

**For General Release**

<b>REPORT TO:</b>	<b>GENERAL PURPOSES &amp; AUDIT COMMITTEE</b> 25 March 2015
<b>AGENDA ITEM:</b>	<b>12</b>
<b>SUBJECT:</b>	<b>Internal Audit Charter, Strategy and Plan</b>
<b>LEAD OFFICER:</b>	<b>Simon Maddocks, Head of Governance</b>
<b>CABINET MEMBER:</b>	<b>Councillor Simon Hall</b> <b>Cabinet Member for Finance and Treasury</b>
<b>WARDS:</b>	<b>ALL</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b> Internal Audit's work helps the Council to improve its value for money by strengthening financial management and supporting risk management. Strengthening value for money is critical in improving the Council's ability to deliver services helping the Council achieve all its visions and aims. The external auditor relies on the work from the internal audit programme when forming opinions and assessments of the Council's performance.	
<b>FINANCIAL IMPACT</b> The Internal Audit contract for 2015/16 is a fixed price contract of £358,000 and appropriate provision has been made within the budget for 2015/16.	

**1. RECOMMENDATIONS**

- 1.1 The General Purposes & Audit Committee is asked to approve the Internal Audit Charter (Appendix 1), Strategy (Appendix 2) and to note the plan of audit work for 2015/16 (Appendix 3).

**2. EXECUTIVE SUMMARY**

- 2.1 New UK wide Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013. To help with the Council's compliance with these standards the Council's internal audit charter and strategy are reviewed annually and are now attached for approval. These will be reviewed and brought back for approval each year to ensure that they remain up to date and relevant. Also attached is the work plan for internal audit for 2015/16. These documents have already been reviewed by the Council's Governance Board at its meeting on 19 March 2015. The Council's Corporate Leadership Team reviewed the work plan at its meeting on 11 March 2015.

### **3. DETAIL**

- 3.1 In England, specific requirements are detailed in the Accounts and Audit Regulations 2011, in that 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”. The 2006 DCLG Circular 03/2006 stated that the relevant guidance considered to contain “proper practices” in relation to internal control for the purposes of the Accounts and Audit Regulations was CIPFA’s 2006 Code of Practice for Internal Audit, but that as such documents would be updated in time, “the listing should be read as including any amendments and new editions”.
- 3.2 The new set of UK Public Sector Internal Audit Standards which applies to local and central government, the NHS and the three devolved governments came into force from 1<sup>st</sup> April 2013. These, along with the new application note from CIPFA, replace the 2006 Code of Practice and, as clarified with DCLG, should now be taken to satisfy the requirements as set out in the Accounts and Audit Regulations 2011.
- 3.3 To help with the Council’s compliance with these standards the Council’s internal audit charter (appendix 1) and strategy (appendix 2) have been reviewed and are attached for approval. These will be reviewed and brought back for approval each year to ensure that they remain up to date and relevant. Also attached is the work plan for internal audit for 2015/16 (appendix 3).
- 3.4 The work plan for 2015/16 follows a similar format to previous years and its make-up is as set out in the audit strategy. It aims to maximise the value from the internal audit resource available, which has again been reduced from previous years.
- 3.5 These documents have already been reviewed by the Councils Governance Board at its meeting on 19 March 2015. The Council’s Corporate Leadership Team reviewed the work plan at its meeting on 11 March 2015.

### **4. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS**

- 4.1 The fixed price for the Internal Audit Contract is £358,000 for 2015/16 and there is adequate provision within the budget. There are no additional financial considerations relating to this report
- 4.2 Internal Audit’s planning methodology is based on risk assessments that include using the Council risk registers processes.

(Approved by: Dianne Ellender, Head of Finance and S151 Officer)

### **5. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER**

- 5.1 The Solicitor to the Council comments that information provided in this report is necessary to demonstrate the Council's compliance with requirements imposed by Regulations made under the Audit Commission Act 1998, and in particular that it maintains an adequate and effective system of internal audit of records and control systems.

(Approved by: James Derby, Corporate Solicitor, on behalf of the Council Solicitor and Monitoring Officer)

## **6. HUMAN RESOURCES IMPACT**

- 6.1 There are no human resources impacts arising from this report.

