed and delivered in accordance with these standards.**

**The Charter and Strategy will be reviewed annually and presented to the Standards and General Purposes Committee for approval.**

## **PURPOSE**

Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes".

In a local authority, internal audit provides independent and objective assurance to the organisation, its members, the senior management board (Directors Board in Wandsworth and Richmond's Shared Staffing Arrangement (SSA), Strategic Leadership Team at Kingston, Corporate Management Teams at Merton and Sutton), and in particular the Directors of Finance to help them discharge their responsibilities under s151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs. For AfC, internal audit provides assurance to its Strategic Leadership Team and Audit and Risk Committee.

In addition, the Accounts and Audit Regulations 2015, Regulation 6 (1), requires that:

*"A relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector Internal audit standards and guidance".* Internal Audit proper practices is defined as compliance with the Public Sector Internal Audit Standards and the CIPFA application note.

Within an organisation, there are 3 lines of defence in place to effect controls. The first line of defence is the day to day operational controls, the second is the management controls (budget & performance monitoring, trend analysis) and the third is independent inspection, both internal & external.

Internal audit forms part of the third line of defence and provides assurance on the effectiveness of governance arrangements, risk management and internal controls, and this includes an assessment of the effectiveness of the first two lines of defence. Internal audit can place reliance on assurances provided by third parties, although depending on the source, this may require some independent validation.

## **MISSION**

The Mission of the SWLAP is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight across the 5 Borough partnership.

## **AUTHORITY and ACCESS TO RECORDS**

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, assets, cash,

stores, property, personnel and information (both manual or computerised) which they consider to be necessary to properly fulfil its function. Internal audit may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Council staff are expected to provide every possible assistance to facilitate the progress of audits.

Access rights also apply to other third parties / organisations as permitted through contract and partnering arrangements.

Internal audit has the authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

Internal audit will consider all requests from the external auditor for access to any information, files or working papers obtained or prepared during audit work that has been finalised, and which external audit need to discharge their responsibilities.

All records, documentation and information accessed in the course of undertaking internal audit activities shall be used solely for that purpose. All internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive in the course of their work. Any information shared will be shared in accordance with the Shared Service Data Sharing Protocol.

## **RESPONSIBILITY**

The Head of Internal Audit is required to provide the Council, via the S151 officer and the Audit Committee, with an annual opinion on the adequacy and effectiveness of the internal control system for the whole council. To achieve this, the internal audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves processes and helps protect public resources
- To provide assurance that the Council's operations are being conducted in accordance with legislation, and relevant external and internal regulations, policies and procedures
- To provide assurance that significant risks to the Council's objectives are being managed
- To support management through the provision of advice and guidance on the overall control environment, and where new systems and / or procedures are implemented
- To provide independent assurance over the corporate governance arrangements in place across the Council
- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud. The corporate fraud function will be undertaken by the South West London Fraud Partnership (SWLFP) but will be overseen by the Head of Internal Audit (see Counter Fraud below).
- To undertake investigations where there is suspected fraud, bribery and corruption. This function will be undertaken by the SWLFP but will be overseen by the Head of Internal Audit.

These audit responsibilities are exercised with the aim of assisting the Council to deliver services in the most efficient and effective manner possible.

There are inherent limitations in any system of internal control and thus errors or irregularities may occur and not be detected by internal audit's work. When carrying out its work, internal audit will provide management with comments and report on breakdowns, failures or weaknesses of internal control systems together with recommendations for remedial action. However, internal audit cannot absolve line management of responsibility for internal controls.

Where appropriate, internal audit will undertake audit or consulting work for the benefit of the Council and / or organisations that are wholly owned by the Council (such as Achieving for Children). Where services are provided to bodies separate from the Council, this will be subject to approval by the Shared Service Board and will be provided under the terms of a Service Level Agreement (SLA).

Internal audit may also provide assurance to the Council on third party operations where this is provided for as part of the agreement or contract.

