



**East Herts Council**  
**2018/19 Annual Assurance Statement and**  
**Internal Audit Annual Report**

**31 July 2019**

**Recommendations**

Members are recommended to:

Note the Annual Assurance Statement and Internal Audit Annual Report

Note the results of the self-assessment required by the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance and Improvement Programme (QAIP)

Accept the SIAS Audit Charter

Seek management assurance that the scope and resources for internal audit were not subject to inappropriate limitations in 2018/19

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## **1. Purpose and Background**

### Purpose of Report

- 1.1 This report:
- a) Details the Shared Internal Audit Service's (SIAS) overall opinion on the adequacy and effectiveness of East Herts Council's (the Council) control environment. Reference is made to significant matters and key themes.
  - b) Shows the outcomes of the self-assessment against the Public Sector Internal Audit Standards (PSIAS) incorporating the requirements of the Quality Assurance and Improvement Programme (QAIP).
  - c) Summarises the audit work that informs this opinion.
  - d) Shows SIAS's performance in respect of delivering the Council's audit plan.
  - e) Presents the 2019/20 Audit Charter.

### Background

- 1.2 A key duty of the Head of Assurance is to provide an annual opinion on the Council's internal control environment. This opinion informs the conclusions of the Council's Annual Governance Statement.
- 1.3 The assurance opinion in this report is based on internal audit work undertaken during 2018/19 which was planned and amended to give sufficient assurance on the Council's management of its key risks. Also considered is any relevant work undertaken in 2019/20 before the audit committee report deadline.
- 1.4 SIAS is grateful for the co-operation and support it has received from client officers during 2018/19.

## **2. Annual Assurance Statement 2018/19**

### Context

#### *Scope of responsibility*

- 2.1 Council managers are responsible for ensuring Council business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. They are also responsible for ensuring internal controls are robust and risk management arrangements are appropriate.

