

## **CITY OF LONDON**

### **INTERNAL AUDIT**

#### **Audit Charter**

1. This Charter sets out the purpose, authority, and responsibility of the Corporation's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards (2016) and the CIPFA Local Government Application Note (LGAN).

The Charter will be reviewed annually and presented to the Audit and Risk Management Committee for approval.

The Internal Audit, Risk Management and Anti-Fraud functions at the City of London Corporation are provided to a number of bodies, including the City of London Police, the Barbican Centre, the Guildhall School of Music and Drama, and the Independent Schools. Where reference is made to the Corporation, these bodies will be deemed to be included in the objectives and requirements of this Charter.

#### **Internal Audit Standards**

2. Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013 and revised in 2016 are mandatory and underpin the Internal Audit arrangements within the City of London Corporation. These requirements include the definition of internal auditing, Code of Ethics and the Standards themselves. The Head of Audit and Risk Management will report on conformance with the PSIAS in his annual report. An independent peer review will be undertaken at least every five years to assess the internal audit functions compliance with these standards.

#### **Definition of Internal Audit**

3. The Public Sector Internal Audit Standard mandatory definition of internal auditing, as specified by the Institute of Internal Auditors' International Professional Practices Framework (IPPF), has been adopted by the City of London Corporation as follows:

"Internal auditing is an independent, objective assurance and consulting (*advisory*) activity designed to add value and improve an organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

## **Mission and Core Principles**

4. The IPPF's overarching "Mission" for Internal Audit services is: "...to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight".

The "Core Principles" that underpin delivery of the IPPF mission require internal audit functions to:

- Demonstrate integrity;
- Be objective and free from undue influence (independent);
- Align with the strategies, objectives and risks of the organisation;
- Be appropriately positioned and adequately resourced;
- Demonstrate quality and continuous improvement;
- Communicate effectively;
- Provide risk-based assurance;
- Be insightful, proactive, and future-focused; and
- Promote organisational improvement.

## **Authority**

5. The Internal Audit function has unrestricted access to all Corporation records and information, both manual and computerised, cash, stores and other Corporation property or assets it considers necessary to fulfil its responsibilities. Audit may enter Corporation 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 Corporation should be set out in the conditions of funding.
6. 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 their responsibilities

## **Responsibility and Accountability**

7. Within the City of London Corporation, the Audit and Risk Management Committee will fulfil the functions of the "board", as defined in the Public Sector Internal Audit Standard with the following exceptions:
  - approving decisions regarding the appointment and removal of the Head of Audit, and
  - approving the Internal Audit budget and resource plan.
8. The Chamberlain as Section 151 Officer is responsible under statute for the proper administration of the financial affairs of the City of London including compliance with the statutory requirements for accounting and internal audit.

The CIPFA Statement on the Role of the Chief Financial Officer in Local Government states that the Chief Finance Officer must:

- ensure an effective internal audit function is resourced and maintained;
- ensure that the authority has put in place effective arrangements for internal audit of the control environment;
- support the authority's internal audit arrangements; and
- ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively.

9. The Head of Audit and Risk Management is the person designated by the Corporation to fulfil the role of the Chief Audit Executive (as required by the PSIAS) and is required to provide an annual opinion to the Corporation and to the Chamberlain (Chief Financial Officer), through the Audit and Risk Management Committee, on the adequacy and effectiveness of the internal control system for the whole Corporation. In order to achieve this, the Internal Audit function has the following objectives:

- Provide a quality, independent and objective audit service that effectively meets the Corporation's needs, adds value, improves operations and helps protect public resources;
- Provide assurance to management that the Corporation's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures;
- Provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes;
- Provide assurance that significant risks to the Corporation's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process;
- Provide advice and support to management to enable an effective control environment to be maintained;
- Promote an anti-fraud, anti-bribery and anti-corruption culture within the Corporation to aid the prevention and detection of fraud. To achieve this, all Corporation workers have a responsibility to notify the Head of Audit & Risk Management of all instances of suspected and detected fraud or impropriety as this may inform the annual Head of Internal Audit Opinion and the Internal Audit Plan;
- Investigate allegations of fraud, bribery and corruption.

10. Even sound systems of internal control can only provide reasonable and not absolute, assurance, and may not prevent 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.

11. 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 Corporation in organisations wholly or partly owned by the Corporation. Internal Audit may also provide assurance to the Corporation on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

## Reporting

12. The UK PSIAS requires the Head of Audit and Risk Management 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 Audit and Risk Management Committee.
  - The annual Internal Audit Plan is compiled by the Head of Audit and Risk Management, taking account of the Corporation's risk framework and after input from members of the Senior Management. It is then presented to the Audit and Risk Management Committee annually for noting and comment.
  - The adequacy, or otherwise, of the level of internal audit resources, as determined by the Head of Audit and Risk Management, and the independence of internal audit will be reported annually to the Audit and Risk Management Committee. 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 the Audit and Risk Management Committee 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 Audit and Risk Management Committee.
  - Results from internal audit's Quality Assurance and Improvement Programme will be reported to the Audit and Risk Management Committee.
  - Any instances of non-conformance with the PSIAS must be reported to the Audit and Governance Committee, and will be included in the annual report from the Head of Audit and Risk Management. If there is significant non-conformance this may be included in the Corporation's Annual Governance Statement.