(Approved by: Heather Daley, Director of HR)

## **7. EQUALITIES, ENVIRONMENTAL AND CRIME AND DISORDER REDUCTION IMPACTS**

- 7.1 When Internal Audit is developing the Annual Audit Plan or individual audit programmes the impacts of the issues above are considered depending on the nature of the area of service being reviewed. Issues relating to these impacts would be reflected in the audit reports and recommendations.

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**CONTACT OFFICER:** Simon Maddocks, Head of Governance

**BACKGROUND DOCUMENTS:**

## Internal Audit Charter

**This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the mandatory UK Public Sector Internal Audit Standards.**

**The Charter will be reviewed annually and presented to the General Purposes & Audit 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 Corporate Leadership Team (CLT) and in particular to the Chief Financial Officer to help him discharge his responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

In addition, the Accounts and Audit Regulations (2011) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council's governance, risk management and internal control systems.

### **Authority**

The Internal Audit function has unrestricted access to all Council records and information, both manual and computerised, cash, stores and other Council property or assets it considers necessary to fulfil its responsibilities. Audit may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Council should be set out in the conditions of funding.

The Internal Audit function will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge its responsibilities.

### **Responsibility**

The Council's Head of Internal Audit (The Head of Governance) is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the General Purposes & Audit Committee, on the adequacy and the effectiveness of the

internal control system for the whole Council. In order 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 operations and helps protect public resources
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes
- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.
- To provide advice and support to management to enable an effective control environment to be maintained
- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud. To this end, all Council workers have a responsibility to notify the Head of Governance of all instances of suspected or detected fraud or impropriety, as this may inform the annual audit opinion and the internal audit plan.
- To investigate allegations of fraud, bribery and corruption

Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.

The remit of Internal Audit covers the entire control environment of the organisation. Where appropriate, Internal Audit will undertake audit or consulting work for the benefit of the Council in organisations wholly owned by the Council, such as Local Authority Trading Companies. Internal Audit may also provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

Internal Audit may undertake consulting activities. The Institute of Internal Auditors (IIA) defines consulting as "Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training."

## **Reporting**

The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Strategy and Charter and any amendments to them are reported to the Corporate Leadership Team (CLT) directly or via the Governance Board (GB) and then presented to General Purposes & Audit Committee (GPAC) for formal approval annually.
- The annual Internal Audit Plan is compiled by the Head of Internal Audit taking account of the Council's risk framework and after input from members of CLT. It is then presented to CLT, GB and GPAC annually for noting and comment.
- The internal audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Internal Audit) and the independence of internal audit will be reported annually to the GPAC. The approach to providing resource is set out in the Internal Audit Strategy.
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to CLT or GB and the GPAC on a quarterly basis.
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the GPAC.
- Results from internal audit's Quality Assurance and Improvement Programme will be reported to GPAC.
- The appointment or removal of the Head of Internal Audit must be reported to and approved by CLT. The Chair of the GPAC will also sit on the interview panel for the appointment of the Head of Internal Audit role.
- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to CLT or GB and the GPAC and will be included in the annual Head of Internal Audit report. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

## **Independence**

The Head of Internal Audit (the Head of Governance) has free and unfettered access to the following:

- Chief Financial Officer
- Chief Executive
- Chair of the General Purposes & Audit Committee (GPAC)
- Monitoring Officer
- Any other member of the Corporate Leadership Team

The Head of Internal Audit is line managed by the Chief Financial Officer. His independence is further safeguarded by ensuring that his annual appraisal is not inappropriately influenced by those subject to audit. This is achieved by ensuring that

both the Chief Executive and the Chair of the GPAC contribute to, and/or review the appraisal of the Head of Internal Audit.

All Council and contractor staff in the Governance Service are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed. Auditors are also frequently rotated to prevent over-familiarity or complacency which could influence objectivity.

In addition both the Council and the audit contractor have stringent procedures in place relating to the acceptance of gifts and hospitality and the prevention of bribery.

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the GPAC.

To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months. Nor will any member of audit staff be involved in any audit work for any area in which they have had operational responsibility within the past 12 months.

The Head of Internal Audit does not currently have responsibility for any other service area or function other than internal audit, governance and anti-fraud.

