

CITY OF LONDON

INTERNAL AUDIT

Audit Charter

Definition of Internal Audit

1. The Public Sector Internal Audit Standard mandatory definition of internal auditing 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.”

Internal Audit Purpose

2. The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital part in advising the organisation that these arrangements are in place and operating properly.
3. The annual internal audit opinion, which informs the annual governance statement, both emphasises and reflects the importance of this aspect of internal audit work. The City of London’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation’s objectives. To provide optimum benefit to the City of London Corporation, internal audit works in partnership with management to improve the control environment and assist the organisation in achieving its objectives. This partnership operates in such a way as to ensure that legal requirements and those of the Public Sector Internal Audit Standards (PSIAS) are met.
4. Internal audit work plans are aligned to the Strategic Aims and Key Policy Priorities of the City of London through a thorough risk assessment, understanding of these aims and priorities and continuous engagement with senior management.
- 4.5. Core activity of the Internal Audit Section will involve the delivery of a programme of audit that utilises a combination of rotation and risk analysis to review all areas of the City’s operations. The Section’s work ethic combines open communication, professionalism, expertise, integrity and trust.
- 5-6. In the current climate particular emphasis is given to Key Policy Priority 2:

“Seeking to maintain the quality of our public services whilst significantly reducing our expenditure and improving our efficiency”

7. To achieve this, the Internal Audit section includes VFM audit reviews with its main audit programme of work, and will often consider and identify VFM opportunities whilst undertaking other risk and control focused audits. Internal audit may also provide assurance on projects designed to deliver service improvements and efficiency savings.

~~6. engages with the City’s Corporate and Departmental change programmes, providing expert independent and objective input to emerging issues.~~

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8.9. Internal audit work includes the systematic follow-up of audit recommendations to report on the effectiveness and timeliness of implementation to mitigate risks identified through internal audit reports.

Internal Audit Standards

10. Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013 are the mandatory and underpin the Internal Audit arrangements within the City of London Corporation. These mandatory 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 5 years to assess the internal audit functions compliance with these standards.

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Accountability, reporting lines and relationships

10.12. 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;
- approving the remuneration of the Head of Audit; and
- approving the Internal Audit budget and resource plan.

11.13. 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 PSIAS requirement will be achieved through the Town Clerk and Chief Executive 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.

~~42.~~14. 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.

~~43.~~15. The Chamberlain 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

~~44.~~16. The Head of Audit and Risk Management although line-managed by the Chamberlain, has direct reporting lines 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.

17. 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.

Provision of Consultancy through Advice and Guidance

18. The section 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

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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.

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Provision of Assurance to outside Bodies

19. The City of London 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.

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Non Audit Areas:

~~16-20.~~ The Internal Audit Section is also responsible for the following non audit areas:

~~17-21.~~ **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.

~~18-22.~~ **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 ~~Benefit payments~~, Tenancy Fraud and the investigation of serious whistleblowing concerns raised through the City of London Whistleblowing policy.

~~19.~~ **Efficiency Review support** — Internal audit will as part of its routine audit work review key control areas, where changes in staffing and processes have resulted from the implementation of efficiency savings, to ensure adequate controls continue to be applied. In addition, the internal audit function provides support for the work of the Officer Efficiency Board and Member Efficiency & Performance Sub-Committee through undertaking forensic efficiency and performance reviews. The extent of this consultancy

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~~work is explained within the annual internal audit plans agreed by the Audit and Risk Management Committee.~~

~~20-23.~~ 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.

~~21-24.~~ 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.

Review of Charter:

~~22-25.~~ This Internal Audit Charter will be reviewed on an annual basis with proposed changes presented to the Audit and Risk Management Committee for approval.

Comment [NP1]: This no longer applies, although assurance work over the delivery of service based review efficiency savings is envisaged. This is mainstream internal audit work and not consultancy, as is the work looking at the implementation of efficiency savings and resulting impact on the operation of controls. See earlier paragraph addition.