## Independence

13. The Head of Audit and Risk Management has free and unfettered access to the following:
  - The Chief Financial Officer (Chamberlain);
  - Chief Executive (Town Clerk);
  - [Chairman of the Audit and Risk Management Committee, together with the Chairmen of the Audit & Risk Management Committees \(or equivalent\) for those bodies under the remit of the Corporation;](#)
  - The Monitoring Officer, and
  - Any other member of the Chief Officers Group.
  
14. Although line-managed by the Chamberlain, Head of Audit and Risk Management has direct access to the Town Clerk, Comptroller and City Solicitor, and the Audit and Risk Management Committee Chairman. Additional professional and managerial support is provided by the Chamberlain's Business Support Director.
  
15. In addition to reporting formally to members at Audit and Risk Management Committee meetings, the Head of Audit & Risk Management has access to all members of City of London Committees in the reporting and discussion of internal audit work and will meet quarterly with the Chairman and Deputy Chairman of the Audit & Risk Management Committee.
  
16. The Chamberlain, as line manager for the Head of Audit & Risk Management, is responsible for undertaking the performance appraisal of the Head of Audit. The independence of the Head of Audit and Risk Management is safeguarded by ensuring that those subject to audit do not inappropriately influence the annual appraisal of the post holder. This PSIAS requirement will be achieved through the Town Clerk contributing feedback to the performance appraisal of the Head of Audit and Risk Management and that feedback is also sought from the Chairman of the Audit and Risk Management Committee.
  
17. The Audit and Risk Management Committee would be consulted through the Chairman of the Committee in the appointment and removal of the Head of Audit and Risk Management. The Internal Audit section budget is approved as part of the Finance Committee's consideration of the overall Chamberlain's Departmental Budget. The Audit and Risk Management Committee is provided regular updates on the availability and utilisation of internal audit resources and seeks assurances as to their adequacy.
  
18. All Corporation and contractor staff in the Internal Audit, Risk Management and Anti-Fraud team 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.

19. In addition, both the Corporation and the Audit contractor staff have stringent procedures in place relating to the acceptance of gifts and hospitality and the prevention of bribery.

### **Provision of Consultancy through Advice and Guidance**

20. The Team provides advice and guidance to management on governance, risk and control. In particular, it engages with the City's Corporate and Departmental change projects providing expert independent and objective advice on the design of internal controls. The extent and nature of this involvement is controlled, so that the independence of future internal audit assurance work is not compromised. The extent of internal audit advice and guidance is specified within the forward audit plans of the section, which are agreed annually by the Audit and Risk Management Committee. Any significant variations to this activity will be reported to the Audit and Risk Management Committee for agreement.

### **Provision of Assurance to outside Bodies**

21. The City of London Corporation Internal Audit function provides internal audit services under a service level agreement to London Councils and the Museum of London. Both these organisations utilise other City of London Corporation services in addition to the internal audit function (e.g. payroll). As part of providing an efficient internal audit service to these bodies, Internal Audit may report on the outcomes of audit work on City of London Corporate systems utilised by those outside bodies, once findings and outcomes have been agreed with the relevant Chief Officer. In addition, Internal Audit will occasionally provide assurance to Central Government on the appropriate use of ring-fenced grants or performance returns where required by grant conditions.

### **Non-Audit Areas:**

22. The Internal Audit Section is also responsible for the following non-audit areas:

**Risk Management** - Providing risk management support to the City of London by promoting the consistent use of risk management and ownership of risk at all levels within the City. This will be achieved through the development and review of the risk management framework, including facilitation of the City of London Strategic Risk Register.

**Fraud and Corruption** - Promoting fraud awareness and maintaining an effective anti-fraud and corruption function, acting as a central function for the investigation of irregularities and, where criminal investigation is considered appropriate, to liaise directly with the Police and advise departments on such matters. The Section plays a specific anti-fraud and investigation role in

relation to Housing Tenancy Fraud and the investigation of serious whistleblowing concerns raised through the City of London Whistleblowing policy.

23. Where the Head of Audit and Risk Management has non-audit responsibilities, independent assurance as to the adequacy and effectiveness of these arrangements will be provided to senior management and the Audit & Risk Management Committee through periodic external assessment. The findings from these assessments will be reported independently of the Head of Audit and Risk Management to the Business Support Director and Chamberlain initially prior to reporting to Committee.
24. Internal audit procedures prohibits internal auditors from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

### **Due Professional Care**

25. The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics and the core principles for internal audit;
- The relevant Codes of Ethics for the professional bodies that members of the Internal audit service are members of (i.e. the Chartered Institute of Internal Auditors and the accountancy professions that constitute the CCAB);
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards;
- The CIPFA Local Government Application Note (LGAN);
- All Corporation Policies and Procedures;
- All relevant legislation.

26. 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 PSIAS; on-going performance monitoring; and an external assessment at least once every five years by a suitably qualified, independent assessor.

27. 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. The Head of Audit and Risk Management is required to hold a relevant professional qualification (CCAB or CMIIA) or be suitably experienced. The Head of Audit and Risk Management will ensure that the internal audit service has access to an appropriate range of knowledge, skills, personal attributes, qualifications, experience and competencies required to perform and deliver its responsibilities.

Approved by the Audit and Risk Management Committee on ~~67 May 2018~~ 67 May 2018. Due for revision and annual approval March 202019.