



London Borough of Hammersmith and Fulham | The Royal Borough of Kensington and Chelsea | Westminster City Council

Westminster City Council

Internal Audit Charter

&

Strategy

June 2016



1. The Internal Audit Charter

- 1.1 This Charter establishes the purpose, authority and responsibilities for the internal audit service for Westminster City Council, in accordance with the UK Public Sector Internal Audit Standards. The Internal Audit Strategy (Appendix 1) sets out how the Council's internal audit service will be developed and delivered in accordance with the Internal Audit Charter.
- 1.2 The Charter will be reviewed annually and presented to Westminster City Council's Executive Management Team and to the Audit & Performance Committee to note.

2. Definition

- 2.1 Internal Audit is defined by the Public Sector Internal Audit Standards (PSIAS) 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."
- 2.2 For the purposes of the PSIAS and this Audit charter:
- The Shared Services Director for Audit , Fraud, Risk and Insurance is designated as the "Chief Audit Executive";
 - The Audit & Performance Committee are designated as the "Board";
 - The Westminster Executive Management Team is designated as "Senior Management".

3. Purpose

- 3.1 Internal audit provides independent and objective assurance to Westminster City Council through its Members, the Executive Management Team, the Finance Integration Board and in particular the City Treasurer, to help discharge responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.
- 3.2 In addition, the Accounts and Audit Regulations (2015) 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.

4. Authority & Access to Records

- 4.1 In undertaking their duties and responsibilities, Internal Audit shall be entitled to have full access to all of the Council's data, records, cash, stores, property, assets, personnel and information whether manual or computerised, it considers necessary to fulfil its responsibilities. Audit staff may enter Council property and have 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.
- 4.2 Access rights apply equally to third parties and organisations, as permitted through the associated contract and partnering arrangements. Right of access to other bodies funded by the Council should be set out in the associated conditions of funding.
- 4.3 All records, documentation and information accessed in the course of undertaking audit reviews shall be used solely for that purpose. All audit staff are responsible for maintaining the confidentiality of information received in the course of their work. All information shared between shared services parties will be in accordance with the shared service data sharing protocol.

5. The Audit & Performance Committee

- 5.1 The Shared Services Director for Internal Audit is required to provide the Council and the City Treasurer with an annual opinion, reported through the Audit & Performance Committee, on the adequacy and the 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 operations and helps protect public resources;
 - To provide assurance that the Council's operations are being undertaken in accordance with relevant internal and external regulations, legislation, internal policies and procedures;
 - To provide assurance that significant risks to the Council's objectives are being identified and managed;
 - To provide independent assurance over the corporate governance arrangements in place across the Council;
 - 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 with the Council to aid the prevention and detection of fraud;
 - To evaluate specific operations or issues at the request of the Audit & Performance Committee, as appropriate;
 - To undertake investigations where there is suspected fraud, bribery or corruption; and
 - To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.
- 5.2 There are inherent limitations in any system of internal control and thus error or irregularities may occur and may not be detected by internal audit's work. When undertaking audit reviews, internal audit will provide management with comments and report on failures or weaknesses in internal control systems together with recommendations for remedial action. It remains a management responsibility to maintain an effective system of internal control and to have adequate systems in place to prevent and detect fraud.
- 5.3 Where appropriate, Internal Audit may undertake consulting work for the benefit of the Council. 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 any associated contract.

6. Reporting

- 6.1 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 achieved through the following framework:
- The Internal Audit Strategy and Charter and any amendments to them will be reported to the Audit & Performance Committee;
 - The Annual Internal Audit Plan will be compiled by the Shared Services Director for Audit, taking account of the Council's risk framework and following discussions with senior managers. The audit plan will be subject to review by the Finance Integration Board and the Council's Executive Management Team. The plan will then be reported to the Audit and Performance Committee for noting and comment;
 - The Internal Audit budget is reported to Cabinet and Full Council for approval, as part of the overall Council budget;
 - The adequacy, or otherwise of the level of internal audit resources, as determined by the Shared Services Director for Audit and the independence of internal audit will be reported to the Audit and Performance Committee. The approach to providing resources is set out in the Internal Audit Strategy;
 - Internal audit outcomes and progress with the Internal Audit Plan will be reported on a monthly basis to the Council's Section 151 Officer. In addition, quarterly meetings will be held with the Council's S151 Officer to discuss the service and any significant changes required to the Audit Plan.

- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work will be reported regularly to the Audit and Performance Committee;
- 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 Audit and Performance Committee;
- Any instances of non-conformance with the Public Sector Internal Audit Standards will be reported to the Audit and Performance Committee and will be included in the annual report of the Shared Services Director for Audit. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

7. Independence

7.1 The Shared Services Director for Audit will have free and unfettered access to the following:

- The Chief Executive;
- The Chair of the Audit & Performance Committee;
- The Monitoring Officer;
- All Members of the Executive Management Team and the Finance Integration Board.