In some instances, internal audit may rely on assurances provided by other providers of assurance, but this will be dependent on the level of associated risk and some degree of independent verification may be required.

### **Counter Fraud**

Internal Audit's planned work includes evaluating controls for their effectiveness in preventing or detecting fraud. Managing the risk of fraud is the responsibility of management however Internal Audit will consider the risks and exposures which may allow fraud or corruption to occur.

Fraud work is undertaken by the South West London Fraud Partnership which is a five Borough Shared Service led by the SSA. This service is overseen by the Shared Service Board which includes the Directors of Finance from each of the partners or their delegated representatives. Work will be undertaken in accordance with an agreed Fraud Plan which includes a mix of proactive and reactive fraud work in the following main areas:

- Housing tenancy
- Internal fraud
- Procurement
- Business Rates
- Council Tax Reduction
- Blue Badge
- Social Care
- Schools

### **REPORTING**

The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report directly to the top of the organisation and those charged with governance. This will be done as follows:

The Audit Charter will be agreed with the senior management team (Directors Board at the SSA, Corporate Management Teams at Sutton and Merton, and Strategic Leadership Team at Kingston)

The annual audit plan will be compiled by the Head of Internal Audit following discussions with senior managers at their Directorate Management Team (DMT) meetings and sign off by the senior management team (Directors Board at the SSA, Corporate Management Teams at Sutton and Merton, and Strategic Leadership Team at Kingston and AfC). It will then be considered by the Shared Service Board who will

agree the number of audit days to be commissioned each year, and the resource required to deliver this. This will then be reported to the Audit Committee for approval

- The internal audit budget is agreed each year by the Shared Service Board.
- Performance against the annual internal audit plan, together with any significant risk exposures and control issues arising, will be reported to the Shared Service Board on a quarterly basis. Progress reports will be made to Directorate Management Teams on a quarterly basis and to Audit Committee at least twice a year.
- Changes to the plan during the year will be reported to the Shared Service Board quarterly and where significant, to Audit Committee
- Any significant consultancy activity not already included in the risk-based plan and which might affect the level of assurance work undertaken will be reported to the Audit Committee
- The annual opinion report will be presented to Audit Committee annually
- Any instances of non-conformance with the Public Sector Internal Audit Standards will be reported to the Shared Service Board and Audit Committee and will be included in the Head of Internal Audit's annual report. Any significant failings will be included in the Annual Governance Statement
- Any external review of the internal audit function will be agreed by, and reported to the Shared Service Board and the Audit Committee

## **INDEPENDENCE**

The Heads of Internal Audit have full and unrestricted access to the following (where relevant):

- The Director of Finance/Resources/Corporate Services/Corporate and Commercial (S151 officer)
- Chief Executive
- Chair of the Audit Committee (including AfC)
- The Council's Monitoring Officer
- The Council's General Counsel (RBK)
- The Chief Operating and Finance Officer and Director of Children's Services (AfC)
- All members of the senior management team (Directors Board at the SSA, Corporate Management teams at Sutton and Merton, and Strategic Leadership Team at Kingston and AfC)

The Head of the SWLAP is line managed by the Assistant Director of Resources (Financial Services) (SSA), who is responsible for carrying out the Head of Audit's annual appraisal. The Director of Corporate and Commercial and / or the Assistant Director Governance and Law, Kingston; Strategic Director of Resources (Sutton) and Managing Director - Legal Services (Merton), can participate in this appraisal review. The standards require that the Chief Executive, SSA, reviews, provides feedback and signs off this appraisal, also that the Chair of the Audit Committee must give feedback.

The Deputy Head of the SWLAP who also takes on a statutory Head of Internal Audit role is line managed by the Head of the SWLAP. As lead for Sutton and Merton, the Strategic Director – Resources (Sutton), Director of Corporate Services (Merton), Managing Director- Legal Services (Merton) and the Chairs of the Audit and Governance Committees (Sutton) and Standards and General Purposes Committee (Merton) can participate in this appraisal review.