## **Annual Assurance Statement and Internal Audit Annual Report – East Herts Council**

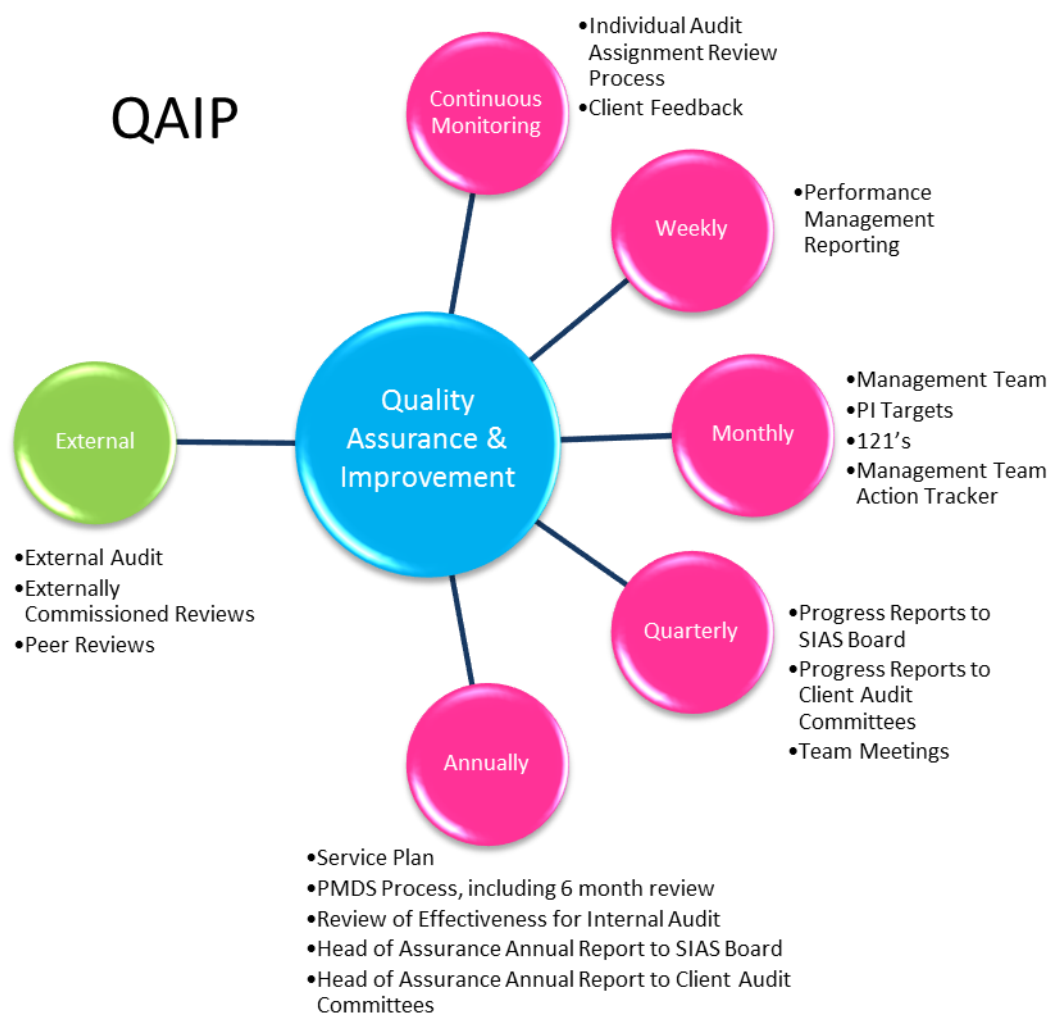
### *Control environment*

- 2.2 The control environment comprises three key areas: governance; risk management; and internal control. Together these aim to manage risk to an acceptable level but it is accepted that it is not possible to completely eliminate it.
- 2.3 A robust control environment helps ensure that the Council's policies, priorities and objectives are achieved.

### *Review of effectiveness*

- 2.4 The Head of Assurance must confirm annually that the internal audit function is suitably qualified to carry out the work that informs the assurance opinion.
- 2.5 As part of a QAIP, a self-assessment was conducted against the Public Sector Internal Audit Standards (PSIAS). The PSIAS encompass the mandatory elements of the Chartered Institute of Internal Auditors (CIIA) International Professional Practices Framework (IPPF). They promote professionalism, quality, consistency and effectiveness of internal audit across the public sector. They highlight the importance of robust, independent and objective internal audit arrangements to provide senior management with the key assurances needed to support them in both managing the organisation and producing the Annual Governance Statement.
- 2.6 The 2018/19 self-assessment identified 2 areas of agreed non-conformance. These are detailed in Appendix C. There are no significant deviations from Standards which warrant inclusion in the Council's Annual Governance Statement
- 2.7 The Head of Assurance has concluded, therefore, that SIAS 'generally conforms' to the PSIAS, including the Definitions of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. 'Generally conforms' is the highest rating and means that SIAS has a charter, policies and processes assessed as conformant to the Standards and is consequently effective.
- 2.8 The SIAS QAIP includes both internal and external monitoring and reporting to assess the efficiency and effectiveness of internal audit activity and identify opportunities for improvement. The diagram below details the methods used to monitor and report on these. Detailed information outlining activity in each area is contained in the SIAS Audit Manual.
- 2.9 The Head of Assurance confirms that during 2018/19 SIAS operated according to its QAIP with evidence available within the service to support the achievement of each QAIP element.

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### *Confirmation of independence of internal audit and assurance on limitations*

2.10 The Head of Assurance confirms that during the year:

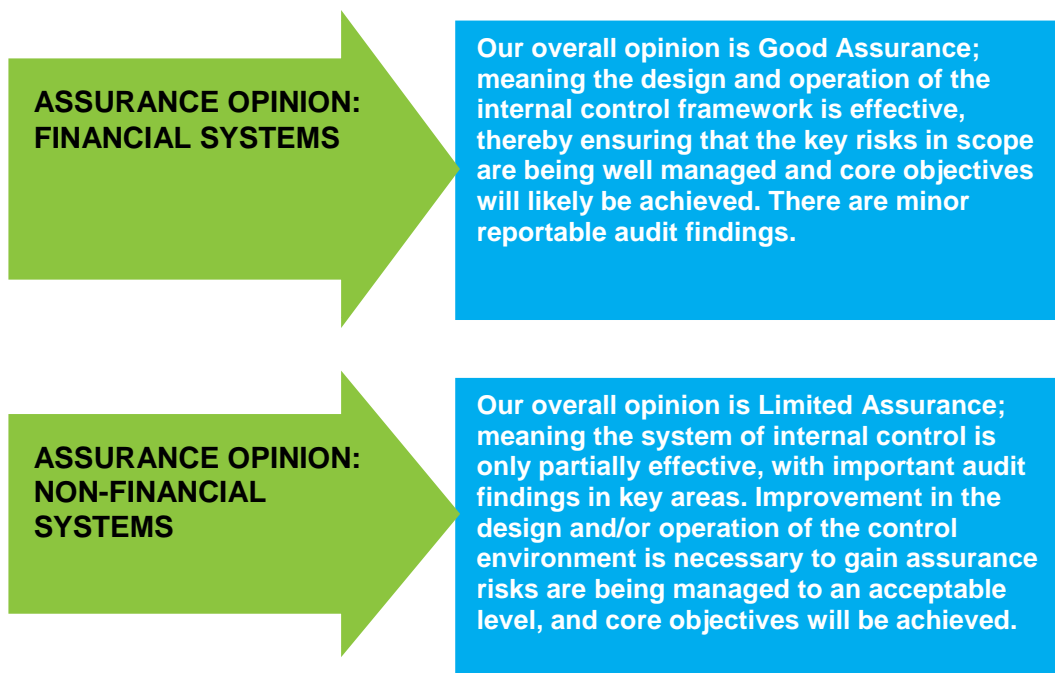
- No matters threatened SIAS's independence; and
- SIAS was not subject to any inappropriate scope or resource limitations.

