**Internal Audit Strategy
2022 to 2025**

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Contents

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1. Introduction

1.1   This document sets out the approach we have taken to develop the Internal Audit Strategy (IAS) for the next three years. This IAS is a high level document, which sets out how the IA service will be delivered and developed over the next three year period. The IA Charter (IAC) underpins the IAS and describes the purpose, authority, responsibility and position of the Internal Audit (IA) Service within the London Borough of Hillingdon.

1.2   The quarterly Operational IA Plans provides detail of how this IAS translates into detailed workplans which are presented to the Audit Committee quarterly for approval.

2. Developing the Internal Audit Strategy

## 2.1   Issues influencing the Internal Audit Strategy

2.1.1   The Council's strategic objectives delivered through the Hillingdon Improvement Plan (HIP), are the starting point in the development of our IAS. It is also vital that the risks to the achievement of those objectives are understood.

2.1.2   Since 2015/16, quarterly Operational IA Plans have been produced, based upon an independent assessment of key risks facing the Council. This is carried out utilising the existing risk registers, knowledge obtained through discussions with key staff, as well as external sources of assurance such as External Audit, previous IA reviews and our audit universe.

2.1.3   To develop this IAS, we have considered the following:

- The core objectives of London Borough of Hillingdon (LBH) and the specific risks that can impact on the achievement of those objectives;

- Regulatory requirements for IA coverage;

- The most recent reviews of IA and Audit Committee effectiveness;

- The content of corporate and directorate risk registers and assurance frameworks to understand the risks faced, and the controls that the Council places reliance on to manage those risks; and

- An analysis of the risks, strengths, weaknesses, opportunities and threats to the IA Service.

3. Key IA Objectives and Priorities

3.1   Our Aim / Mission Statement

3.1.1   An effective mission statement delineates the IA function's authority and responsibilities and reflects the priorities of Senior Management and the Audit Committee. Our mission statement ought to address the degree to which the IA function will allocate resources towards traditional assurance-focused internal control activities vs. consulting activities perceived to add value to lines of business.

3.1.2   A mission statement that does not align clearly and directly with stakeholder expectations is of little value and can be a detriment to achieving strategic objectives. The **IA Continuum** (overleaf) depicts how IA's focus and skill sets must evolve as stakeholder expectations change.

The Internal Audit Continuum
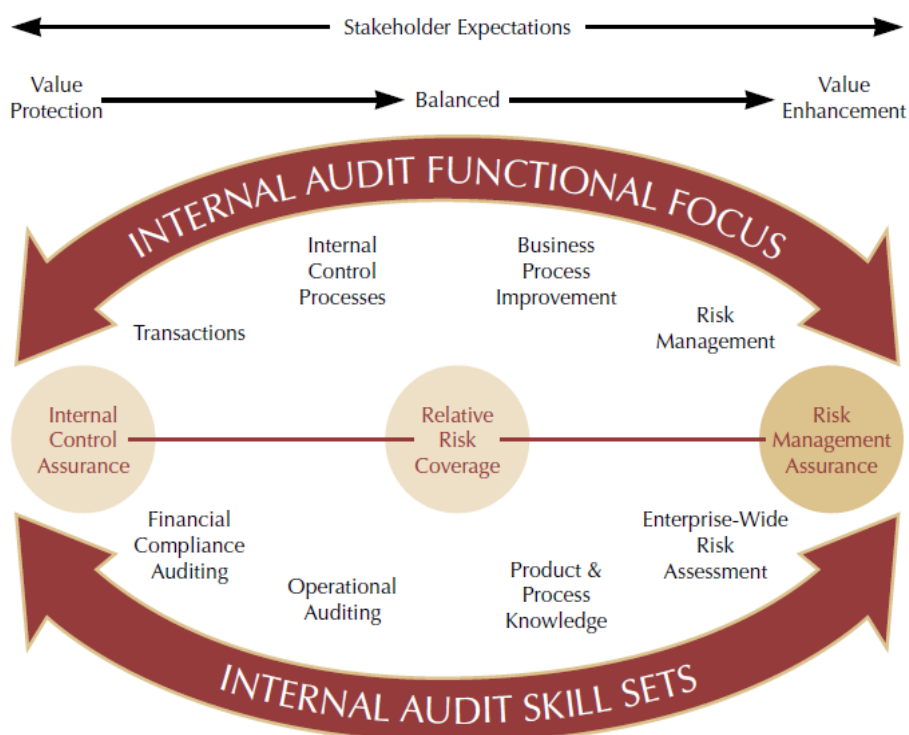
3.1.3   IA helps the Council to achieve its vision and fulfil its strategic objectives by consistently providing a professional, robust and independent IA service that adds value and is highly regarded by key stakeholders.