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In fulfilment of its role, the Internal Audit Section will:

- ~~23-26.~~ Engage with all stakeholders (the Audit and Risk Management Committee and other appropriate Members, the Chamberlain, and all client Chief Officers) to ensure that the internal audit service remains customer-focused and supports the business goals of the City.
- ~~24-27.~~ Conduct a comprehensive, risk-based, audit planning process to ensure that the main risk areas of the City of London's operations (and external partners, where appropriate) are provided with an appropriate and structured internal audit service to assist in the continuous improvement process. The Head of Audit and Risk Management will report to the Audit & Risk Management Committee on the adequacy of the internal audit resources available to achieve this coverage.
- ~~25-28.~~ Review systems, controls and procedures and, where necessary, make recommendations to ensure that these are both efficient and effective and to monitor the use of resources in pursuit of the defined objectives of the City.
- ~~26-29.~~ Maintain a role in the systems development process, contributing in terms of audit, risk and control requirements.
- ~~27-30.~~ Provide an advisory service to departments with regard to best practice in governance, risk and control procedures.
- ~~28-31.~~ For all suspected or detected fraud, corruption or impropriety; undertake a risk assessment; agree an appropriate investigation approach; review the design and operation of relevant internal controls and consider the implications for the internal audit opinion and the risk-based audit plans.
- ~~29-32.~~ Liaise with the City of London's external auditors and other review agencies in order to maximise the efficiency of audit and scrutiny coverage provided to the City, and minimise the audit and inspection burden.
- ~~30-33.~~ To report the activities of the Internal Audit Section to the Audit and Risk Management Committee on a quarterly basis and other relevant Service Committee Chairman and Deputy Chairman on a regular basis, including the reporting of internal audit review findings as work is concluded and findings agreed with officers. Where there is disagreement between internal audit and a Chief Officer on the acceptance of significant internal audit recommendations, the Chamberlain will mediate in the first instance prior to the issue being highlighted by internal audit to the Audit and Risk Management Committee.
- ~~34-34.~~ Provide an annual Head of Audit Report and Opinion to the Town Clerk, Chamberlain and Audit and Risk Management Committee on the adequacy of the [Governance, Risk and](#) internal control environment in support of the annual governance statement.

~~32.35.~~ In order to satisfy Regulation 6 of the Accounts and Audit Regulations conduct an annual review of the effectiveness of the City of London internal audit.

Management Expectations in Support of the Internal Audit Function:

~~33.36.~~ In pursuit of the above, the Head of Audit and Risk Management has right of access to all records, assets, personnel and premises, including those of partner organisations (through appropriate contract clauses) and the authority to obtain such explanations as he considers necessary to fulfil these responsibilities.

~~34.37.~~ It is incumbent upon Chief Officers to ensure that the Head of Audit and Risk Management is informed of all system changes and major projects.

~~35.38.~~ Internal audit must be notified of all suspected or detected fraud, corruption or impropriety immediately to enable an investigation approach to be agreed with the Department.

~~36.39.~~ In order for the City's audit process to work effectively, it is essential that the reviews are initiated, fieldwork undertaken, and reporting concluded on a timely basis.

~~37.40.~~ Following agreement of the overall audit plan by the Audit and Risk Management Committee, Internal Audit will consult with departmental management on the detailed scope, focus and exact timing for the planned audit reviews.

~~38.41.~~ Three weeks notice will be given for prior to the commencement of audit fieldwork, except where the effectiveness of the audit work would be compromised if notice was given e.g. cash spot checks.

~~39.42.~~ Management must ensure staff availability, access to records and co-operation during the agreed time for the audit review so that the work is conducted during the agreed timescales. Internal Audit will keep management informed of progress and any significant issues as they arise.

~~40.43.~~ The Audit & Risk Management Committee expects that Internal Audit work is concluded on a timely basis. The following two target measures have been agreed for this area:-

- timely production of draft report – Internal Audit will issue draft reports within 4 weeks of end of fieldwork
- timely agreement of Internal Audit reports – final audit report (including agreed management action plan) issued within 5 weeks of issue of draft report

~~41.44.~~ Once dates for the implementation of agreed recommendations are confirmed, it is the expectation of the Audit & Risk Management Committee that the agreed timescales are kept to. Slippage in timescales for the implementation of recommendations should only occur in exceptional

circumstances, with explicit agreement being sought from Internal Audit prior to the agreed dates for implementation being passed.

42-45. Internal Audit will seek regular updates from recommendations owners for red and amber priority recommendations to confirm their implementation is progressing to agreed timescales. The timely implementation of audit recommendations is a consideration within the performance appraisals of all Chief Officers.

Approved by the Audit and Risk Management Committee

4th November 15th October 20143 (to be confirmed)

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