## Annual Assurance Statement and Internal Audit Annual Report – East Herts Council

### Annual Assurance Statement for 2018/19

#### *Assurance opinion on internal control*

- 2.11 Based on the internal audit work undertaken at the Council in 2018/19, SIAS can provide the following opinion on the adequacy and effectiveness of the Council's control environment, broken down between financial and non-financial systems.



#### *Assurance opinion on Corporate Governance and Risk Management*

- 2.12 SIAS has concluded that the corporate governance and risk management frameworks substantially comply with the CIPFA/SOLACE best practice guidance on corporate governance. This conclusion is based on the work undertaken by the Council and reported in its Annual Governance Statement for 2018/19. Although no specific review of Risk Management was carried out by SIAS during the year, risk management arrangements are considered during annual audit planning and delivery of individual audit assignments.

*T.V. Swatt*

**Head of Assurance for the Shared Internal Audit Service  
May 2019**

### 3. Overview of Internal Audit Activity at the Council in 2018/19

- 3.1 This section summarises work undertaken at the Council by SIAS in 2018/19. It highlights any significant internal control matters and opportunities for improvement.
- 3.2 Appendix A shows the final position against the agreed revised audit plan, assurance levels and the number of recommendations made. A summary of assurance levels and recommendation priorities is shown in the tables below. While we have shown the number of recommendations for 2017/18, we have not done so for the number of reports and assurance levels due to the changes in assurance opinion definitions described at paragraph 3.8 and 3.9 below.

<b>Assurance Level</b>	<b>Number of reports 2018/19</b>	<b>Percentage of reports 2018/19</b>
Good	8	27%
Satisfactory	9	30%
Limited	6	20%
No	0	0%
Not Assessed	4	13%
Not Complete	3	10%
<b>Total</b>	<b>30</b>	<b>100%</b>

<b>Recommendation Priority Level</b>	<b>Number of recommendations 2018/19 (2017/18 data in brackets)</b>	<b>Percentage of recommendations made 2018/19 (2017/18 data in brackets)</b>
Critical	0 (0)	0% (0%)
High	21 (6)	33% (8%)
Medium	29 (40)	45% (52%)
Low	14 (31)	22% (40%)
<b>Total</b>	<b>64 (77)</b>	<b>100% (100%)</b>

- 3.3 **The Good assurance opinion overall on financial systems** (Substantial in 2017/18) has been concluded from 10 financial systems audits, where an opinion has been given. Seven received Good assurance, two received Satisfactory assurance and one was Not Assessed. No Critical or High priority recommendations were made in these audits.

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- 3.4 **The Limited assurance opinion overall on non-financial systems** (Moderate 2017/18) has been concluded from fourteen non-financial systems audits, where an opinion has been given. One received Good assurance, seven received Satisfactory assurance and six received Limited assurance. Further details on the audits where Limited assurance opinions were provided are given in paragraph 3.5 below. Sixteen High priority recommendations were made across these audits.
- 3.5 Details of the Limited assurance audits issued during 2018/19 are as follows. These cover a wide range of services and many are of a significant corporate nature:
- a) CCTV (joint audit with partners)
  - b) TSS Improvement Plan – Governance
  - c) Section 106 Spend Arrangements
  - d) Business Grants Scheme
  - e) Digital East Herts
  - f) Contract Management
- Management action plans have been prepared to address the matters arising in the above audits.
- 3.6 A further three audit projects were classified as “Not Assessed”, i.e. no audit opinion was given. These were DFG Capital Grant Certification, Cyber Security Follow up and Incident Management Follow up. These projects have also informed the overall Limited assurance opinion on non-financial systems, as they were important pieces of consultancy and advice work carried out during the course of the year. Five High priority recommendations were made across these audits.
- 3.7 Two audits were not at final report stage at the time of writing this Annual Report. Waste Contract – Client Services and Herts Home Improvement Agency were at draft report stage and management responses for the recommendations proposed are awaited. These Limited assurance draft reports are unlikely to change and these consequently informed our overall Limited assurance opinion on non-financial systems. The Commercialisation / Income Generation audit was deferred to 2019/20.
- 3.8 It should be noted that at the start of the financial year, SIAS changed the range of definitions used for providing our assurance opinions for individual audits, moving from a five-tier scale to a four-tier scale. This change is likely to have resulted in some 2018/19 audits receiving a Limited assurance rating (3<sup>rd</sup> of 4 levels), that may otherwise have attracted a Moderate opinion 3<sup>rd</sup> of the five levels) under the previous assessment scale. For this reason, we have not looked to provide a direction of travel for our overall assurance level provided for 2017/18 and 2018/19.
- 3.9 SIAS also added an additional priority level for recommendations made at the start of 2018/19, this being “Critical”. This change was to allow SIAS to differentiate between recommendations that were critical to the



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organisation as opposed to those that are of importance (High priority) to a particular service. We are pleased to report that no Critical level recommendations were made during 2018/19.