Our Mission

3.1.4   ***We aspire to be recognised as a valued business partner to help council services succeed. During a significant period of change we aim to undertake a range of risk based assurance and consultancy services to deliver key improvements to the way the council works and help improve services to our residents in line with the Hillingdon Improvement Plan (HIP).***

3.1.5   In delivering this mission, we will:

- Produce and deliver quarterly risk-based IA plans which comply with auditing standards;

- Provide the statutory Head of IA's annual opinion statement on the Council's internal control, risk management and corporate governance arrangements;

- Provide progress reports on a quarterly basis which highlight any identified significant deficiencies or potential areas for improvement in the Council's internal control, risk management and corporate governance arrangements; and

- Support and suitably challenge the key assumptions and judgements taken by management, through IA's assurance and consultancy services, to ensure they are appropriate and in accordance with the relevant policies, guidelines and professional standards.

3.2   Measures of Success

3.2.1   Whilst absolute financial or operating performance is often the only "measure of greatness" people look at, our research shows that great services or organisations always produce four key outcomes:

- **Sustained superior performance:** They succeed financially, or operationally, in both the short and long term and not just on an absolute basis, but relative to their market potential or the hand they are dealt;

- **Intensely loyal customers:** They earn not only the "satisfaction" of their customers, but their true loyalty;

- **Highly engaged and loyal employees**: The people who work at great organisations are more than satisfied, they are energised and passionate about what they do; and

- **Distinctive contribution**: They do more than "business as usual"; they fulfil a unique mission that sets them apart from the crowd.

3.2.2 These four outcomes are measurable, unmistakeable and attainable by any organisation or service.

3.2.3 The UK Public Sector IA Standards (PSIAS) are clear that IA should be adding value to an organisation. At a time when all areas of the Council are being urged to deliver better and more efficient services, it is absolutely right that IA can itself demonstrate improvements in its services and is seen to be adding significant value to the Council. This will be achieved through the delivery of the IAS. Modern IA practice suggests that IA success is reliant on and/ or linked to a wide range of factors including:

- **Quality;**

- **Economy;**

- **Efficiency;** and

- **Effectiveness.**

3.2.4 We have set stretching targets in line with the above factors, which are set out in the 2021/22 Annual IA Plan approved by the Corporate Management Team (CMT) and the Audit Committee. These cover all aspects of the IA service and will drive performance of the service with the objective to achieve key stakeholder requirements. The intention is that using the monitoring data maintained on our dedicated IA software system (TeamMate), a summary of actual IA performance against the targeted performance are reported to CMT and the Audit Committee and included in the quarterly IA progress reports. This performance reporting cycle will allow all stakeholders to measure the ongoing performance, robustness and value of the IA Service at Hillingdon and evidence achievement of our aim /mission statement.

3.2.5 Overall success will be shown in the improvement in the Council's internal control environment. This will be displayed through a reduction in the total number of IA recommendations raised, as well as a reduction in the risk rating of those recommendations.

3.3 SWOT Analysis

3.3.1 The Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis (overleaf) helps uncover opportunities that we are well placed to exploit whilst recognising the strengths of the service. In addition, by understanding the weaknesses and threats posed to our business we can manage and potentially eliminate these.

3.3.2 We will take advantage of the opportunities identified overleaf, as well as building upon our strengths and taking action to improve weaknesses.

3.3.3 This, as well as our IAS, will help ensure the effective delivery of our aims, objectives and mission statement.

SWOT Analysis

	Helpful To achieve our objectives	**Harmful** To achieve our objectives
Internal (attributes of the IA Service)	**Strengths** - Experienced, qualified, and knowledgeable staff. - Embedded risk based approach to IA, providing assurance on management of key corporate, strategic and operational risks. - Independence and objectivity. - Restructure to ensure continued agility of assurance provision. - Enhanced and targeted reporting to those charged with governance. - Timely delivery of IA fieldwork and reports. - Performance against IA key performance indicators.	**Weaknesses** - Rebuilding of previous damage to reputation of IA within certain areas of the Council stifling provision of added value assurance and consultancy services. - Lack of specialist ICT and contract audit knowledge.
External (attributes of the environment)	**Opportunities** - Further utilising IA software to enhance and streamline the IA process whilst improving efficiency. - Possibility to deliver IA Services to other public sector bodies bringing in additional revenue to the Council. - Alignment and closer working with other assurance providers including BID/transformation, quality assurance and counter fraud functions. - Developing in-house IA expertise to deliver ICT & Contract Audit.	**Threats** - IA Service is outsourced to deliver cost savings. - Public criticism and adverse publicity of IA provision. - Loss of key staff. - Stakeholder value in IA is diminished. - Poor delivery by external partners, impacting effectiveness of IA service.

4. Provision of IA Service

4.1   How the Internal Audit Service will be provided

4.1.1   In agreement with those charged with governance (CMT and the Audit Committee), the Head of Internal Audit (HIA) will determine the way in which findings will be reported. Standards will be set for reporting and will include arrangements for the review and approval of reports by the HIA before issue. Reports will be balanced, clear, concise and constructive and will be issued within laid-down timescales.

4.1.2   The HIA will provide a written annual report to those charged with governance timed to support the Council's Annual Governance Statement. The annual report will provide the statutory opinion on the overall adequacy and effectiveness of the Council's system of internal control, risk management framework and corporate governance arrangements.

4.1.3   The report will also include a summary of the work that supports the opinion, a statement on conformance with the PSIAS and the results of the IA quality assurance and improvement work.

