East Herts Council

2016/17 Annual Assurance Statement

and

Internal Audit Annual Report

4 July 2017

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 2016/17

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D   Internal Audit Charter 2017/18

1.   Purpose and Background

<u>Purpose of Report</u>

1.1   This report:

- 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
- 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)
- Summarises the audit work that informs this opinion
- Shows SIAS's performance in respect of delivering the Council's audit plan
- Presents the 2017/18 Audit Charter

<u>Background</u>

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 2016/17 internal audit work 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 2017/18 before the committee report deadline.

1.4   SIAS is grateful for the co-operation and support it has received during 2016/17.

2.   Annual Assurance Statement 2016/17

<u>Context</u>

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.
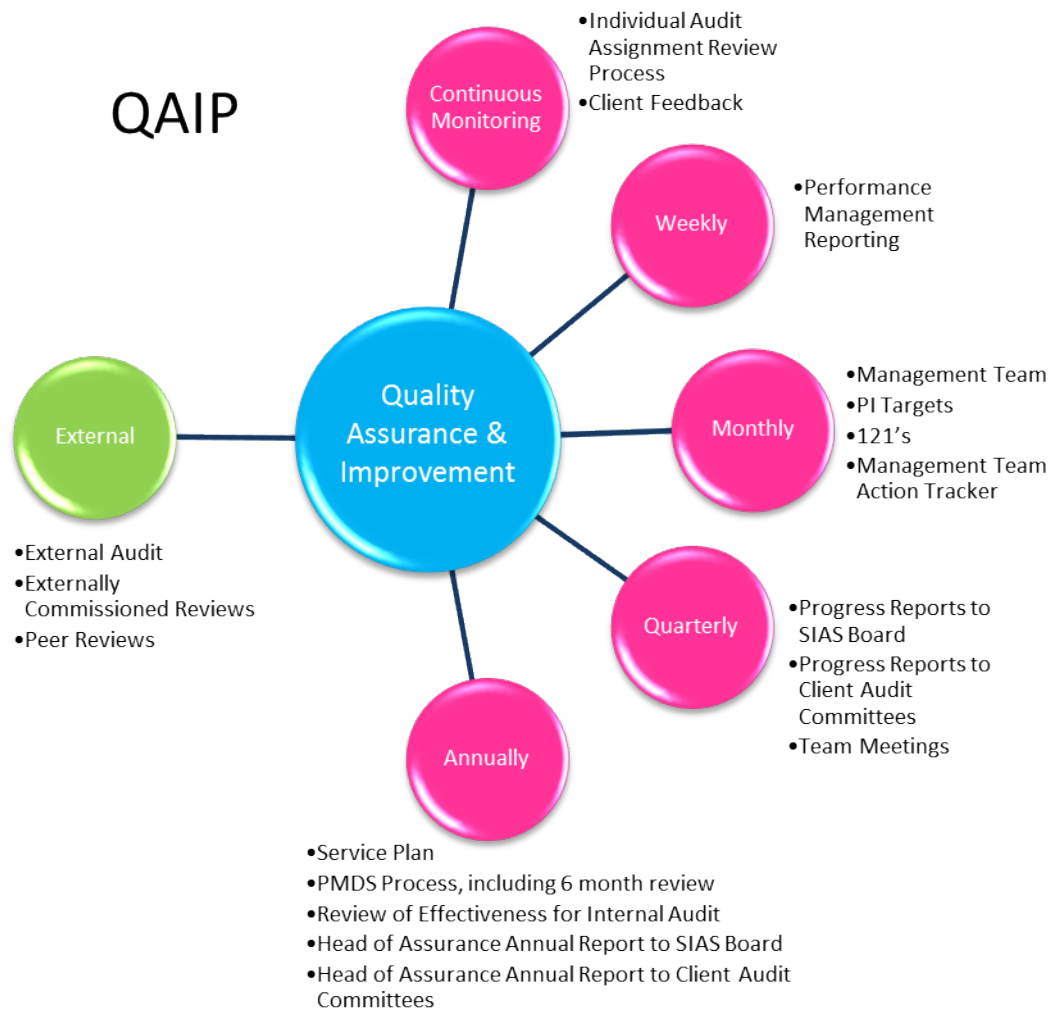
Control environment

2.2 The control environment comprises three key areas: internal control, governance, and risk management. Together these aim to manage risk to an acceptable level but not to 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 2016/17 self-assessment identified 2 areas of agreed non-conformance. These are detailed in Appendix A. 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 2016/17 SIAS operated according to its QAIP with evidence available within the service to support the achievement of each QAIP element.