### Critical and High Priority Recommendations

- 3.10 Members will be aware that a final audit report is issued when it has been agreed by management; this includes an agreement to implement the recommendations made. It is Internal Audit's responsibility to advise Members of progress on the implementation of Critical and High priority recommendations; it is the responsibility of Officers to implement the recommendations by the agreed date.
- 3.11 Twenty one High priority recommendations were made within audits carried out during 2018/19 (six during 2017/18). This has been a contributory factor in our assessment of the overall assurance opinions. In respect of these recommendations, the agreed management actions were not yet all due for completion.
- 3.12 Members will continue to receive updates on the implementation progress of Critical and High priority recommendations through the SIAS quarterly progress reports to the Audit Committee.

## 4. Performance of the Internal Audit Service in 2018/19

### Performance indicators

- 4.1 The table below compares SIAS's performance at the Council against the 2018/19 targets set by the SIAS Board.

Indicator	Target 2018/19	Actual to 31 March 2019
<b>1 SIAS Planned Days</b> – percentage of actual billable days delivered against planned billable days	<b>95%</b>	<b>97%</b> <b>(335.5 / 345)</b>
<b>2 SIAS Planned Projects</b> – actual completed projects to draft report stage against planned completed projects	<b>95%</b>	<b>97%</b> <b>(29 / 30)</b>
<b>3 External Auditors' Satisfaction</b> – the Annual Audit Letter formally records that the External Auditors are able to rely upon the range and quality	<b>Formal Reliance</b>	<b>Yes</b>

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of SIAS' work		
<b>4 SIAS Annual Plan</b> – presented to the March Audit Committee or the first meeting of the financial year should a March committee not meet.	<b>Deadline met</b>	<b>Yes</b>
<b>5 Client Satisfaction</b> - client satisfaction questionnaires returned at 'satisfactory overall' level (minimum of 39/65 overall)	<b>100%</b>	<b>100%</b> (8 received).
<b>6 Head of Assurance's Annual Report</b> – presented at the first Audit Committee meeting of the financial year.	<b>Deadline met</b>	<b>Yes</b>
<b>7 Number of High Priority Audit Recommendations agreed</b>	<b>95%</b>	<b>100%</b> (21 agreed)

### Service Developments

4.2 During 2018/19 the development activities for SIAS included:

- Recruitment of two new trainee auditors forming a key part of our 'grow your own' strategy, given known industry difficulties in recruiting at the senior auditor level.
- Tendering for our co-sourced audit delivery partner to provide service resilience and access to audit specialists, saw the re-appointment of BDO for a second term.
- Hosting a Commercialisation and Local Authority workshop for our partners in January 2019.
- Continued review of key business processes, including work allocation, the Audit Manual and performance dashboards, to reduce administrative overheads and improve efficiency in delivering the audit plan.
- Designed a new self and management assessed training and skills matrix to supplement the appraisal process and personal development plans for each auditor. This is an important part of our Quality Assurance and Improvement Programme (QAIP) required by the

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professional standards. Analysis of the results will inform a training programme in 2019/20.

### **5. Audit Charter 2019/20**

- 5.1 The PSIAS require a local authority to formally adopt an Audit Charter which covers the authority and responsibility for an internal audit function.
- 5.2 The SIAS Audit Charter sets out the framework within which it discharges its internal audit responsibilities to those charged with governance in the partner councils. It details the permanent arrangements for internal audit and key governance roles and responsibilities to ensure the effectiveness of internal audit provision.
- 5.3 The Audit Charter is reviewed annually. The review in April 2019 did not result in any fundamental changes and the 2019/20 Charter is attached at Appendix D.

**APPENDIX A – FINAL POSITION AGAINST THE COUNCIL’S 2018/19 AUDIT PLAN**

**East Herts Council Audit Plan – 2018/19**

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	STATUS/COMMENT
		C	H	M	LA		
<b>Key Financial Systems</b>							
Asset Management	Satisfactory	0	0	1	1	10	Final Report Issued
Benefits	Good	0	0	0	0	6	Final Report Issued
Council Tax	Good	0	0	0	0	6	Final Report Issued
Creditors	Good	0	0	0	0	10	Final Report Issued
Debtors	Satisfactory	0	0	0	0	10	Final Report Issued
Main Accounting	Good	0	0	0	0	10	Final Report Issued
NDR	Good	0	0	0	0	6	Final Report Issued
Payroll	Good	0	0	0	1	12	Final Report Issued
Treasury Management	Good	0	0	0	1	6	Final Report Issued
Payroll Annual Pension Certificate	NA	0	0	0	0	1	Complete