4.2   Internal Audit Resources

4.2.1   The IA team's greatest asset are its staff. The next three years will be a period of significant change as we start 2022 with the recruitment of a new Head of Internal Audit, a Principal Internal Auditor and a Senior Internal Auditor. As a result of the restructure within the service, the resourcing strategy of the IAS is setup in such a way to provide robust business continuity and succession planning by 'growing our own'. As new colleagues join the IA team we will continue to professionally train and develop all our staff. It is our intention that over the life of this strategy we will only need to recruit Trainee Internal Auditors into the service. As such, when a member of staff decides to leave the employment of the Council, an existing member of staff should be in a strong position to obtain promotion. This is subject to satisfactory performance but does provide for a greater career structure within the Service.

4.2.2   As such, IA will be appropriately staffed in terms of numbers, professional qualifications and experience having regard to its objectives, the standards set out in the PSIAS, in addition to the assurance requirements of the Council. The skills mix within the in-house IA team will significantly change over the last 12 months to ensure that we are best positioned for the future with every member of the IA team either now professionally qualified or actively studying for a relevant professional qualification.

4.2.3   We foresee the next three years as a significant period of change, challenge and risk within Local Government, which has been exacerbated by the Covid-19 global pandemic. Local authorities are facing financial, health and social care pressures that are unprecedented and have never been experienced before at this level. This coupled with lockdown, working from home and other restrictions means that the way the Council conducts its business has also undergone significant change. The IA team will support the Council in any way it can, by working flexibly with services/ teams, focusing on and providing assurance over the areas of highest risk.

4.2.4   The in-house IA Service is currently supplemented by partnerships with external providers of IA Services for specialist support i.e. ICT audits on IT applications through to reviews of the Council's cyber security controls. We do however recognise that in order to continually add value to the Council we will need to diversify our skill base to ensure that the continuing and emergency assurance needs are met through the in-house IA Service. As such the IA resource will need to become more agile over the short to medium term of this strategy to address the assurance needs of stakeholders.

4.2.5   Over the longer term the IA Service will need to be supported by other effective means of obtaining assurance, such as the continuous monitoring of key systems, using data analytics, computer-assisted audit tools & techniques (CAATTs); control risk self assessment (CRSA); and by taking assurance from other bodies that have carried out reviews of the Council's operations and third party partner organisations. This assurance will be in the form of Statement on Auditing Standards (SAS) 70 reports from relevant third party providers and agents to the Council. This may include fund managers, pension providers and School's payroll providers, or audit and inspection reports from regulatory bodies, such as Ofsted and the Information Commissioner's Office.

4.2.6 It is the HIA's professional opinion that without the use of these techniques, it will be difficult to ensure that sufficient IA cover of the Council's operations is delivered. This in turn will have an adverse impact on the HIA's ability to issue a positive opinion on the effectiveness of the internal control environment, which forms a key component of the Head of IA's annual assurance statement at the end of the financial year.

4.2.7 Assurance mapping (which we have completed in the past) would help assist IA in the identification of key external assurance providers and focus IA resource on the key high risk areas facing the Council. IA are well placed to help facilitate this process.

5. Key Roles of Internal Audit

5.1 Assurance

5.1.1 Internal Auditors deal with issues that are fundamentally important to the survival and prosperity of the Council. Unlike external auditors, they look beyond financial risks and statements to consider wider issues such as the Council's reputation, growth, its impact on the environment and the way it treats its employees.

5.1.2 In summary, Internal Auditors aim to help organisations succeed. At Hillingdon we do this through a combination of assurance and consultancy services. The assurance part of our work involves informing Senior Management and elected Members of how well the systems and processes designed to keep the Council on track are working effectively. Then, we also offer a range of consulting services to help improve those systems and processes where necessary.

5.1.3 The assurance work performed by IA involves reviewing the audit universe (i.e. a long list of auditable areas for potential IA review) carrying out risk assessments, risk scoring and categorisation. Those areas where the overall risk assessment is 'high' or 'medium' are considered for assurance review by IA.

5.2 Advisory / Consulting

5.2.1 In line with the PSIAS, IA coverage will include a range of consultancy work. IA is available to offer, where resources and skills allow, independent advice and consultancy to management. Consultancy and advice will usually involve problem solving, and informing process design or internal control issues, to help management enhance services. This may include certification of grant claims, training through to the facilitation or conducting of specific consultancy reviews.

5.2.2 Although the responsibility for managing change and maintaining internal control lies with management, early audit advice can help prevent subsequent costly and inconvenient amendments to new or revised systems and developments. Appropriate controls will ensure that the provision of advice and consultancy does not lead to a loss of audit independence.

5.3 Core Financial Systems coverage

5.3.1 We carry out comprehensive coverage of the core financial systems to enable the Council's Corporate Director of Finance to discharge his responsibilities under Section 151 of the Local Government Act 2000. The in-house IA team has a wide pool of skills and experience to deliver the core financial system types of IA reviews. However, to ensure the continuing professional development, these types of audits will be rotated between IA staff.