7.2 The independence of the Shared Services Director for Audit is further safeguarded by ensuring that any appraisal of personal performance is not unduly influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of the Audit and Performance Committee have the opportunity to contribute to, and/or review the appraisal of the Shared Services Director for Audit.

7.3 All Council and contractor staff in the Shared Services Internal Audit and Fraud Service are required to make an annual declaration of any potential conflicts to ensure that auditors' objectivity is not impaired and that any requirements of the Council.

7.4 Internal Audit may provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity (over 5% of planned annual audit days) not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit & Performance Committee. 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.

7.5 Internal Audit must remain independent of the activities that it audits to enable auditors to make impartial and effective professional judgments and recommendations. Internal auditors have no operational responsibilities towards the systems and functions audited.

7.6 Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Shared Services Director for Audit has the freedom to report without fear or favour to all officers and particularly to those charged with governance.

7.7 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.

8. Counter Fraud, Corruption & Irregularity

8.1 Managing the risk of fraud and corruption is the responsibility of management. Internal audit procedures alone cannot guarantee that fraud or corruption will be prevented or detected. Auditors will, however be alert in their work to risks and exposures that could allow fraud, corruption or other irregularity.

8.2 The Council has a shared Corporate Anti-Fraud Service as part of the Shared Internal Audit Service and the Service has a protocol for close working relations with Internal Audit. The policies and procedures of the Corporate Anti-Fraud Service are detailed in the Council's Anti-Fraud and Corruption Strategy.

9. Due Professional Care

9.1 The Internal Audit Function is bound by the following standards:

- Institute of Internal Auditors' (IIA) 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.

9.2 All staff and contractors are required to sign an annual statement confirming their compliance with the IIA code of Ethics.

9.3 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.

9.4 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 Shared Services Director for Audit and the Senior Audit Manager are required to hold a professional qualification (CCAB or CMIAA) and be suitably experienced.

Internal Audit Charter and Strategy Reviewed and Agreed:

Date	Reviewed by	Position	Authorised by	Position
June 2016**	Moira Mackie	Senior Audit Manager	Moyra McGarvey	Shared Services Director for Audit
June 2015	Moira Mackie	Senior Audit Manager	Moyra McGarvey	Shared Services Director for Audit
June 2014	Moira Mackie	Senior Audit Manager	Chris Harris	Head of Internal Audit
September 2013*	Moira Mackie	Senior Audit Manager	Chris Harris	Head of Internal Audit

* Original Charter approved by the Process & Audit Group on 16 September 2013 and subsequently circulated to Members of the Audit & Performance Committee (A&P). Charter revised following re-branding by Baker Tilly Risk Advisory Services LLP on 16 June and subsequently circulated to Members of A&P. Charter further revised in June 2015 to reflect the change to the service provider from Baker Tilly to the Shared Service hosted by the Royal Borough of Kensington & Chelsea.

** Charter and Strategy presented to EMT on 14 June and A&P on 30 June 2016

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 Audit & Performance Committee for information.

Internal Audit Objectives

Internal Audit will provide independent and objective assurance to the organisation, its Members, the Senior Management Board (SMB) and in particular to the City Treasurer in support of 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.

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.

Under the direction of a suitably qualified and experienced Chief Audit Executive (the Shared Services Director for Audit, Fraud, Risk and Insurance), 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 & Performance 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 function; and
- Participate in local and national bodies and working groups to influence agendas and developments within the profession.

Service Delivery

The service will be delivered by a mixture of in-house staff and the Council's internal audit partner (currently Mazars) under the direction of the Shared Services Director for Audit.

The Internal Audit Service is a shared service hosted by the Royal Borough of Kensington and Chelsea. The audit service is currently working with the London Borough of Hammersmith & Fulham and Westminster City Council, to deliver audit reviews across the services which are shared services. Sovereign audits will continue on non-shared services within Westminster City Council.

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 Executive Management Team and senior managers;

- Discussions with the shared services Executive Directors;
- The shared services and sovereign risk registers;
- Outputs from other assurance providers;
- Requirements as agreed in the joint working protocol with External Audit.

Management views and suggestions are taken into account when producing the audit plan and the Shared Services Director for Audit will ensure feedback from or attendance at Service Area Management Team meetings as part of the annual planning process.

The Internal Audit Plan will include the following elements:

- **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 Service Areas' risk processes and will increasingly include work in areas where the Council services are delivered in partnership with other organisations;
- **Key Financial Systems:** Audits of the Council's key financial systems including any additional work where External Audit require annual assurance as part of their external audit work programme;
- **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:** The review of ICT governance, infrastructure and associated systems, software and hardware;
- **Contract Audit:** Audits of the procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts;
- **Fraud and Ad Hoc Work:** The Corporate Anti-Fraud Service, with the Internal Audit function, will continue to investigate any fraud and irregularity arising during the year. Internal Audit may undertake 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 the Audit & Performance Committee on a regular 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. Summary reports are also provided to the Audit & Performance Committee on a regular basis. This includes the annual report of the Shared Services Director for Audit which contributes to the assurances underpinning the Annual Governance Statement of the Council.