**APPENDIX A – FINAL POSITION AGAINST THE COUNCIL’S 2018/19 AUDIT PLAN**

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	STATUS/COMMENT
		C	H	M	LA		
<b>Operational Audits</b>							
Development Management	Satisfactory	0	0	1	1	12	Final Report Issued
Section 106 - Spend Arrangements	Limited	0	3	2	0	10	Final Report Issued
Business Grants Scheme	Limited	0	0	4	1	8	Final Report Issued
Performance Management / Data Quality	Satisfactory	0	0	1	1	10	Final Report Issued
Land Charges	-	-	-	-	-	1	Audit Cancelled
Freedom of Information	Satisfactory	0	0	3	1	8	Final Report Issued
GDPR - PIR	Satisfactory	0	0	1	0	10	Final Report Issued
Homelessness Reduction Act / Temporary Accommodation	Satisfactory	0	0	2	2	12	Final Report Issued
Houses in Multiple Occupation (HMOs)	Good	0	0	1	0	10	Final Report Issued
Herts Home Improvement Agency						2	Draft Report Issued *
Digital East Herts	Limited	0	2	1	0	12	Final Report Issued
Agency Staffing	Satisfactory	0	0	1	1	12	Final Report Issued

**APPENDIX A – FINAL POSITION AGAINST THE COUNCIL’S 2018/19 AUDIT PLAN**

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	STATUS/COMMENT
		C	H	M	LA		
Commercialisation / Income Generation						12	Audit Deferred
DFG Capital Grant Certification	NA	0	0	0	0	1	Complete
Garden Town Project Assurance	NA	0	0	0	0	2	Complete
CCTV	Limited	0	9	0	0	2	Final Report Issued
Waste Contract - Client Services (joint audit)						15	Draft Report Issued *
Compliance Monitoring Contract joint audit	-	-	-	-	-	0	Audit Cancelled
Contract Management	Limited	0	0	4	1	12	Final Report Issued
<b>IT Audits</b>							
Cyber Security (follow-up)	NA	0	2	1	2	6	Final Report Issued **
Incident Management (follow-up)	NA	0	3	1	0	6	Final Report Issued **
Mobile Device Management and Bring Your Own Device	Satisfactory	0	0	2	1	6	Final Report Issued
TSS Improvement Plan – Governance	Limited	0	2	3	0	12	Final Report Issued

**APPENDIX A – FINAL POSITION AGAINST THE COUNCIL’S 2018/19 AUDIT PLAN**

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	STATUS/COMMENT
		C	H	M	LA		
<b>Other Chargeable</b>							
2019/20 Audit Planning	-	-	-	-	-	10	Complete
Plan Delivery Monitoring	-	-	-	-	-	9	Complete
Head of Internal Audit Opinion 2018/19	-	-	-	-	-	4	Complete
Client Liaison	-	-	-	-	-	10	Complete
External Audit Liaison	-	-	-	-	-	1	Complete
Adhoc Advice	-	-	-	-	-	2	Complete
Audit Committee	-	-	-	-	-	12	Complete
Shared Learning	-	-	-	-	-	8	Complete
SIAS Development	-	-	-	-	-	5	Complete
Advice on Control Issues Identified by SAFS	-	-	-	-	-	3	Complete
Follow up of High Priority Audit Recommendations	-	-	-	-	-	3	Complete

**APPENDIX A – FINAL POSITION AGAINST THE COUNCIL’S 2018/19 AUDIT PLAN**

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	STATUS/COMMENT
		C	H	M	LA		
<b>2017/18 Projects Requiring Completion</b>							
New Payroll System – Roll Out of Self Service	NA	0	0	0	0	3	Final Report Issued
Joint Review – SOCA	NA	0	0	0	0	1.5	Complete
Other	Various	-	-	-	-	15.5	Final Reports Issued
Contingency	-	-	-	-	-	15	N/A
<b>Total</b>		<b>0</b>	<b>21</b>	<b>29</b>	<b>14</b>	<b>360</b>	

\* At Draft Report stage before 31 March 2019.

\*\* Draft Report issued before 31 March 2019, Final Report issued after 31 March 2019.

Key to Assurance Level and Recommendation Priority Levels: NA = Not Assessed; C = Critical priority recommendations; H = High priority recommendations; M = Medium priority recommendations; LA = Low/Advisory priority recommendations.



## APPENDIX B – DEFINITIONS OF ASSURANCE AND RECOMMENDATION PRIORITY LEVELS

### 2017/18 Definitions of Assurance

Levels of assurance	
<b>Full Assurance</b>	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
<b>Substantial Assurance</b>	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
<b>Moderate Assurance</b>	Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk.
<b>Limited Assurance</b>	There are significant weaknesses in key control areas, which put the system objectives at risk.
<b>No Assurance</b>	Control is weak, leaving the system open to material error or abuse.

### 2018/19 Definitions of Assurance and Recommendation Priority Levels

Assurance Level		Definition
<b>Good</b>		The design and operation of the internal control framework is effective, thereby ensuring that the key risks in scope are being well managed and core objectives will likely be achieved. There are minor reportable audit findings.
<b>Satisfactory</b>		The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements.
<b>Limited</b>		The system of internal control is only partially effective, with important audit findings in key areas. Improvement in the design and/or operation of the control environment is necessary to gain assurance risks are being managed to an acceptable level, and core objectives will be achieved.
<b>No</b>		The system of internal control has serious gaps, and controls are not effective in managing the key risks in scope. It is highly unlikely that core objectives will be met without urgent management intervention.
Priority Level		Definition
Corporate	<b>Critical</b>	Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
Service	<b>High</b>	Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
	<b>Medium</b>	Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	<b>Low / Advisory</b>	Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.