### **Due Professional Care**

The Internal Audit function is bound by the following standards:

- 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 relevant legislation

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. Both the Head of Internal Audit and the Audit & Governance Manager are required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

## Internal Audit Strategy

**This Strategy sets out how the Council's Internal Audit service will be developed and delivered in accordance with the Internal Audit Charter.**

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

### Internal Audit Objectives

Internal Audit will provide independent and objective assurance to the organisation, its Members, the Corporate Leadership Team (CLT) and in particular to the Chief Financial Officer to support him in discharging his 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 effective internal audit service.

### Internal Audit's 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.

Under the direction of a suitably qualified and experienced Head of Internal Audit (the Head of Governance), 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 General Purposes & Audit Committee 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 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.



## Service Delivery

The Service will be delivered by the Council's strategic internal audit partner (currently Mazars Public Sector Internal Audit Ltd) under the direction of the Council's Head of Internal Audit and supported by an in-house Governance Team.

To ensure that the benefits of the Internal Audit service are maximised and shared as best practice, Croydon has established the London Audit & Anti-Fraud Partnership to work with other local authorities. This includes appropriate: resource provision, joint working, audit management & strategy and a range of value added services.

## Internal Audit Planning

Audit planning will be undertaken on an annual basis and audit coverage will be based on the following:

- Discussions with the Council's Leadership Team (CLT) and management
- The Council's Risk Register
- Outputs from other assurance providers
- Requirements as agreed in the joint working protocol with External Audit
- Local and national issues and risks

The Internal Audit Plan 2015-16 is composed of the following:

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

Internal Audit planning is already significantly based on the Council's risk register, resulting in more than 40% of the audit plan being based upon risks identified by management. Internal audit will continue to have a significant role in risk management with audit planning being focused by risk and the results of audit work feeding back into the risk management process to form a 'virtuous circle'.

- **Key Financial Systems:** Audits of the Council's key financial systems where External Audit require annual assurance as part of their external audit work programme.
- **Probity Audit (schools & other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice are confirmed. For schools this includes assessment against the Schools Financial Value Standard.
- **Computer Audit:** The review of ICT infrastructure and associated systems, software and hardware.

- **Contract Audit:** Audits of the Council's procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.
- **Fraud and Ad Hoc Work:** A contingency of audit days are set aside to cover any fraud and irregularity investigations arising during the year and additional work due to changes or issues arising in-year.

### **Follow-up**

Internal Audit will evaluate the Council's progress in implementing audit recommendations against set targets for implementation. Progress will be reported to management and to the General Purposes & Audit Committee on a quarterly basis.

Where progress is unsatisfactory or management fail to provide a satisfactory response to follow up requests, Internal Audit will implement the escalation procedure as agreed with management.

### **Reporting**

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work and in summary to departmental and corporate management on a quarterly basis. Summary reports are also provided to the General Purposes & Audit Committee four times per year. This includes the Head of Internal Audit's annual report which contributes to the assurances underpinning the Annual Governance Statement of the Council.

## Appendix 3

2015/16 Annual Audit Plan	Audit Days Budget 2015/16
<b>KEY FINANCIAL SYSTEMS REVIEWS</b>	
Community Care Payments	10
Council Tax	10
Creditors (inc P2P)	10
Debtors	10
Housing Benefits	15
Housing Rents & Accounting	10
Housing Repairs	10
Main Accounting System	10
NNDR	15
Parking Enforcement & Tickets	20
Payments to Schools	10
Payroll - Council staff	10
Payroll - Teaching staff	10
Pensions	10
Treasury Management	10
Follow-up of audits	20
<b>Total Key Financials Audits</b>	<b>190</b>
<b>CORPORATE RISK AUDITS</b>	
Changes post general election	20
Compliance Audits - Key controls and Risks	20
Compliance Audits - Petty cash and probity	60
Corporate restructure - alignment of structure	15
Croydon Council cultural direction	15
Gifts and hospitality	10
Member ethics and transparency	10
Officer and Member relations	10
Programme and project management - Food Plan Initiative	10
Programme and project management - Delivery of the Regeneration Programme for the centre of Croydon	15
Programme and project management - Heart Town Initiative	10
Programme and project management - Gateway Project	15
Risk Management	10
Staff car parking and corresponding allowances	10
Travel and other staff expenses	10
Use of pool vehicles	10
Follow-up of audits	20
<b>Total Corporate Risk Audits</b>	<b>270</b>

