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## *Internal Audit and Counter Fraud Charter 2022/23*

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## 1. Purpose and scope

1.1. This Internal Audit (Internal Audit) Charter provides the framework for the conduct of the Internal Audit service at the London Borough of Lambeth (the Council), as approved by the Council's Corporate (Audit) Committee on 27 January 2022. It has been created with the objective of formally establishing the purpose, authority and responsibilities of the Internal Audit 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 Internal Audit 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 can also, where appropriate, undertake special investigations and consulting engagements at the request of Corporate Committee, senior management and regulators.

1.3.3. The Internal Audit 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 3)***

### **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 Chief Audit Executive is authorised to have full and complete access to any of the organisation’s records, properties and personnel, including those of partner organisations. The Chief Audit Executive is an independent person who has overall responsibility for internal audit. The Chief Audit Executive 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. Internal Audit 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 Internal Audit service derives its authority from Management Board through the Corporate (Audit) Committee.

### **2.2. Responsibility**

2.2.1 The Chief Audit Executive (also known as the Head of Internal Audit) is responsible for: preparing the annual audit plan in consultation with the Corporate Committee and senior management; submitting the audit plan, internal audit 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 Chief Audit Executive is also responsible for ensuring that the Internal Audit Service has the skills and experience commensurate with the risks of the organisation. The Corporate Committee should make appropriate enquiries of management and the Chief Audit Executive to determine whether there are any inappropriate scope or resource limitations.

2.2.3. The Chief Audit Executive 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 Chief Audit Executive 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. Internal Audit 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 Counter Fraud and/or Chief Audit Executive 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 3)

### 2.2.6. Responsibility cont'd

Activity	Chief Finance Officer	Senior Leadership Team	Audit Committee
Approving the IA charter	-	-	X
Approving the risk based IA plan		-	X
Approving the IA resource plan		-	X
Receiving communications from the CAE on the IA activity's		-	X
Monitoring performance relative to its plan and other matters		-	X
Making appropriate enquiries of management and the CAE (Assistant Director Internal Audit and Counter Fraud) to determine whether there are inappropriate scope or resource limitations		-	X
Approving decisions regarding the appointment and removal of the CAE (Assistant Director Internal Audit and Counter Fraud)	X	See note A	See note A

Note A – The Chief Finance Officer will take decisions in relation to the appointment, remuneration and removal of Assistant Director Internal Audit and Counter Fraud. These will, however, be reported to the Senior Leadership Team and Audit Committee, who may request a direct consultation with the Assistant Director Internal Audit and Counter Fraud or Chief Finance Officer.

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## ***2. Authority, responsibility and independence (3 of 3)***

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### **2.3. Independence**

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

2.3.2. The Chief Audit Executive 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 until after 18 months. Internal Audit staff with real or perceived conflicts of interest must inform the Chief Audit Executive, then the Corporate Committee, as soon as these issues become apparent so that appropriate safeguards can be put in place.

2.3.4. Internal Audit may sometimes provide consultancy or advisory services to the Council. Internal Audit will remain independent of the business report, and they shall report to the Chief Audit Executive, who in turn, shall report functionality to the Corporate Committee and administratively to the Director of Finance and Property.

2.3.5. 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 Chief Audit Executive will ensure that team has the appropriate skills, resources and approval to undertake the review. The Chief Audit Executive will also ensure that appropriate safeguards are in place to preserve objectivity in areas subject to future internal audit activity.

2.3.6. Internal Audit will annually confirm to Corporate Committee the organisational independence of the Internal Audit activity.

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

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### **3.1. Professional competence and due care**

3.1.1. The Internal Audit 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 Internal Audit service also adheres to all the requirements of the Public Sector Internal Audit Standards (PSIAS). In particular, the Internal Audit 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. Internal Audit 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 Internal Audit activity will be reported to Management Board and the Corporate Committee. Internal Audit also abide 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 Internal Audit 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 Internal Audit will be kept under review by the Chief Audit Executive and the Corporate Committee. The Chief Audit Executive holds a professional qualification (CMIIA, CCAB, or equivalent) and is suitably experienced. All Internal Audit 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 Chief Audit Executive has overall responsibility for the day-to-day management of the Internal Audit service. As noted on page (5), the Chief Audit Executive reports functionality to the Corporate Committee and administratively to the Director of Finance and Property. The Chief Audit Executive 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 Chief Audit Executive 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 Chief Audit Executive or designee.

3.3.3. The Corporate Committee will be updated at each meeting on the work of Internal Audit. The Chief Audit Executive shall prepare reports of Internal Audit activities with significant findings along with any relevant recommendations and provide periodic information on the status of the Internal Audit 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 Chief Audit Executive will meet with the Chair of Corporate Committee in private to discuss internal audit matters.

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

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### **3.4. Quality Assurance Arrangements**

#### ***3.4.1. Professional Standards***

3.4.1.1. As noted on page (6), Internal Audit 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, Internal Audit 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 Internal Audit 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 Internal Audit resources will be supplemented by external resources.

#### ***3.4.3. Quality Assurance Improvement Programme***

3.4.3.1. The Internal Audit service maintains a Quality Assurance and Improvement Programme (QAIP) designed to gain assurance that the work of Internal Audit 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 Internal Audit work**

### **4.1. Third Parties**

4.1.1. Internal Audit 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. Internal Audit may perform consulting and advisory services related to governance, risk management and controls as appropriate for the Council. Internal Audit may also evaluate specific operations at the request of the Corporate Committee or Management Board, as appropriate. Based on its activity, Internal Audit 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 Internal Audit 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 Internal Audit 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 Internal Audit service is guided by the Institute of Internal Auditors' position paper on *The Role of Internal Auditing in Enterprise-Wide Risk Management* and therefore Internal Audit 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.

Internal Audit 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 Internal Audit 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.

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## **5. Annexes**

## ***Annex 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 Internal Audit 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 Internal Audit 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 Chief Audit Executive 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 Internal Audit 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 Internal Audit 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**

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## ***Annex 2: Counter Fraud approach***

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

## Annex 3: Definitions

### Board

*The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. This body is also charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.*

Throughout this document, the term 'Board' refers to the Corporate (Audit) Committee.

### Senior management

*The individuals at the highest level of organisational management who have day-to-day responsibility for managing the organisation.*

Throughout this document, the term 'Senior Management' refers to the Corporate Management Team.

### Chief Audit Executive (Assistant Director Internal Audit and Counter Fraud)

*Chief Audit Executive describes a person in a senior position responsible for effectively managing the internal audit activity.* This role is currently fulfilled by Justin Martin, Partner, PwC. An inhouse CAE has been recruited and will commence in Q1 2022.

**The Public Sector Internal Audit Standards (PSIAS) require the Internal Audit Charter to define the terms 'Board' and 'Senior Management' for the purposes of internal audit activity. The definition of Audit Committee has also been included for completeness.**