## APPENDIX C – PROGRESS AGAINST PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT APRIL 2019 – ACTION PLAN

**Section A: Conformance** - During 2018/19 all areas apart from those identified in Section B below were conforming.

### Section B: Intentional Non-Conformance

Ref	Area of Non-Conformance with the Standard	Commentary	
3.1a	<p><b>Purpose, Authority and Responsibility</b></p> <p>Does the board (defined as the Audit Committee) approve decisions relating to the appointment and removal of the Chief Audit Executive (CAE) (Head of Assurance)?</p>	<p>The Director of Resources, Hertfordshire County Council (HCC), in consultation with the Board of the Shared Internal Audit Services approves decisions relating to the appointment and removal of the CAE.</p> <p>This is as provided for in the governance of the Shared Internal Audit Service.</p>	<p><b>Non-conformance</b></p> <p>No further action proposed. The current arrangements are considered effective given the shared nature of SIAS.</p>
3.1c	<p><b>Purpose, Authority and Responsibility</b></p> <p>Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?</p>	<p>The performance appraisal is carried out by the Director of Resources (HCC).</p>	<p><b>Non-conformance</b></p> <p>No further action proposed. The appraisal process was carried out by the Director of Resources (HCC) with input from all partner chief finance officers. The current arrangements are considered effective given the shared nature of SIAS.</p>



## Audit Charter 2019/2020

### 1. Introduction and Purpose

- 1.1. Internal auditing is an independent and objective assurance and consulting activity. It is guided by a philosophy of adding value to the operations of an organisation. It assists a council in achieving its objectives and ultimately provides assurance to the public by systematically evaluating and improving the effectiveness and efficiency of risk management, control and governance processes.

### 2. Scope

- 2.1. This Charter applies to all clients of the Shared Internal Audit Service (SIAS).

### 3. Statutory Basis of Internal Audit

- 3.1. Local government is statutorily required to have an internal audit function. The Accounts and Audit Regulations 2015 require that 'a relevant authority must 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'.
- 3.2. In addition, a council's Chief Finance Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To fulfil this requirement, the S151 officer relies, amongst other sources, upon the work of internal audit.

### 4. Role

- 4.1. SIAS internal audit activity is overseen by each client council's committee charged with fulfilling audit committee responsibilities herewith referred to as the Audit Committee. As part of its oversight role, the Audit Committee is responsible for defining the responsibilities of SIAS via this Charter.
- 4.2. SIAS may undertake additional consultancy activity requested by management. The Head of Assurance will determine such activity on a case by case basis

assessing the skills and resources available. Significant additional consultancy activity not already included in the Internal Audit Plan will only be accepted and carried out following consultation with the SIAS Board.

### 5. Professionalism

- 5.1. SIAS governs itself by adherence to the Public Sector Internal Audit Standards (PSIAS). These standards include the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (IPPF). They set out the fundamental requirements for the professional practice of internal auditing and the evaluation of the effectiveness of an internal audit function's performance.
- 5.2. SIAS also recognises the Mission of Internal Audit as identified within the IPPF, 'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight' and the Core Principles for the Professional Practice of Internal Auditing, which demonstrate an effective internal audit function, achieving internal audit's mission.
- 5.3. SIAS's operations are guided by its operating procedures manual as well as applicable, Chartered Institute of Internal Auditors (CIIA) Position Papers, Practice Advisories and Guides, and relevant council policies and procedures, including compliance with the Bribery Act 2010.
- 5.4. Should non-conformance with the PSIAS be identified, the Head of Assurance will investigate and disclose, in advance if possible, the exact nature of the non-conformance, the reasons for it and, if applicable, its impact on a specific engagement or engagement outcome.

### 6. Authority and Confidentiality

- 6.1. Internal auditors are authorised full, free, and unrestricted access to any and all of a client's records, physical properties, and personnel as required to carry out an engagement. All client employees are requested to assist SIAS in fulfilling its roles and responsibilities. Information obtained during the course of an engagement is safeguarded and confidentiality respected.
- 6.2. Internal auditors will only use information obtained to complete an engagement. It will not be used in a manner that would be contrary to the law, for personal gain, or detrimental to the legitimate and ethical objectives of the client organisation(s). Internal auditors will disclose all material facts known which if not disclosed, could distort a report or conceal unlawful practice.

### 7. Organisation

- 7.1. The Head of Assurance and their representatives, have free and unrestricted direct access to Senior Management, the Audit Committee, the Chief Executive,

the Chair of the Audit Committee and the External Auditor. The Head of Assurance will communicate with any and all of the above parties at both committee meetings and between meetings as appropriate.