DEPARTMENTAL RISK AUDITS	
People - Adoption	10
People - Fostering	10
People - EMS and data quality	10
People - Stage 2 early interventions	10
People - Looked after children from other boroughs placed locally	10
People - Youth Offending Service	10
People - Care Act 2014	20
People - Better Care Fund	10
People - Performance monitoring (Adult Social Care)	10
People - Contract Management and Governance of Croydon Care Solutions	10
People - Contract Management and Governance of adult social care providers	10
People - 0 -2 Childcare provision 'availability of places'	10
People - 0 - 5 Childcare provision 'best start'	10
People - Deprivation of liberties	10
People - Integrated Commissioning	15
People - SEN - New code of practice	10
Resources - NHS partnership with Public Health	10
Resources - Prescription costs recharges	10
Resources - Pension fund admitted bodies	10
Resources - Asset sales	10
Resources - Interserve - Health & Safety and fire etc. checks	10
Resources - Digital programme benefits realisation	10
Resources - Establishment control	10
Resources - Public consultations	10
Resources - Challenge Croydon (Reporting and monitoring of programme progress)	15
Places - Street lighting	10
Places - Joint waste contract	10
Places - New Planning arrangements	10
Places - School capital delivery	10
Places - Housing capital delivery	10
Places - Parking review	10
Places - Recycling	10
Follow-up of audits	50
<b>Total Departmental Risk Register Audits</b>	<b>390</b>
COMPUTER AUDITS	
Hyperion application review	10
Oracle Back Office	10
Internet security configuration and usage	10
IT Service Management (Itil v2 Gap Analysis)	30
Software Licensing	10
Internal network	15
EMS Application	10

Mobile devices	10
Security Update Patch Management, Virus and Spyware	10
Cybersecurity	10
Windows Gold Build	7
Follow up of audits	10
<b>Total Computer Audits</b>	<b>142</b>
<b>CONTRACT AUDITS</b>	
Vertical Contract Audits (6 a year - to include major projects outside the metropolitan area)	42
New EU directives	10
Open book accounting - Housing Contract	20
SEN transport contract	15
Follow-up of Contract audits	10
<b>Total Contract Audits</b>	<b>97</b>
<b>SCHOOLS AUDITS</b>	
<b>Primary Schools</b>	
All Saints Primary	5.5
Beaumont Primary	5.5
Beulah Junior	5.5
Cypress Primary	5.5
Elmwood Infants School	5.5
Elmwood Junior	5.5
Gilbert Scott Primary	5.5
Good Shepherd Catholic	5.5
Howard Primary	5.5
Kingsley Primary School	5.5
Norbury Manor Primary School	5.5
Parish Church C of E Juniors	5.5
Parish Church C of E Nursery & Infant	5.5
Purley Oaks Primary	5.5
Rockmount Primary School	5.5
Selsdon Primary School	5.5
South Norwood Primary	5.5
St Chads RC Primary	5.5
St Marys RC Junior	5.5
Winterbourne Infant & Nursery	5.5
Winterbourne Junior Girls	5.5
Wolsey Infants	5.5
<b>Secondary Schools</b>	
St Andrews C of E High	7
Archbishop Tenison's C of E	7
Follow-up of Schools audits	25

<b>Total Schools Audits</b>	<b>160</b>
<b>FRAUD &amp; CONTINGENCY</b>	
Contingency for fraud including NFI and other ad hoc audits	66
<b>Total Fraud &amp; Contingency</b>	<b>66</b>
<b>ADMIN AND MANAGEMENT</b>	
Attendance at meetings, discussions, London Audit Group etc	25
Internal Audit Strategy and Plans Development	10
Annual Governance Statement	5
Year End Summary Report (Council-wide Head of Audit Report)	5
<b>Total Admin and Management</b>	<b>45</b>
<b>GRAND TOTAL BUDGET</b>	<b>1360</b>
<b>In-House Governance Team</b>	<b>243</b>
<b>Mazars PSIA Ltd</b>	<b>1117</b>