The Assistant Director of Resources (Financial Services) is line managed by the Director of Resources and Assistant Chief Executive who will undertake the annual appraisal, and this will be signed off by the SSA's Chief Executive.

The Audit Manager who performs the statutory Head of Internal Audit role for AfC is line managed by the Head of the SWLAP who will undertake the annual appraisal and the Director of Finance and Resources for AfC can participate in this appraisal review.

All staff (including agency and contract staff) in the Internal Audit Partnership are required to make annual declarations of any potential conflicts of interest and adhere to confidentiality requirements. As far as resources permit, auditor rotation will be implemented to ensure auditors' objectivity is not impaired.

Internal audit must ensure that it is not involved in the design, installation and operation of controls so as to compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice. Where Internal Audit do provide consultancy services, any audit staff involved in this consulting activity will not be involved in the audit of that area for at least 12 months.

Internal Audit must remain independent of the activities that it audits to enable auditors to make impartial and effective professional judgements and recommendations. Within the SSA, the service does have operational responsibilities for Procurement and Pensions (these functions are overseen by the Assistant Director of Resources (Financial Services) in his role of Statutory Head of IA for Wandsworth) and for Risk Management and Insurance. Risk Management work is also undertaken across a number of the other partners. Since these roles may involve establishing and maintaining the control environment, these functions will be audited independently by Mazars. Internal auditors have no other operational responsibilities towards the systems and functions audited.

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

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

## **EXTERNAL AUDITORS**

The external auditors fulfill a statutory duty. Effective collaboration between internal and external audit will help ensure effective and efficient audit coverage and resolution of issues of mutual concern. Internal and external audit will meet periodically to discuss respective work plans and coverage, and potential issues arising from work completed.

## **DUE PROFESSIONAL CARE**

The internal audit function will adhere to / comply with the following:

- Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- UK Public Sector Internal Audit Standards
- All Council policies and procedures
- All legislation

All audit work is subject to in house quality control procedures whereby each audit review is subject to senior peer review. The audit service will be subject to an annual self-assessment to assess its compliance with the UK Public Sector Internal Audit Standards and an external review and assessment at least once every 5 years by a suitably qualified, independent assessor.

The Head of Internal Audit is required to hold a relevant professional qualification (CCAB or CMIIA) and be suitably experienced. All staff are required to maintain a programme of Continuous Professional development (CPD) to ensure auditors maintain and enhance their knowledge, skills, and audit competencies.

## **INTERNAL AUDIT STRATEGY**

### **Internal Audit Objectives**

Internal Audit will provide independent and objective assurance to the organisation, its Members, senior management and in particular to the Directors of Finance/Resources to support them in discharging their responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

It is the Council's intention to provide a best practice, cost efficient internal audit service through the SWLAP which adds value to the partner organisation's it serves.

### **Internal Audit Remit**

The internal audit service is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control environment supports and promotes the achievement of the Council's objectives. The work undertaken by Internal Audit is a key part of the Council's Annual Governance Statement (AGS) process and the annual audit opinion forms part of the AGS.

Under the direction of a suitably qualified and experienced Head of Internal Audit, Internal Audit will:

- Provide management and Members with an independent, objective assurance and consulting activity designed to add value and improve the Council's operations.
- Assist the Audit Committees to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered.
- Drive organisational change to improve processes and service performance.
- Work with other internal stakeholders and customers to review and recommend improvements to internal control and governance arrangements in accordance with regulatory and statutory requirements.
- Work closely with other assurance providers to share information and provide a value for money assurance service and.
- Participate in local and national bodies and working groups to influence agendas and developments within the profession.

Internal Audit will ensure that it is not involved in the design, installation and operation of controls so as to compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice. This type of work is key for our service in ensuring that it works closely with the partner organisations to provide proactive advice and guidance. The ability to bring in knowledge and experience from our other partners is an important way for the service to add value.

