

Internal Audit and Counter Fraud Charter 2019/20

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1. Purpose and scope

1.1. This Internal Audit and Counter Fraud (IACF) Charter provides the framework for the conduct of the IACF service at the London Borough of Lambeth (the Council) to be approved by the Council's Corporate (Audit) Committee. It has been created with the objective of formally establishing the purpose, authority and responsibilities of the IACF function.

1.2. Purpose

1.2.1 Internal Audit is an independent, objective assurance and consulting 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 evaluating and improving the effectiveness of risk management, control and governance processes.

1.2.2. The Counter Fraud team is responsible for promoting a counter fraud culture, developing counter fraud policies and procedures and investigating suspicions of fraudulent activity committed against the Council and in ensuring that appropriate sanctions, including prosecution and the recovery of assets is carried out where fraud is proven. The Counter Fraud team also works with management to ensure that appropriate fraud prevention measures are in place.

1.3. Scope

1.3.1. All of the Council's activities (including outsourced activities) and legal entities are within the scope of the IACF service.

1.3.2. Internal Audit determines what areas within its scope should be included within the annual audit plan by adopting an independent risk-based approach. Internal Audit does not necessarily cover all potential scope areas every year. The audit program includes obtaining an understanding of the processes and systems under audit, evaluating their adequacy and testing the operating effectiveness of key controls. Internal Audit and Counter Fraud can also, where appropriate, undertake special investigations and consulting engagements at the request of Corporate Committee, senior management and regulators.

1.3.3. The IACF service will coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

2. Authority, responsibility and independence (1 of 2)

2.1. Authority

2.1.2. The Council is required under the [Accounts and Audit Regulations 2015](#) (Regulation 5) to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

2.1.3. Regulation 5 also establishes that the Head of IACF is authorised to have full and complete access to any of the organisation’s records, properties and personnel, including those of partner organisations. The Head of IACF is also authorised to designate members of the audit and counter fraud team (including any outsourced provider of these services) to have such full and complete access in the discharging of their responsibilities and may engage experts to perform certain engagements, which will be communicated to management. Partner organisations may include, but will not be limited to: joint ventures, outsourced services and shared service arrangements. IACF will ensure confidentiality is maintained over all information and records obtained in the course of carrying out audit and investigation activities.

2.1.4. The IACF service derives its authority from Corporate Management Team (CMT) through the Corporate (Audit) Committee.

2.2. Responsibility

2.2.1 The Head of IACF is responsible for: preparing the annual audit plan in consultation with the Corporate Committee and senior management; submitting the audit plan, internal audit budget and resource plan for approval by the Corporate Committee; implementing the approved audit plan; and issuing periodic audit reports to the Corporate Committee and management.

2.2.2. The Head of IACF is also responsible for ensuring that the IACF Service has the skills and experience commensurate with the risks of the organisation. The Corporate Committee should make appropriate enquiries of management and the Head of IACF to determine whether there are any inappropriate scope or resource limitations.

2.2.3. The Head of IACF assists the Director of Finance and Head of Legal Services (monitoring officer) in ensuring that the Council meets its corporate governance requirements, as set out in the joint CIPFA/SOLACE Good Governance Framework (2007). The Head of IACF also has a role in promoting good governance and spreading good practice, as set out in the CIPFA Statement on the Role of the Head of Internal Audit (2010).

2.2.4. IACF works closely with the Council’s Risk Management team to ensure there is effective review of all aspects of risk management and control. However, it is the responsibility of management to identify, understand and manage risks effectively, including taking appropriate and timely action in response to audit findings. It is also management’s responsibility to maintain a sound system of internal control and to be responsible for fraud prevention and detection. Managers must inform the Head of IACF of all suspected or detected fraud, corruption or impropriety for investigation and assessing the impact on the internal control environment.

2.2.5. As Internal Auditors perform their work programs, they will be observant of manifestations of the existence of fraud and weaknesses in internal control which could permit fraud to occur or would impede its detection.

2. Authority, responsibility and independence (2 of 2)

2.3. Independence

2.3.1. Internal Audit staff will remain independent of the business and they shall report to the Head of IACF, who in turn, shall report functionality to the Corporate Committee and administratively to the Director of Finance and Property.