QAIP

Continuous Monitoring
- Individual Audit Assignment Review Process
- Client Feedback

Weekly
- Performance Management Reporting

Quality Assurance & Improvement

External
- External Audit
- Externally Commissioned Reviews
- Peer Reviews

Monthly
- Management Team
- PI Targets
- 121's
- Management Team Action Tracker

Quarterly
- Progress Reports to SIAS Board
- Progress Reports to Client Audit Committees
- Team Meetings

Annually
- Service Plan
- PMDS Process, including 6 month review
- Review of Effectiveness for Internal Audit
- Head of Assurance Annual Report to SIAS Board
- Head of Assurance Annual Report to Client Audit Committees

Confirmation of independence of internal audit and assurance on limitations
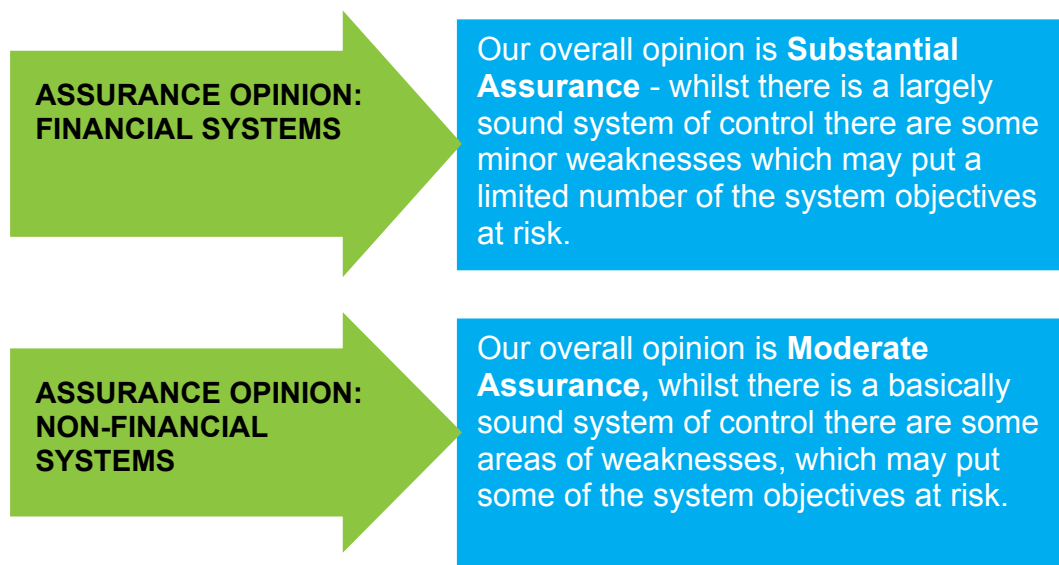
2.10   The Head of Assurance confirms that during the year:

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

Annual Assurance Statement for 2016/17

Assurance opinion on internal control

2.11   Based on the internal audit work undertaken at the Council in 2016/17, SIAS can provide the following unqualified opinion on the adequacy and effectiveness of the Council's control environment, broken down between financial and non-financial systems.

ASSURANCE OPINION: FINANCIAL SYSTEMS

Our overall opinion is **Substantial Assurance** - 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.

ASSURANCE OPINION: NON-FINANCIAL SYSTEMS

Our overall opinion is **Moderate Assurance,** whilst there is a basically sound system of control there are some areas of weakness, which may put some of the system objectives at risk.

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 2016/17. Although SIAS did not undertake specific risk management or corporate governance audits in 2016/17, these arrangements are considered during annual audit planning and the delivery of individual audit assignments.

Head of Assurance for the Shared Internal Audit Service
June 2017

3. Overview of Internal Audit Activity at the Council in 2016/17

3.1　This section summarises work undertaken at the Council by SIAS in 2016/17. It highlights 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 recommendations priority is shown in the tables below and compared to 2015/16.