### **Service delivery**

The Internal Audit service will be delivered by the South West London Audit Partnership (SWLAP) which is the 5 borough shared internal audit service hosted by the SSA providing internal audit services to LB Wandsworth, LB Richmond, RB Kingston, LB Merton and LB Sutton. This relationship is governed in law through a formal Collaboration Agreement. The arrangement also includes the provision of Internal Audit to Achieving for Children (AfC), the community interest company created by LB Richmond and RB Kingston to provide their children's services.

The SWLAP is an in-house team with contract auditors or agency staff used as required to supplement the in house skills and experience. The SWLAP are part of the Croydon Framework contract with Mazars allowing the service to buy in additional audit resource and expertise. Resources can also be sourced through the CCAS framework.

One of the key objectives of the shared service is the provision of an efficient and cost-effective service to its partners. This is achieved through the review and standardization of audit methodology which takes on board best practice, ensuring staff are properly trained and developed, developing and delivering shared audits across more than one partner and reviewing and restructuring the service where needed to drive out cost savings. Key objectives and performance targets are included within the annual Service Plan.

Quarterly performance reports to the Shared Service Board will provide updates on any staffing changes, issues such as sickness absence levels and whether there is any surplus or shortfall in resources (significant issues will be reported to the Audit Committee at LB Wandsworth, Audit and Risk Committee at AfC, Audit and Governance Committee at LB Sutton, Audit, Standards and Statutory Accounts Committee at LB Richmond, Standards and General Purposes Committee at LB Merton and Audit, Governance and Standards Committee at RB Kingston).

The statutory Head of Internal Audit roles across the 5 Borough's will be undertaken by the Assistant Director of Resources (Financial Services), Head, Deputy Head and Audit Manager of the SWLAP. Unless amended and agreed by the Shared Service Board, the Head of the SWLAP will take the lead as the statutory Head of Internal Audit for LB Richmond and RB Kingston. The Deputy Head of the SWLAP will take the lead as statutory Head of Internal Audit for LB Merton and LB Sutton (and possibly RB Kingston). The Assistant Director of Resources (Financial Services) will take the lead as the statutory Head of Internal Audit for LB Wandsworth and the Audit Manager for the SWLAP will fulfill this role for AfC. All of these officers will support each other in the delivery of these roles.

The Corporate Fraud service will be delivered by the South West London Fraud Partnership, led by the SSA. This is a shared service which is overseen by the Shared Service Board.

### **Key Performance Targets**

Key Performance Targets are established and monitored on a quarterly basis by the Shared Service Board. A Service Plan and Risk Register have also been established and are reported to and monitored by the Shared Service Board.

Bi-monthly reports on corporate fraud work undertaken by the SWLFP will be provided to the Head of Internal Audit and 6 monthly reports made to Audit Committee (Standards and General Purposes committee).

### **Audit Planning**

The Head of Audit has responsibility for preparing a balanced internal audit plan, ensuring audit maintains its independence, ensuring independence and sufficient coverage to support the annual opinion.

Each year, an audit plan will be discussed and agreed by the respective Directors, Senior Leadership Teams and Audit Committees which will be based on the following :

- Issues identified in the Annual Governance Statement and Action Plan
- Discussions with the Council's Departmental Management teams (DMT).
- Discussions with Council's Corporate Management teams (CMT) if required
- Discussions with the Shared Service Board.
- Review of Corporate and Service Risk Registers/ Risk Returns
- Outputs from other assurance providers
- Outputs from previous audit or fraud assignments
- Requirements as agreed with External Audit

The Head of Internal Audit will ensure attendance at all DMT meetings as part of the annual planning process to ensure that management views and suggestions are taken into account when producing the audit plan. Key to ensuring that the service adds value is maintaining a dynamic audit plan which responds to changes in the organisation's risk profile. This is managed through quarterly reporting and attendance at DMT meetings during the year to discuss the audit plan and departmental risks.