5.4   Corporate Governance / Annual Governance Statement

5.4.1   The definition of IA and the International Auditing Standards for the Professional Practice of IA (Standards) identifies that IA has a role to play in evaluating and helping to improve governance processes. The Standards make specific reference to assessing and making recommendations for:

- Promoting appropriate ethics and values within the organisation;

- Ensuring effective performance management and accountability;

- Communicating risk and control information; and

- Coordinating the activities of the board, management, external and internal auditors, and communicating what they do.

5.4.2   An annual IA report is presented to the CMT and the Audit Committee which includes the HIA's statutory opinion statement on the Council's corporate governance arrangements. This role is further defined within the Internal Audit Charter (refer to **Appendix A**).

5.5   Risk Management

5.5.1   While the responsibility for identifying and managing risks belongs to management, one of the key roles of IA is to provide assurance that those risks have been properly managed.

5.5.2   We believe that a professional IA activity can best achieve its mission as a cornerstone of governance by positioning its work in the context of the organisation's own risk management framework. Our assessment is that the Council's risk maturity at the time of producing this IAS is **RISK AWARE**, demonstrating the characteristics of a *scattered silo approach to Risk Management.* As such, limited assurance can be placed on the risk management framework to drive the IA Plan. Thus, IA will utilise their cumulative audit knowledge and experience of the London Borough of Hillingdon and wider public sector to undertake their own risk assessment process, as detailed in **Appendix B**.

5.5.3   An annual report is presented to CMT and the Audit Committee which includes the HIA's statutory opinion statement on the Council's risk management arrangements. This role is further defined within the IAC.

5.6   Contracts and Procurement

5.6.1   With the increasing number of contracts in operation across the Council, IA will continue to have an increased focus on contract related assurance audits. This will include reviews of the procurement process, as well as contract management arrangements for the significant/ high value contracts. Ideally, these audits should be performed by specialist contract auditors. Whilst the IA team are proficient at undertaking audits of contracts, no current members of staff are qualified contract auditors and as such the IA team do not currently hold this expertise. With potentially more Council functions being outsourced to reduce costs and increase efficiency this is an area of growth in assurance requirements. As a result, we will look at developing these skills for IA staff over the next three years.

5.7   Anti-Fraud and Anti-Corruption

5.7.1   Whilst IA has a responsibility to give due regard to the possibility of fraud and corruption as part of its work, the Council's Business Assurance Counter Fraud Team (BACFT) is the lead assurance provider for the Council in this area.

5.7.2   The IA Service will continue to work closely with the BACFT and any issues relating to potential fraud or irregularity identified by IA will be referred to the BACFT for investigation. We recognise that greater alignment between both teams will prove beneficial to the Council. As such exposure to this area for IA staff may prove beneficial and will therefore be explored as part of delivering the IAS.

5.7.3   The key elements of this approach include:

- A coordinated IA and BACFT annual planning process which is monitored and updated on a quarterly basis;

- Flexibility of approach on cases of suspected fraud where there are elements falling across both remits;

- Shared view of fraud risks across the Council and a joined-up approach to risk management where fraud risk exists;

- IA and BACFT utilisation of each other's work, focussing resource towards the highest risk areas providing a greater level of context for investigations and IA reviews;

- Shared understanding of the emergence of new fraud risks across the Council and within the public and private sector; and

- A greater level of assurance to Audit Committee/ all Members and Senior Managers that fraud risks are being managed appropriately.

5.7.4   This approach has been proven to be more effective in the management of fraud risks. It also provides an efficient use of resource in dealing with fraud and a greater opportunity to minimise the Council's fraud losses.

5.8   Information and Communication Technology (ICT) Audit

5.8.1   These are reviews of the ICT infrastructure and associated systems, software applications, and hardware that underpin the Council's operations. These audits will be performed by specialist ICT auditors with some support provided by the in-house Service. The IA team does not currently hold the professional IT Audit Qualification (CISA) but the Internal Audit Manager is actively studying towards the CISA accreditation and has been leading on some IT reviews as part of his Continuous Professional Development (CPD). With the ongoing increase in the automation of processes and controls, this is an area of growth in assurance requirements. As a result, we will ensure that these skills are a key area of development for IA staff over the next three years.

5.9   Project Management

5.9.1   Given the nature of projects, there are risks concerned with the delivery, timing, cost and quality of projects. Many authorities have projects which struggle to deliver the benefits that are expected of them, often having major knock on effects with other projects and sometimes even conflicting with other projects. IA can provide quality assurance on projects through the entire life cycle of change, from project feasibility through to project closure. We have the appropriate skills and in house expertise to deliver these types of audits, but further improvements to staff skills will be explored as part of delivering the IAS.

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21st January 2022

INTERNAL AUDIT

Internal Audit Charter

1. Purpose

1.1   In accordance with the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) the purpose, authority and responsibility of the internal audit activity must be formally defined in an Internal Audit (IA) Charter, consistent with the *Mission of Internal Audit* and the mandatory elements of the International Professional Practices Framework (the *Core Principles for the Professional Practice of Internal Auditing*, the *Code of Ethics,* the *Standards* and the *Definition of Internal Auditing*).