- 7.2. The Chairman of the Audit Committee has free and unrestricted direct access to both the Head of Internal Audit, and the Council's External Auditor.
- 7.3. The Head of Assurance is line managed by the Director of Resources at Hertfordshire County Council (HCC), who approves all decisions regarding the performance evaluation, appointment, or removal of the Head of Assurance, in consultation with the SIAS Board. Each partner's Section 151 Officer is asked to contribute to the annual appraisal of the Head of Assurance.

## 8. Stakeholders

The following groups are defined as stakeholders of SIAS:

- 8.1. The Head of Assurance and the Head of The Shared Internal Audit service, both suitably experienced and qualified (CCAB and / or CMIIA), are responsible for:
  - hiring, appraising and developing SIAS staff in accordance with the host authority's HR guidance
  - maintaining up-to-date job descriptions which reflect the roles, responsibilities, skills, qualifications, and attributes required of SIAS staff
  - ensuring that together, SIAS staff possess or obtain the skills, knowledge and competencies (including ethical practice) needed to effectively perform SIAS engagements
- 8.2. The Audit Committee is responsible for overseeing the effectiveness of SIAS and holding the Head of Assurance to account for delivery. This is achieved through the approval of performance targets set by the SIAS Board and receipt of regular reports.
- 8.3. The Audit Committee is also responsible for the effectiveness of the governance, risk and control environment within the Council, holding managers to account for delivery.
- 8.4. The Audit Committee, as set out in its formal Terms of Reference, also ensures that there is appropriate communication of, and involvement in, internal audit matters as required from the wider publicly elected Member body.
- 8.5. Senior Management, defined as the Head of Paid Service, Chief Officers and their direct reports, are responsible for helping shape the programme of assurance work. This is achieved through analysis and review of key risks to achieving the Council's objectives and priorities.

- 8.6. The SIAS Board is the governance group charged with monitoring and reviewing the overall operation of SIAS including:
- resourcing and financial performance
  - operational effectiveness through the monitoring performance indicators
  - the overall strategic direction of the shared service

### 9. Independence and Objectivity

- 9.1 No element in the organisation should interfere with audit selection, scope, procedures, frequency, timing, or report content. This is necessary to ensure that internal audit maintains the necessary level of independence and objectivity.
- 9.2 As well as being impartial and unbiased, internal auditors will have no direct operational responsibility or authority over any activity audited. They will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that might impair their judgment.
- 9.3 When asked to undertake any additional roles/responsibilities outside internal auditing, the Head of Assurance will highlight to the Audit Committee any potential or perceived impairment to independence and objectivity having regard to the principles contained within the PSIAS Code of Ethics as well as any relevant requirements set out in other professional bodies to which the CAE may belong. The Audit Committee will approve and periodically review any safeguards put in place to limit any impairments to independence and objectivity.
- 9.4 The Head of Assurance will confirm to the Audit Committee, at least annually, the organisational independence of SIAS.

### 10. Conflicts of Interest

- 10.1. Internal auditors will exhibit clear professional objectivity when gathering, evaluating, and communicating engagement information. When forming judgments, they will make a balanced assessment of all relevant circumstances and not be influenced by their own interests or the views and interests of others.
- 10.2. Each auditor will comply with the ethical requirements of his/her professional body and proactively declare any potential conflict of interest, whether actual or apparent, prior to the start of an engagement.
- 10.3. All auditors sign an annual declaration of interest to ensure that the allocation of work avoids conflict of interest. Auditors who undertake consultancy work or are new to the team will be prohibited from auditing in those areas where they have worked in the past year. Audits are rotated within the team to avoid over-familiarity and complacency.

- 10.4. SIAS procures an arrangement with an external partner to provide additional internal audit days on request. The external partner will be used to deliver engagements as directed by the Head of Assurance in particular providing advice and assistance where SIAS staff lack the required skills or knowledge.
- 10.5. In the event of a real or apparent impairment of independence or objectivity, (acceptance of gifts, hospitality, inducements or other benefits) the Head of Assurance will investigate and report on the matter to appropriate parties.

### 11. Responsibility and Scope

- 11.1. The scope of SIAS encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes (as they relate to the organisation's priorities and objectives) and the promotion of appropriate ethics and values.
- 11.2. Internal control and risk management objectives considered by internal audit extend to the organisation's entire control and risk management environment and include:
- consistency of operations or programs with established objectives and goals, and effective performance
  - effectiveness and efficiency of governance, operations and employment of resources
  - compliance with significant policies, plans, procedures, laws, and regulations
  - design, reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information
  - safeguarding of assets
- 11.3. SIAS is well placed to provide advice and support on emerging risks and controls and will, if requested, deliver consulting and advisory services or evaluate specific operations.
- 11.4. SIAS is responsible for reporting to the Audit Committee and senior management, significant risk exposures (including those to fraud addressed in conjunction with the Shared Anti-Fraud Service), control and governance issues and other matters that emerge from an engagement.
- 11.5. Engagements are allocated to (an) internal auditor(s) with the appropriate skills, experience and competence. The auditor is then responsible for carrying out the work in accordance with the SIAS Operating Procedures Manual, and must consider the relevant elements of internal control, the needs and expectations of clients, the extent of work required to meet the engagement's objectives, its cost effectiveness, and the probability of significant error or non-compliance.