2.3.2. The Head of IACF maintains and regularly reviews a register of the internal auditors' declarations of business and personal interests.

2.3.3. Internal Audit staff shall have no direct operational responsibility or authority over any activities they review. Therefore they shall not develop nor install systems or procedures, prepare records or engage in any other activity which they would normally audit. Internal Audit staff with real or perceived conflicts of interest must inform the Head of IACF, then the Corporate Committee, as soon as these issues become apparent so that appropriate safeguards can be put in place.

2.3.4. IACF recognise that IACF may sometimes provide consultancy or advisory services to the Council. IACF will remain independent of the business report and they shall report to the Head of IACF, who in turn, shall report functionality to the Corporate Committee and administratively to the Director of Finance.

2.3.5. Internal Audit staff shall have no direct operational responsibility or authority over any activities they review. Therefore they shall not develop nor install systems or procedures, prepare records or engage in any other activity which they would normally audit. Internal Audit staff with real or perceived conflicts of interest must inform the Head of Internal Audit and Counter Fraud, then the Corporate Committee, as soon as these issues become apparent so that appropriate safeguards can be put in place.

2.3.6. It is recognised that the Internal Audit service also has the responsibility to provide consulting and advisory services to management relating to risk management, control and governance as appropriate for the Council. The Service may evaluate specific operations at the request of the Corporate Committee or senior management, as appropriate. Before any consultancy or advisory work is agreed, the Head of IACF will ensure that team has the appropriate skills, resources and approval to undertake the review. The Head of IACF will also ensure that appropriate safeguards are in place to preserve objectivity in areas subject to future internal audit activity.

2.3.7. IACF will annually confirm to Corporate Committee the organisational independence of the IACF activity.

3. Professional competence, reporting and monitoring (1 of 2)

3.1. Professional competence and due care

3.1.1. The IACF service will perform its duties with professional competence and due care. Internal audit services will adhere to the Definition of Internal Auditing, Code of Ethics and the Standards for the Professional Practice of Internal Auditing that are published by the Institute of Internal Auditors and any other relevant professional body, to which the auditor is a member.

3.1.2. The IACF service also adheres to all the requirements of the Public Sector Internal Audit Standards (PSIAS). In particular, the IACF service is bound by the two essential components of the Code of Ethics: 1) *Principle*; and 2) *Rules of Conduct*, applicable to the four elements of 1) Integrity; 2) Objectivity; 3) Confidentiality; and 4) Competency. IACF will also apply the four *Attribute Standards* and the seven *Performance Standards* set out in the PSIAS. Any instances of non-conformance with the Code of Ethics or the PSIAS that impact the scope or operation of IA activity will be reported to Management Board and the Corporate Committee. IACF also abides by the Committee on Standards of Public Life's *Seven Principles of Public Life*: 1) Selflessness; 2) Integrity; 3) Objectivity; 4) Accountability; 5) Openness; 6) Honesty; and 7) Leadership.

3.2. Staff training and development

3.2.1. The IACF service will be appropriately staffed in terms of numbers, professional qualifications and experience, having regard to the Internal Audit Strategy and objectives, and to the standards set out in the PSIAS. The staffing of IACF will be kept under review by the Head of IACF and the Corporate Committee. The Head of IACF holds a professional qualification (CMIIA, CCAB, or equivalent) and is suitably experienced. All IACF staff will be properly trained to fulfil their roles and responsibilities and they will each maintain their professional competence through an appropriate on-going professional development programme.

3.3. Reporting and monitoring

3.3.1. The Head of IACF has overall responsibility for the day-to-day management of the IACF service. As noted on page (5), the Head of IACF reports functionally to the Corporate Committee and administratively to the Director of Finance. The Head of IACF also has the right of direct access to the relevant Strategic Director, the Chief Executive, the Chair of Corporate Committee and the Leader of the Council.

3.3.2. At the end of each audit, the Head of IACF or designee will prepare a written report and distribute it as appropriate. Internal Audit shall be responsible for the follow up of audit findings and recommendations. All significant findings will remain in an open issues file until cleared by the Head of IACF or designee.