1.2   The London Borough of Hillingdon IA Charter defines the purpose, authority and responsibility of the IA Service within the Council. The Charter establishes the Head of IA's (HIA's) position within the Council including the nature of the HIA's functional reporting relationships. The Charter authorises access to records, personnel and physical properties relevant to the performance of engagement and defines the scope of IA activities.

1.3   The HIA is responsible for applying this IA Charter and ensuring it is maintained, up to date and, in line with the Public Sector Internal Audit Standards (PSIAS). This Charter will be reviewed every 3 years or sooner if significant changes have been made by senior management (Corporate Management Team [CMT]) to ensure that it remains relevant to the needs of the Council. This Charter shall be presented to the Board (which for the purpose of the PSIAS is the Audit Committee) for approval.

2. Statutory Requirement and Authority

2.1   The Accounts and Audit (Amendment) Regulations 2021 require every local authority to undertake an effective IA to evaluate the effectiveness of its risk management, control and governance processes, taking into account the PSIAS or guidance.

2.2   The IA service is responsible for providing assurance to all of its key stakeholders including the Audit Committee, Senior Management and in particular the Chief Financial Officer to help them discharge their statutory responsibilities under Section 151 (S151) of the Local Government Act 2000. An effective IA service will be seen as a catalyst for improvement at the core of the Council and will become recognised across the Council as a value added, trusted advisor and business assurance provider.

2.3   Deriving from those regulations, and those authorising this Charter, **the IA service has free unrestricted access** and ability to plan and undertake audit assignments necessary to fulfil its scope. To enable full discharge of its duties, the HIA and **the IA service has authority** to:

- Have right of direct access to the independent Chairman of the Audit Committee;

- Have unrestricted access to all Council functions, records, property and personnel; and

- Obtain assistance, where necessary, from Council officers and contractors involved in the subject of audit engagements.

2.4   The HIA has overall accountability for ensuring the IA service safeguards information it has obtained and for maintaining confidentiality of information where applicable.

3. Status of Internal Audit within the Council

3.1   IA will be independent of all activities that it audits to enable internal auditors to perform their duties in a way that allows them to make professional and impartial judgements and recommendations.

3.2   The IA activity will remain free from interference by any element in the Council, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not engage in any activity that may impair their judgement or objectivity.

3.3   IA will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.

3.4   The Council's IA service is part of the Finance Directorate (Group) and is led by the Head of Internal Audit & Risk Assurance (HIA), who reports directly to the Deputy Director of Exchequer Services & Business Assurance and indirectly to the Corporate Director of Finance (S151 Officer). The HIA also has unrestricted access to the independent Chairman of the Audit Committee, the Chief Executive, External Audit (Ernst & Young), the Leader of the Council and all other Members and staff.

3.5   The HIA will annually confirm to the Board the organisational independence of the IA activity with any impairment disclosed to the appropriate parties.

4. Objectives and Mission

4.1   IA is defined in the PSIAS as *"an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes"*.

4.2   The IA service acknowledges and aspires to achieving the mission of Internal Auditing as provided by the IIA:
        "*To enhance and protect organisational value by providing stakeholders with risk based and objective assurance, advice and insight."*

4.3   IA is not responsible for control systems and managing risks. Responsibility for effective internal control and management of risks rests with the management of the Council.

5. Scope of Internal Audit

5.1   The HIA will provide an annual Opinion Statement to the Council, assisting the S151 Officer, through the Board (Audit Committee) in completing the AGS, which forms part of the statutory Statement of Accounts. The AGS provides public assurances about the effectiveness of the Authority's risk management framework, corporate governance arrangements and the system of internal control. The HIA opinion statement (see 3 core areas overleaf) meets the Authority's statutory requirement under Part 6 of the Accounts and Audit (Amendment) Regulations 2021 and is in line with the UK PSIAS as follows:

(i) **Risk Management -** Risk Management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives;

(ii) **Corporate Governance -** Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled; and

(iii) **System of Internal Controls -** The system of internal control is a process for assuring achievement of the Council's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies which incorporates both financial and non-financial systems.

5.2   In addition to the **3 core annual opinion areas**, IA may, subject to specific arrangements, undertake engagements in the areas of counter fraud as detailed within this IA Charter.

5.3   IA 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 IA service may evaluate specific operations at the request of the Audit Committee or Senior Management, as appropriate. Before any consultancy work is agreed, the HIA will ensure that IA has the appropriate skills, resources and approval to undertake the review. The HIA will also ensure that appropriate safeguards are in place to preserve objectivity in areas subject to future IA activity.

6. Responsibility

Professional Standards

6.1   The HIA and their team have responsibility to undertake their work at all times in accordance with the PSIAS (the 'Standards') and, the IIA's Code of Ethics (the 'Code') and the broader International Professional Practices Framework (IPPF) which applies across the global practice of IA. Those members of the IA team who have membership of professional bodies will comply with the relevant requirements of that organisation.

6.2   Deriving from those regulations, and those authorising this Charter, the IA service has free unrestricted ability to plan and undertake IA assignments necessary to fulfil its scope. IA undertakes work in accordance with the Standards as set out below.