The Internal Audit Plans are based on the following:

**Governance Arrangements:** Internal Audit have a key role in assessing the effectiveness of governance arrangements by comparison with principles contained in the CIPFA/SOLACE Governance Framework. A number of audits will support this assessment and will take account of any emerging governance arrangements.

**Transformation:** Considering the significant financial challenges facing the public sector and the all the council's ambitions, the annual audit plan will need to be flexible enough to respond to emerging issues and risks from change.

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

**Value for money:** This is an integral part of our risk-based audit approach, in particular being alert to opportunities and reporting issues and agreed management actions

**Key Financial Systems:** The effectiveness of controls and management of risks within key financial systems remain a core part of our audit work. We continue to develop our audit approach to give greater assurance.

**Probity Audit (schools and other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice is confirmed. For schools this includes assessment against the Schools Financial Value Standard.

**Computer Audit:** Information technology is fundamental to the delivery of all the council's services and is an area of rapid change. Due to this high risk, providing assurance on the adequacy of electronic systems and controls is a key part of our Annual audit plan.

**Contract Audit:** 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. Audits of the procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.

**Special Projects:** Specific areas of Council business which may be subject to change through the development and implementation of new systems, or delivery models, where poor value for money or failing service standards have been identified or where there are new or significant risks will be targeted for review as part of the audit planning process.

**Risk Management:** Risk management support is provided to some of the partners to facilitate the review and implementation of risk management strategies and to take the lead in compiling the Annual Governance Statement. Where this function is provided by the SWLAP, an independent review is undertaken by the Internal Audit contractor under the Croydon Framework contract to ensure independence. This review will assess the risk management arrangements, including risk strategy, adequacy of strategic and operational risk registers and the extent to which it is embedded.

**Partnerships:** Councils are increasingly operating and delivering services jointly through partnerships. This brings risks and opportunities to councils and the delivery of services. We will review key partnerships.

**Provision of advice and support:** Increasingly Internal Audit are involved in providing advice and support on an ad hoc basis. This may involve the provision of general advice on risks and controls or more detailed work with specific business areas where there are significant changes to systems and processes or decisions which require independent due diligence. The Heads of Audit also sit on boards, such as Information governance boards and working groups, corporate governance and risk management.

**Fraud, Corruption and Financial Irregularities:** The SWLFP will investigate fraud and irregularity arising during the year and may work alongside officers from the SLWAP on cases particularly where there are significant control issues requiring audit and fraud input. The audit plan will also include a programme of pro-active fraud checks.

**Follow up work:** Follow up work on outstanding audit recommendations will be regularly undertaken. Progress will be reported to Audit Committee and where progress is unsatisfactory, or management fail to provide a satisfactory response to follow up requests this will be reported to the relevant Assistant Director, Director or Audit Committee where required.

**It is recognised that additional work will continue to be undertaken where required to support the Council's Covid-19 response.**

### **Policies and Procedures**

All audit work will be undertaken in accordance with Council regulations and professional standards. There is an Audit Manual and Internal Audit Protocol which sets out the audit process for staff to adhere to, including quality control procedures.

## **Quality Assurance and Improvement Programme**

The Head of the South West London Audit Partnership continuously reviews the quality and effectiveness of all aspects of the Internal Audit service. This includes:

- Establishing procedures that comply with the Public Sector Internal Audit Standards
- Maintaining a professional audit team with sufficient knowledge, skills and experience to carry out the Audit Plan. This includes undertaking appraisals and ensuring that training needs are identified and addressed
- Undertaking, reviewing and acting on client satisfaction surveys and feedback
- Reviewing audit methodology and benchmarking against best practice.
- Independent review of all audit assignments undertaken.

In line with the Public Sector Internal Audit Standards, Internal Audit has a quality and improvement programme in place. The results of the quality and assurance programme and progress against any improvement plans will be reported in the Annual reports to each Borough's Audit Committees.

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