3.3.3. The Corporate Committee will be updated at each meeting on the work of IACF. The Head of IACF shall prepare reports of IACF activities with significant findings along with any relevant recommendations and provide periodic information on the status of the IACF work programmes. Amendments and revisions to the annual audit plan are reported at each Corporate Committee to ensure the audit plan reflects the key risks facing the Council. Periodically, the Head of IACF will meet with the Chair of Corporate Committee in private to discuss internal audit matters.

3. Professional competence, reporting and monitoring (2 of 2)

3.4. Quality Assurance Arrangements

3.4.1. Professional Standards

3.4.1.1. As noted on page (6), IACF activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics and the International Professional Practices Framework (IPPF), incorporating the mandatory standards.

3.4.1.2. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activities performance to ensure that engagements are performed with proficiency and due professional care. In addition, IA will adhere to the Council's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

3.4.2. Staff Training and Development

3.4.2.1. As noted on page (6) all IACF staff will be properly trained to fulfil their roles and responsibilities and they will each maintain their professional competence through an appropriate on-going professional development programme. When necessary, in-house IACF resources will be supplemented by external resources.

3.4.3. Quality Assurance Improvement Programme

3.4.3.1. The IACF service maintains a Quality Assurance and Improvement Programme (QAIP) designed to gain assurance that the work of IA is compliant with the PSIAS and achieves its objectives.

3.4.3.2. The results of the QAIP and progress against any improvement plans will be reported to senior management and the Corporate Committee.

3.4.3.3. To demonstrate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*, the results of internal and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

4. Other IACF work

4.1. Third Parties

4.1.1. IACF may carry out assurance work for third parties (i.e. organisations outside of the Council). Assurances provided to third parties are provided in line with the assurance standards provided to the Council, as described within this document.

4.2. Consulting and Advisory Services

4.2.1. IACF may perform consulting and advisory services related to governance, risk management and controls as appropriate for the Council. IACF may also evaluate specific operations at the request of the Corporate Committee or Management Board, as appropriate. Based on its activity, IACF is responsible for reporting significant risk exposures and control issues identified to the Corporate Committee and senior management.

4.3. Major Projects

4.3.1. The IACF service will be informed of major projects and their progress through continued discussion with management and attendance at project working groups, where invited to attend. Where a project team seeks advice or further support from the IACF service, we will treat the request as one for consultancy support and make appropriate arrangements to ensure future objectivity is not impaired.

4.4. Risk Management

4.4.1. The IACF service is guided by the Institute of Internal Auditors' position paper on *The Role of Internal Auditing in Enterprise-Wide Risk Management* and therefore IACF will not undertake any roles defined as inappropriate by that guidance. Inappropriate roles include setting the Council's risk appetite, imposing a risk management process and taking on full accountability for risk management. The position paper lists the following as legitimate roles (with safeguards):

- Co-ordination of risk management activities;
- Consolidating risk reporting;
- Developing a risk approach for approval and its subsequent maintenance;
- Facilitating identification and evaluation of risks; and
- Coaching management in responding to risks.

IACF work is largely limited to supporting working groups throughout the Council and facilitating the identification and evaluation of risks.

4.5. Counter Fraud

4.5.1 Internal separation of duties within the IACF team are managed through the roles of the Internal Audit Manager and the Counter Fraud Manager. Any internal audit review of the counter fraud service will be undertaken by an external provider to enhance independence and objectivity in this area.

5. Appendices

Appendix 1: Internal Audit approach

Internal Audit's Mission Statement is to: 'enhance and protect organisational value by providing risk-based and objective assurance, advice and insight, and support the Council to successfully achieve its vision and priorities as set out in the borough plan: 'Future Lambeth: Our Borough Plan'.