Risk Based IA Strategy and IA Plan

6.3   The IA plan is a crucial component of the annual opinion statement provided by the HIA to those charged with governance. In order to deliver this assurance it is vital to have a comprehensive risk-based IA plan to determine the priorities of the IA activity, consistent with the organisation's goals. The overarching IA plan is presented to the Council's Corporate Management Team (CMT) and Audit Committee for approval. This plan is supplemented by quarterly operational risk based IA plans for approval. Any significant deviation from the approved quarterly IA plans will be communicated to senior management and the Audit Committee through quarterly IA progress reports.

6.4   The quarterly IA plan is undertaken based on a risk assessment, enabling the HIA to ensure that the most effective IA coverage is achieved, which focuses on the Council's key risks. Managers are required to ensure that key staff are available to IA during the agreed period of a review and for ensuring that information requested is accurate, timely and reliable. The quarterly IA plan, including resource requirements and limitations, is presented to CMT and Audit Committee for approval.

Management of Engagements

6.5   For each IA engagement, a detailed Terms of Reference (ToR) will be prepared and discussed with the relevant managers. The ToR will establish the engagement's service objectives, key risks, scope, timing and resource allocations for the review.

6.6   Each IA engagement will be sponsored by a member of CMT and engagements intended to provide an IA assurance opinion will be undertaken using a risk-based approach. IA will promptly communicate its findings and conclusions to management, proposing recommendations to address any identified weaknesses, risks or issues. The HIA will inform the Council (via the Audit Committee) of any remaining material weaknesses.

6.7   The HIA will have systems in place to ensure that internal auditors obtain and record sufficient evidence to support their conclusions and engagement results to demonstrate the adequacy of evidence obtained to support professional judgements made. This includes management supervision to ensure objectives are achieved, quality assured, and staff developed.

6.8   A report is issued to appropriate parties following the conclusion of each IA engagement and is distributed to the review sponsor and relevant key contact(s). The report includes an executive summary with a particular emphasis on risk management, internal control and governance strengths and weaknesses identified during the review. A management action plan is appended to reports (where applicable) which provides management with the opportunity to respond to the recommendation(s) raised and set out what action (risk response) they propose to address the risk(s) identified.

Follow-up

6.9   IA follows-up all 'High' and 'Medium' risk-rated recommendations to establish if management has taken appropriate action to address any weaknesses, risks or issues identified. Escalation procedures are in place for any management responses that are judged to be inadequate in relation to the identified risk. These procedures will ensure that the impact of not taking action (Tolerating the risk) have been understood and accepted at a sufficiently senior management level.

Management Responsibilities

6.10   In order to be effective, the IA service requires full co-operation of senior management. IA is not responsible for internal control systems or managing risks. Responsibility for effective internal control and management of risks rests with the management of the Council.

6.11   Senior management must also keep the IA service abreast of significant proposed changes in processes, systems, newly identified significant risks and all suspected or detected fraud or corruption. Senior management will also ensure that the IA service has access to sufficient resources in order to deliver the IA plan as approved by CMT and the Audit Committee. Responsibility for the deployment of resources in delivery of the IA plan rests with the HIA.

7. Reporting Lines

Reporting Lines

7.1   The HIA has overall responsibility for the day-to-day management of the IA service. In agreement with those charged with governance, the HIA will determine the way in which findings will be reported. Standards will be set for reporting and will include arrangements for the review and approval of reports by the HIA before issue. Reports will be balanced, clear, concise and constructive and will be issued within laid-down timescales.

7.2   The IA service will maintain effective relationships with management within the Council, including consultation in the IA planning process at quarterly planning level and with respect to individual reviews. The HIA will share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

Staff Training and Development

7.3   IA will be appropriately staffed in terms of numbers, professional qualifications and experience, having regard to the IA objectives and to the standards set out in the PSIAS. The staffing of IA will be kept under review by the HIA and the Audit Committee.

7.4   The HIA holds a relevant professional qualification (CMIIA, CCAB, or equivalent) and will be suitably experienced. All IA 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 IA resources will be supplemented by external resources.

8. Other Internal Audit Work

Wider Remit of Business Assurance

8.1   The IA activity sits within the Council's Business Assurance service. The role of the HIA incorporates wider Risk Assurance responsibilities. Whilst the remit of Business Assurance is wide, we will continue to focus on delivering consistently high quality value added IA reviews to help services to succeed. This will be undertaken through the application of appropriate safeguards to maintain independence and objectivity to ensure an unbiased assessment, having regard to the principles contained within the Code of Ethics.

Third Parties

8.2   IA 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 provided to the Council, as described within this document.

Consulting and Advisory Services

8.3   IA may perform consulting and advisory services related to governance, risk management and controls as appropriate for the Council. IA may also evaluate specific operations at the request of the Audit Committee or CMT, as appropriate. Based on its activity, IA is responsible for reporting significant risk exposures and control issues identified to the Audit Committee/ CMT.

Counter Fraud

8.4   IA's role in any fraud or corruption related work will be in accordance with the Council's Counter Fraud Strategy and with resources approved by the Audit Committee in the Quarterly IA Plans (in liaison with the Head of Counter Fraud). However, Internal Auditors will have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation. In addition, IA may assist or lead, as needed, in the identification and investigation of suspected fraudulent activities within the Council and notify Management and the Audit Committee of the results.

