**LONDON COUNCILS**

**Internal Audit Charter**

**Definition of Internal Audit**

The Public Sector Internal Audit Standards (PSIAS) definition of internal auditing has been adopted by London Councils 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 Standards**

The Public Sector Internal Audit Standards (PSIAS) have been developed by a number of bodies which include the Institute of Internal Auditors (IIA) and the Chartered Institute of Public Finance and Accountancy (CIPFA). The standards, which came into effect on 1 April 2013, have been developed to create consistency in the practice of internal audit across the public sector and establish the basis for quality assurance.

The objectives of the standards are to:

* define the nature of internal auditing within the UK public sector;
* set basic principles for carrying out internal audit in the UK public sector;
* establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
* establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The standards comprise of the definition of internal audit, the Code of Ethics, attribute standards and performance standards. As a Local Authority Joint Committee, London Councils’ internal audit function has to adopt the standards in order to comply with the requirements of the Accounts and Audit Regulations

**Purpose**

The purpose of the internal audit function is to examine London Councils’ activities through independent and objective reviews of operations, financial systems and internal controls, assessing the reliability and integrity of information, compliance with policy and regulations and the processes for the safeguarding of assets. Furthermore, it seeks to add value and improve London Councils’ operations by promoting a robust control environment as well as making recommendations for improvements in operating efficiencies.

**Authority**

The Accounts and Audit Regulations (2011) require London Councils to *“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 regulations establish the internal audit function’s right of access to all London Councils’ records, documents, information and explanations that it considers necessary to fulfil its responsibilities.

Section 151 of the Local Government Act 1972 states that every authority should *“make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”*. CIPFA has defined *“proper administration”* in that it should include “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 Financial Officer (CFO) 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.

**Responsibility**

London Councils internal audit function is delivered as part of a wider Service Level Agreement (SLA) between London Councils and the City of London for the provision of a range of finance related services. The internal audit section is led by the City of London’s Head of Audit and Risk Management.

In order to accomplish its objectives, the internal audit section will deliver a programme of audit that utilises a combination of rotation and risk analysis to review all key areas of London Councils’ operations. The section’s work ethic combines open communication, professionalism, expertise, objectivity, integrity and trust.

In fulfilment of this, the internal audit section will:

* Engage with all key stakeholders (the Audit Committee, the Corporate Management Board and the external auditor) to ensure that the internal audit service remains customer-focussed and supports the business goals of London Councils;
* Conduct a comprehensive, risk-based, audit planning process to ensure that the key areas of London Councils operations, including ICT, are provided with an appropriate and structured internal audit service to assist in the continuous improvement process;
* Present an annual audit plan and five year strategic audit programme to the Audit Committee and Corporate Management Board for approval;
* 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 organisation;
* Perform a key role in the prevention of fraud, bribery and corruption by the independent and systematic examination of systems and procedures, geared to maintaining strong systems of internal control;
* Provide support and advice on investigations into suspected or detected cases of fraud or corruption in accordance with London Councils’ *Policy to Combat Fraud Bribery and Corruption*;
* Act as an alternative contact point for any concerns raised under London Councils’ *Whistleblowing* policy;
* Provide an advisory service to London Councils with regard to best practice, financial and internal control procedures and risk management;
* Liaise with London Councils’ external auditors and other review agencies in order to maximise the total audit and scrutiny coverage provided to London Councils;
* Account in detail to the Audit Committee for the activities of the Internal Audit Section.
* Provide a Head of Audit annual opinion on the internal control environment to the Director of Corporate Resources (Chief Financial Officer), Chief Executive and Audit Committee. This opinion is an intrinsic part of the evidence for the Annual Governance Statement;
* Report the findings of reviews of IT general controls undertaken at the City of London where these are relevant to London Councils on agreement of audit reports;
* Evaluate specific operations or undertake consultancy and advisory services at the request of the Audit Committee or Corporate Management Board as appropriate; and
* Provide a mechanism for receiving feedback on the quality of the service from users.

**Reporting**

The annual internal audit plan and five year strategic programme are presented to the Audit Committee and Corporate Management Board for approval.

A written report will be prepared and issued by the Head of Audit and Risk Management following the conclusion of each internal audit assignment. The internal audit reports will include management’s responses to the specific findings and recommendations. The reports will be presented to the Audit Committee, the Director of Corporate Resources and the relevant member of the Corporate Management Board.

The internal audit section will carry out follow-up reviews on the implementation of the recommendations which the Head of Audit and Risk Management will also report to the Audit Committee and relevant member of the Corporate Management Board.

As mentioned above, the Head of Audit and Risk Management provides an annual audit opinion on the adequacy and effectiveness of London Councils internal control environment which is presented to the Audit Committee.

The Head of Audit and Risk Management will report on conformance with the PSIAS in his annual report.

**Independence**

The Head of Audit and Risk Management has unrestricted access to the Chair of the Audit Committee and the Corporate Management Board:

The Head of Audit and Risk Management is not an employee of London Councils and does not perform any other function at London Councils apart from those detailed above.

The Head of Audit and Risk Management will assess all requests to carry out ad-hoc consultancy or advisory work in order to avoid conflicts of interest or threats to his independence.

**Organisational Arrangements**

The Audit Committee fulfils the function of the “Board” referred to in the PSIAS with the following exceptions:

* approving the internal audit budget which is incorporated in the SLA for financial support services approved by London Councils’ Leaders’ Committee;
* approving decisions regarding the appointment and removal of the Head of Audit and Risk Management; and
* approving the remuneration of the Head of Audit and Risk Management

The Corporate Management Board fulfils the role of “Senior Management” referred to in the PSIAS.