We execute this through our IA Strategy, in particular delivering against four core objectives:

1. Assume a leadership role in promoting the second and third lines of assurance.
2. Deliver an Annual Internal Audit Plan that addresses stakeholder's needs and strategic business risks.
3. Develop and implement knowledge and talent-acquisition strategies
4. Be a trusted advisor to strategic management and the Corporate (Audit) Committee

We seek to understand the Council's key risks in the light of corporate and service objectives and priorities, new developments and initiatives. We examine and evaluate the adequacy and effectiveness of the system of risk management and internal control operated by the Council. To do this we require unrestricted access to all activities undertaken in the Council in order to interview, report, advise and present our findings on auditable activities, as determined by a risk-based planning methodology.

Based on a risk-based assessment, the annual Internal Audit Plan is developed to ensure that the annual internal audit opinion is robust and based on sufficient audit coverage. The audit plan is developed in accordance with this Charter, the IA Strategy and the Council's priorities and objectives and explains how Internal Audit's resource requirements have been assessed. The annual Internal Audit Work Plan is agreed by the Corporate Committee; updates to the plan are presented to each Corporate Committee to ensure the plan focusses on the key risks of the Council.

Where the Head of IACF believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, this will be brought to the attention of the Council's section 151 officer and the Corporate Committee.

The IA strategy and annual Internal Audit opinion will include an approach to using other sources of assurance (as identified in an Assurance Map) and any work required to place reliance upon those other sources.

Our remit covers the Council's entire control environment, which extends to systems or services provided wholly by, or in conjunction with other bodies, including partnership arrangements. We work with colleagues to ensure that this requirement is covered in partnership/funding agreements.

Supporting documents

Our key strategic documents include:

- **The IA Strategy (including our Mission Statement)**
- **The Internal Audit and Counter Fraud Charter**
- **Corporate (Audit) Committee Terms of Reference**
- **The Annual Internal Audit Plan**
- **The Internal Audit Manual (our Standard Operating Procedures)**
- **Engagement and Escalation Protocol**
- **Implementation Review Protocol**

Appendix 2: Counter Fraud approach

The Council's Policy is that fraud will not be tolerated and fraudsters will be prosecuted. The Counter Fraud Team's responsibilities cover deterrence, detection, investigation, prosecution, recovery and reporting of fraud.

The Counter Fraud Team has two separate areas:

- **General Investigations** – this team deals primarily with tenancy fraud but also looks into council tax support and discount fraud; and
- **Internal and Financial Investigations** – this team investigates fraud committed by staff agency workers and contractors and works with management to ensure that appropriate fraud prevention measures are in place. The Team conducts financial investigations under Proceeds of Crime legislation.

We execute the Council's Policy through:

- Compliance with support documents noted above;
- Maintenance and response to the Council's whistle blowing hotline;
- Proactive counter fraud investigations;
- Provision of fraud awareness training; and
- Intelligence sharing.

We regularly review the Council's Counter Fraud policies to ensure these comply with the best practice set out in the CIPFA Code of Practice for Managing the Risk of Fraud and Corruption. In addition, the Counter Fraud Team:

- Works with the Metropolitan Police to investigate, prevent and disrupt fraud and related offences and enhance the successful outcomes that we can achieve where fraud is identified, including prosecutions and recovery of assets.
- Co-ordinates the Council's participation in the bi-annual National Fraud Initiative undertaken by the Home Office.
- Assists the Council in ensuring that it complies with all relevant fraud and corruption legislation, including the Regulatory Investigatory Powers Act (2000), the Money Laundering Regulations (2007), the Public Interest Disclosure Act (1998), the Proceeds of Crime Act (2002) and the Bribery Act (2010).
- Works closely with other investigation and enforcement teams across the Council and with colleagues from housing associations who manage stock within the Borough to assist them in providing a robust defence against tenancy fraud.

In addition to our work over property-related fraud, internal fraud and local council tax support fraud, the Counter Fraud Team also have a remit covering other areas of fraud such as no recourse to public funds, business rates and direct payments fraud.

Supporting documents include the following strategic policies and procedures:

- **The Counter Fraud Strategy and Policy;**
- **The Fraud Response Plan;**
- **The Whistleblowing Charter;**
- **Whistleblowing Policy and Procedure;**
- **Anti Bribery Policy and Procedure**
- **The Money Laundering Policy and Practice Note.**