Assurance Level	Number of reports 2016/17 *(2015/16 data in brackets)*	Percentage of reports 2016/17 *(2015/16 data in brackets)*
Full	8 (6)	29% (22%)
Substantial	11 (16)	41% (59%)
Moderate	4 (2)	15% (8%)
Limited	1 (0)	4% (0%)
No	0 (0)	0% (0%)
Not Assessed	3 (3)	11% (11%)
Total	27 (27)	100% (100%)

Recommendation Priority Level	Number of recommendations 2016/17 *(2015/16 data in brackets)*	Percentage of recommendations made 2016/17 *(2015/16 data in brackets)*
High	3 (1)	5% (2%)
Medium	37 (23)	62% (50%)
Merits Attention	20 (22)	33% (48%)
Total	60 (46)	100% (100%)

3.3　The substantial assurance opinion overall on financial systems (same as 2015/16) has been concluded from the nine financial systems audits where an opinion has been given. Six received full assurance and three received substantial assurance. No high priority recommendations were made in these audits.

3.4　The moderate assurance opinion overall on non-financial systems (was substantial in 2015/16) has been concluded from the fifteen audits where an opinion has been given. Two received full assurance, eight substantial assurance, four moderate assurance and one limited assurance. Three high priority recommendations were made.

The limited assurance report relates to Digital Information Management where two high priority and one medium priority recommendation was made. These recommendations cover:

- The indefinite retention of the Councils' digital records, including those that are stored within the Councils' IT systems.
- Standards for securing digital records, including those that are collected, processed and stored within the Councils' IT systems.
- The identification and management of IT systems that are used to collect, process and store digital information.

3.5 Details of the four moderate assurance audits for 2016/17 are as follows:

Consultants
Nine medium priority recommendations made relating to:

- Agreement and publication of a clear corporate policy on consultants.
- Identification of all consultancy engagements across the Council and the maintenance of relevant details in a single central record.
- Having a formal signed agreement for every consultancy engagement.
- Updating and on-going maintenance of the Contracts Register.
- Checking and maintenance of appropriate professional indemnity cover.
- ESI awareness, guidance, completion, retention and recording of in the creditors system (3 recommendations in total).
- Accuracy of coding of payments in the general ledger.

Project Management & Benefits Realisation
Six medium and three merits attention priority recommendations made. The medium priority recommendations relate to:

- Enhancement of the Project Management Toolkit.
- Governance arrangements.
- Use of resources to manage high profile projects.
- Introduction of a central projects register.
- Improvements to processes for evaluating benefits realisation and sharing lessons learnt (two recommendations).

Tree Surveying
One high, three medium and one merits attention priority recommendation made. The high priority recommendation relates to:

- Expiry of the Council's contract for tree surveying services in 2015/16 without the appropriate waivers in place to extend it.

The medium priority recommendations relate to:

- The identification of tree stock and the completeness of stock records.
- Record keeping upon inspection of completed jobs.
- The prioritisation of tree works.

<u>Cyber Risk</u>
Three medium and two merits attention priority recommendations made.
The medium priority recommendations relate to:

- Cyber security training.
- Compliance Group meetings.
- Incident management policy and procedures for IT officers.

4. Performance of the Internal Audit Service in 2016/17

<u>Performance indicators</u>

4.1 The table below compares SIAS's performance at the Council against the 2016/17 targets set by the SIAS Board.

Indicator	Target 2016/17	Actual to 31 March 2017
1 SIAS Planned Days – percentage of actual billable days delivered against planned billable days	**95%**	**99%** 356 days delivered out of a total of 359.5 (400 agreed days less 40.5 contingency days)
2 SIAS Planned Projects – actual completed projects to draft report stage against planned completed projects	**95%**	**93%*** 27 projects delivered out of a total of 29 agreed projects
3 External Auditors' Satisfaction – the Annual Audit Letter formally records that the External Auditors are able to rely upon the range and quality of SIAS' work	**Formal Reliance**	Not applicable as the Council's current External Auditors choose not to place reliance upon the range and quality of internal audit work.
4 SIAS Annual Plan – presented to the March Audit Committee or the first meeting of the financial year should a March committee not meet.	**Deadline met**	**Achieved**
5 Client Satisfaction - client satisfaction questionnaires returned at 'satisfactory overall' level (minimum of	**100%**	**100%**