Major Projects

8.5   The IA 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 IA service, we will treat the request as one for consultancy support and make appropriate arrangements to ensure future objectivity is not impaired.

Risk Management

8.6   Business Assurance will be guided by the IIAs position paper on *The Role of Internal Auditing in Enterprise-Wide Risk Management* and therefore Business Assurance will not undertake any roles defined as inappropriate by that guidance.

8.7   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.

8.8   The Council's [Risk Management Policy and Guidance](#) defines the role of Business Assurance in relation to risk management, including safeguards put in place, which include:

- Internal separation of duties within the Business Assurance team, managed through the roles of the Head of Internal Audit & Risk Assurance and the Internal Audit Manager(s). Any Internal Audit review of risk management will be undertaken by an external provider to enhance independence and objectivity in this area;

- The CMT holding responsibility for approving the Authority's Risk Management Policy and Guidance;

- The Corporate Director of Finance, as Chief Finance Officer, being responsible for preparing the Authority's risk management policy statement and for promoting it throughout the authority; and

- The Audit Committee will monitor and review, but not direct, the authority's risk management arrangements, including regularly reviewing the corporate risk register (giving reference to the Directorate Risk Registers) and seeking assurances that action is being taken on strategic risk related issues.

9. Ethics

Code of Ethics

9.1   IA will abide by the Code of Ethics set out in the PSIAS. IA staff are bound by the two essential components of the Code of Ethics: 1) *Principle;* and 2) *Rules* of *Conduct,* applicable to the four elements of a) Integrity; b) Objectivity; c) Confidentiality; and d) Competency.

9.2   IA will apply the four *Attribute Standards* and the eight *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 CMT and the Audit Committee. Internal auditors will also abide by the Committee on Standards of Public Life's *Seven Principles of Public Life.*

Due Professional Care and Competency

9.3   IA staff will apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

Independence and Objectivity

9.4   The HIA will maintain and regularly review a register of the Internal Auditors' declarations of business and personal interests. If there are occasions where internal auditors undertake non-IA activities including the development, design or implementation of systems, then that individual will not subsequently perform an IA review of those systems.

10. Quality Assurance

Professional Standards

10.1.   The IA activity will govern itself by adherence to The Chartered 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.

10.2   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.

Staff Training and Development

10.3   All IA staff will be properly trained (ref para. 7.3) 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 IA resources will be supplemented by external resources.

Quality Assurance Improvement Programme

10.4   The work of IA will be controlled at each level of operation to ensure that a continuously effective level of performance is being maintained. The HIA 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. The QAIP will cover all aspects of the IA activity, including but not limited to:

- Client Feedback Questionnaires (CFQs) that are sent out at the completion of each audit;

- A self-assessment of the IA service each year and its compliance with the PSIAS; and

- On-going internal performance monitoring and reporting by the HIA, as well as an external assessment at least once every five years by a suitably qualified, independent assessor.

10.5   The results of the QAIP and progress against any improvement plans will be reported to Senior Management and the Board through quarterly IA progress reports, as well as within the Annual IA Report.