**12. Role in Anti-Fraud**

- 12.1. The SIAS work programme, designed in consultation with Senior Management, the Audit Committee and, where applicable, the Shared Anti-Fraud Service, seeks to help deter fraud and corruption.
- 12.2. In conjunction with the Shared Anti-Fraud Service SIAS shares information with relevant partners to increase the likelihood of detecting fraudulent activity and reducing the risk of fraud to all.
- 12.3. The Head of Assurance should be notified of all suspected or detected fraud, corruption or impropriety so that the impact upon control arrangements can be evaluated.

**13. Internal Audit Plan**

- 13.1. Following discussion with appropriate senior management, the Head of Assurance will submit a risk based plan to the Audit Committee for review and approval. This will occur at least annually. The plan sets out the engagements agreed and demonstrates the priorities of both SIAS (the need to produce an annual internal audit opinion) and those of the organisation. Also included will be any relevant declarations of interest.
- 13.2. The plan will be accompanied by details of the risk assessment approach used and will take into account the organisation's assurance framework. Also shown will be the timing of an engagement, its budget in days, details of any contingency for new or changed risks, time for planning and reporting and a contribution to the development of SIAS.
- 13.3. The plan will be subject to regular review in year, and may be modified in response to changes in the organisation's business, risks, operations, programmes, systems and controls. All significant changes to the approved internal audit plan will be communicated in the quarterly update reports.

**14. Reporting and Monitoring**

- 14.1. A draft written Terms of Reference will be prepared and issued to appropriate personnel at the start of an engagement. It will cover the intended objectives, scope and reporting mechanism and will be agreed with the client. Changes to the terms of reference during the course of the engagement may occur and will be agreed following consultation with the client.
- 14.2. A report will be issued on completion of an engagement. It will include a reasoned opinion, details of the time period and scope within which it was prepared, management's responses to specific risk prioritised findings and recommendations made and a timescale within which corrective action will be /



has been taken. If recommended action is not to be taken, an explanation for this will also be included.

- 14.3. SIAS will follow-up the implementation of agreed recommendations in line with the protocol at each client. As appropriate, the outcomes of this work will be reported to the audit committee and may be used to inform the risk-based planning of future audit work. Should follow-up activity identify any significant error or omission, this will be communicated by the Head of Assurance to all relevant parties. A revised internal audit opinion may be issued on the basis of follow-up activity.
- 14.4. In consultation with senior management, the Head of Assurance will consider, on a risk-basis, any request made by external stakeholders for sight of an internal audit report.
- 14.5. Quarterly update reports to the Audit Committee will detail the results of each engagement, including significant risk exposures and control issues. In addition, an annual report will be produced giving an opinion on the overall control, governance, and risk management environment (and any other issues judged relevant to the preparation of the Annual Governance Statement), with a summary of the work that supports the opinion. The Head of Assurance will also make a statement of conformance with PSIAS, and detail the nature and reasons for any impairments, qualifications or restrictions in scope for which the Committee should seek reassurances from management.

### 15. Periodic Assessment

- 15.1. PSIAS require the Head of Assurance and the SIAS Board to make arrangements for an independent review of the effectiveness of internal audit undertaken by a suitably knowledgeable, qualified and competent individual or organisation. This should occur at least every five years.
- 15.2. The Head of Assurance will ensure that continuous efforts are made to improve the efficiency, effectiveness, and quality of SIAS. These will include the Quality Assurance and Improvement Programme, client feedback, appraisals and shared learning with the external audit partner as well as coaching, supervision, and documented review.
- 15.3. A single review will be carried out to provide assurance to all SIAS partners with the outcomes included in the partner's Annual Report.

### 16. Review of the Audit Charter

- 16.1. The Head of Assurance will review this charter annually and will present, to the first audit committee meeting of each financial year, any changes for approval.

## APPENDIX D – AUDIT CHARTER 2019/2020

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16.2. The Head of Assurance reviewed this Audit Charter in April 2019. It will next be reviewed in April 2020.

### Glossary of Terms

Audit Committee	The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.
Management	Operational officers of the Council responsible for creating corporate policy and organising, planning, controlling, and directing resources in order to achieve the objectives of that policy. Senior management is defined as the Head of Paid Service, Chief Officers and their direct reports.
The SIAS Board	The Board that comprises officer representatives from the client authorities and that is responsible for the governance of the SIAS partnership
The Audit Plan	The programme of risk based work carried out by the Shared Internal Audit Service on behalf of its clients
The Public Sector Internal Audit Standards	These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide stakeholders with the key assurances they need to support them both in managing and overseeing the organisation and in producing the annual governance statement.

### Note:

For readability, the term ‘internal audit activity’ as used in the PSIAS guidance has been replaced with ‘SIAS’ in this Charter.