39/65 overall)		
6 Head of Assurance's Annual Report – presented at the first Audit Committee meeting of the financial year.	**Deadline met**	**Achieved**
7 Number of High Priority Audit Recommendations agreed	**95%**	**100%**

* The Two audits not at draft report stage at 31 March 2017 were the PREVENT Agenda and Local Authority Trading joint reviews. These were in progress at the date of this report.

Service Developments

4.2   During 2016/17 the development activities for SIAS included:

- Responding to the recommendations made by Veritau Ltd in its external peer review of January 2016.

- Developing a satisfaction survey to elicit the views of all key stakeholders

- Implementing a performance dashboard which allows auditors to measure their performance to date against their annual target on a weekly basis

- Putting in place a performance management regime which rewards achievement of a billable days stretch target and supports the development of underperforming individuals

- Commencing discussions on a single assurance service brand

- Undertaking a peer review at another audit partnership.

5.   Audit Charter 2017/18

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 2017/18 review did not result in any fundamental changes although a number of minor amendments were made. The 2017/18 Charter is attached at Appendix D.

APPENDIX A - FINAL POSITION FOR THE 2016/17 AUDIT PLAN

2016/17 East Herts Council Audit Plan

	Level of Assurance	Recommendations			Plan Days	Audit progress /Status
Key Financial Systems						
Asset Management	Full	0	0	0	12	Final report issued
Benefits	Full	0	0	0	12	Final report issued
Council Tax	Substantial	0	1	1	10	Final report issued
Creditors CRSA Yr1	Full	0	0	0	10	Final report issued
Debtors CRSA Yr1	Full	0	0	0	10	Final report issued
Main Accounting	Full	0	0	0	12	Final report issued
NDR	Substantial	0	3	0	10	Final report issued
Payroll	Substantial	0	0	0	12	Final report issued
Payroll Pension Certificate	N/A	-	-	-	1	Complete
Treasury Management CRSA Yr2	Full	0	0	0	6	Final report issued
Operational Audits						
Absence Management	Substantial	0	2	1	10	Final report issued

APPENDIX A - FINAL POSITION FOR THE 2016/17 AUDIT PLAN

BACS	N/A	-	-	-	6	Final report issued
Car Parks – New Pay & Display Machines	Substantial	0	1	1	10	Final report issued
Cash & Banking	Full	0	0	0	12	Final report issued
Consultants	Moderate	0	9	1	10	Final report issued
Development Management – pre applications	-	-	-	-	1	Cancelled
Digital by Default	-	-	-	-	2	Cancelled
Elections	-	-	-	-	4.5	Cancelled
Enviro Crime	Substantial	0	0	4	15	Final report issued
Freedom of Information	Substantial	0	0	3	10	Final report issued
Health & Safety	Substantial	0	2	1	12	Final report issued
Land Charges	Full	0	0	0	8	Final report issued
Project Management & Benefits Realisation	Moderate	0	6	2	12	Final report issued
Safeguarding	Substantial	0	2	2	15	Final report issued*
Tree Surveying	Moderate	1	3	1	12	Final report issued*
DFG Capital Grant Certification	N/A	-	-	-	2	Complete

Procurement

New Payroll Contract – controls assurance	-	-	-	-	1	Cancelled
Trade & Clinical Waste	Substantial	0	2	0	12	Final report issued
Land Drainage Contract	-	-	-	-	3	Cancelled
Shared Learning						
Shared Learning Newsletters and Summary Reports	-	-	-	-	5	Complete
Joint Review – Local Authority Trading					5	In fieldwork
Joint Review – PREVENT					5	In fieldwork
Joint Review - CIL	-	-	-	--	0	Cancelled
IT Audits						
Internet & Email Usage	Substantial	0	2	0	4	Final report issued
Cyber Risk	Moderate	0	3	2	8	Final report issued
Digital Information Management	Limited	2	1	1	4	Final report issued*
Contingency						
Unused Contingency	-	-	-	-	40.5	
Anti-Fraud						
Follow up fraud related themes					0	Cancelled