10.6   To demonstrate conformance with the *Definition of Internal Auditing,* the *Code of Ethics* and the *Standards,* the results of external 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.
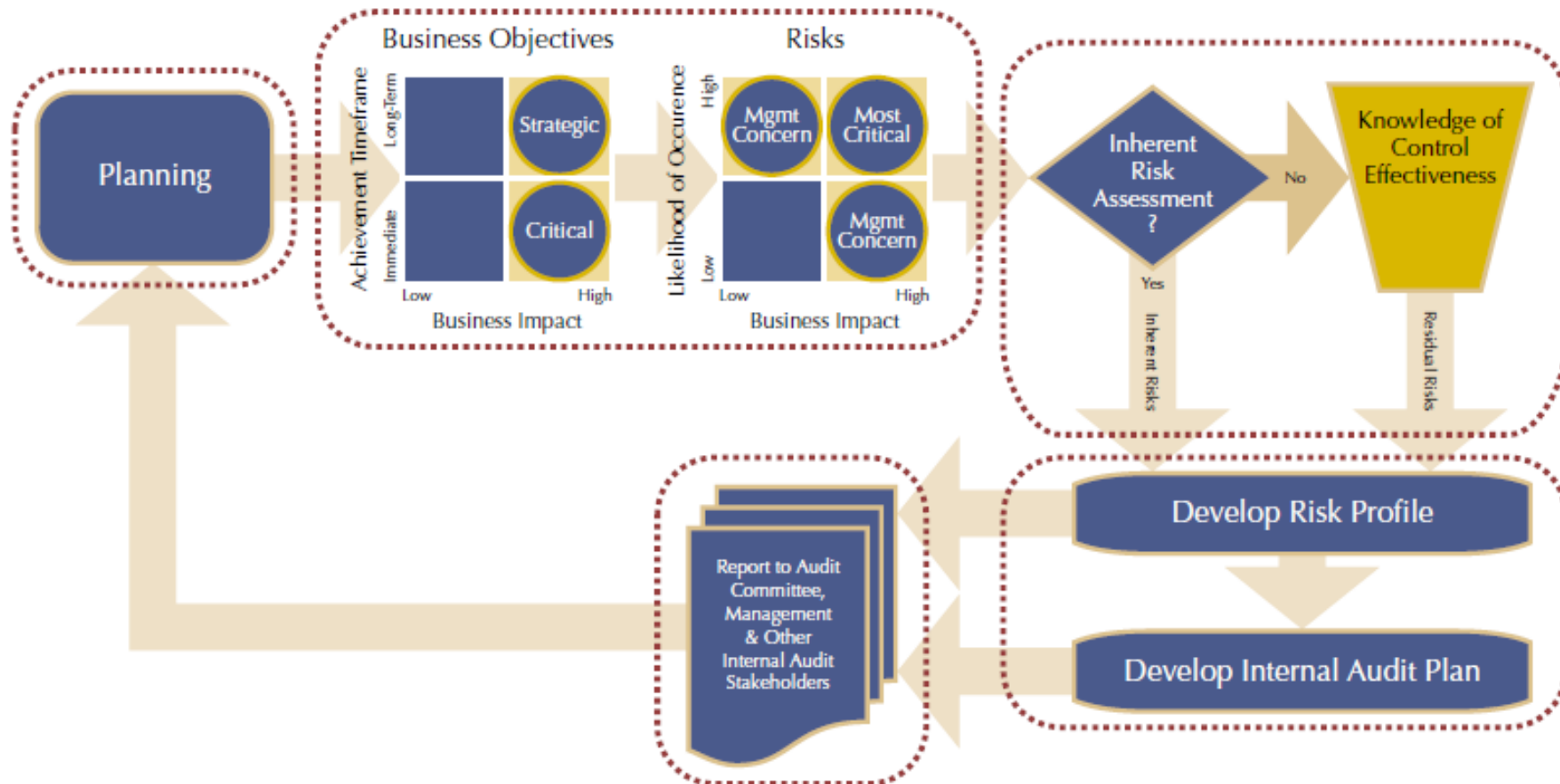

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21st January 2022

APPENDIX B

The Internal Audit Risk Assessment Process

Major Developments in Internal Audit Practice

Public Sector Internal Audit Standards

The PSIAS came into effect on 1st April 2013 and are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of IA across the public sector. They stress the importance of robust, independent and objective IA arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement (AGS).

Implementation of IA Software

Modernising the processes within IA, through the implementation of TeamMate in April 2014, has created efficiencies within the IA process whilst ensuring that IA operations become paperless. As a result, we have successfully procured its upgrade called **TeamMate Plus** which will continue to add value to the Council and we will need to diversify our skills base to ensure that the continuing and emergency assurance needs are met. Further, the IA resource will need to become more agile to meet the changing assurance needs of stakeholders as highlighted.

Risk Based Internal Auditing

Over the years, the need to manage risks has become recognised as an essential part of good corporate governance practice. This has put organisations under increasing pressure to identify all the business risks they face and to explain how they manage them. In fact, the activities involved in managing risks have been recognised as playing a central and essential role in maintaining a sound system of internal control.

Agile Auditing

Agile auditing can help IA teams conduct more efficient audits with the flexibility to respond to current business needs. When an organisation is using an agile approach, it delivers better alignment and provides real-time assurance rather than retrospective assurance. An 'Agile' approach helps the IA team eliminate low risk work and realise efficiencies that allow them to focus more time and effort on higher risk, complex reviews. We have the Agile Auditing approach into our quarterly IA planning process and quarterly risk management facilitation work.

Control Risk Self Assessment

Control Risk Self Assessment (**CRSA**) provides a framework to review, assess and design optimal control frameworks to manage risks and achieve business and quality objectives. CRSA attracts attention from empowered, team-driven organisations, in both the public and private sectors which are committed to continuous improvement. Organisations rarely have the necessary resources to implement CRSA and our experienced professionals can facilitate the exchange of leading practices and assist the Council to develop and implement cost-effective control and risk management systems.

Data Analytics

Analytics breaks down vast volumes of data and then rebuilds it to form information clusters that the Internal Auditor can use to analyse the risk landscape. Effective data analytics elevates performance, provides greater value to the organisation, and increases the credibility of an IA with its stakeholders. It is also helping to transform internal audits by significantly automating processes, supporting compliance within existing organisational policies, and providing management with a higher level of operational assurance.

Assurance Mapping

Assurance mapping can help promote effective risk management, control and governance, because it can enable bodies to better assess whether their assurance arrangements are proportionate and balanced and identify areas where a change in approach may be needed. Assurance mapping can also help support the preparation of, and the evidence base for the AGS.

Schools Thematic Reviews

From 1st April 2014 onwards, we introduced a fully risk-based approach to the IA coverage of Hillingdon schools. Specifically, we will continue to carry out cross-cutting audits of themed areas at a risk-based selection of several schools. The results of this work are made suitably anonymous and then shared with all Hillingdon schools in the shape of an IA report. This approach is already helping facilitate shared learning and good practice across all Hillingdon schools.