APPENDIX A - FINAL POSITION FOR THE 2016/17 AUDIT PLAN

Follow-Up Audits

Follow up of outstanding high priority audit recommendations	-	-	-	-	5	Complete
Strategic Support						
2017/18 Audit Planning	-	-	-	-	10	Complete
Audit Committee	-	-	-	-	15	Complete
Client Meetings	-	-	-	-	10	Complete
Liaison with External Audit	-	-	-	-	1	Complete
Head of Internal Audit Opinion 2015/16	-	-	-	-	5	Complete
Plan Monitoring	-	-	-	-	10	Complete
SIAS Development	-	-	-	-	5	Complete
2015/16 Projects Requiring Completion						
2015/16 Projects Requiring Completion	-	-	-	-	15	Complete
Recommendations		3	37	20		
Plan Days					400	

* - At Draft Report stage at 31 March 2017, Final Report issued after year end

APPENDIX A - FINAL POSITION FOR THE 2016/17 AUDIT PLAN

Key to Assurance Level and Recommendation Priority Levels:

N/A = Not Applicable

H = High priority recommendations; M = Medium priority recommendations; MA = Merits Attention priority recommendations

Levels of assurance	
Full Assurance	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.
Substantial Assurance	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.
Moderate Assurance	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.
Limited Assurance	There are significant weaknesses in key control areas, which put the system objectives at risk.
No Assurance	Control is weak, leaving the system open to material error or abuse.

Priority of recommendations	
High	There is a fundamental weakness, which presents material risk to the objectives and requires urgent attention by management.
Medium	There is a significant weakness, whose impact or frequency presents a risk which needs to be addressed by management.
Merits Attention	There is no significant weakness, but the finding merits attention by management.

Section A: Conformance - During 2016/17 all areas apart from those identified in Section B below are conforming.

Section B: Intentional Non-Conformance

Ref	Area of Non-Conformance with the Standard	Commentary	
3.1a	**Purpose, Authority and Responsibility** 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)?	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. This is as provided for in the governance of the Shared Internal Audit Service.	**Non-conformance** No further action proposed. The current arrangements are considered effective given the shared nature of SIAS.
3.1c	**Purpose, Authority and Responsibility** Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?	The performance appraisal is carried out by the Director of Resources (HCC).	**Non-conformance** 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.

Audit Charter 2017/18

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 to achieve its objectives 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 SIAS clients.

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 council's committee charged with fulfilling audit committee responsibilities herewith referred to as the Audit Committee. As part of its oversight role, the 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 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. 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 recognise 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, as applicable, CIIA Position Papers, Practice Advisories and Guides and relevant council policies and procedures, including compliance with the Bribery Act 2010. These are included in SIAS's operating procedures manual, which is subject to regular review.

5.4.   Should non-conformance with the Standards 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 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 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, suitably experienced and qualified (CCAB and / or CMIIA), is 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, in its role of 'board', is responsible for overseeing the effectiveness of SIAS and holding the Head of Assurance to account for delivery. This is achieved through the setting of performance targets and receipt of regular reports. 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.

8.3.   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.

8.4.   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 independent and objective mental attitude.

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 board any potential or perceived impairment to independence and objectivity having regard to the principles contained within the Code of Ethics as well as any relevant requirements set out in other professional bodies to which the CAE may belong. The Board 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 has procured an arrangement with an external audit 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.   SIAS is also available to assist the Audit Committee in evaluating

the quality of performance of external auditors and ensuring a proper degree of coordination is maintained.

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 Performance, Audit & Governance Scrutiny 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 Audit 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 Performance, Audit & Governance Scrutiny Committee and the Shared Anti-Fraud Service, seeks to help deter fraud and corruption.

12.2. SIAS shares information with relevant partners, including central government via the National Fraud Initiative and the Shared Anti-Fraud Service 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 make reference to 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 five yearly.

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.

16.2. The Head of Assurance reviewed this Audit Charter in May 2017. It will next be reviewed in May 2018.

Note:

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