East Herts Council
Audit and Governance Committee

9 November 2021
Shared Internal Audit Service –
Progress Report

Recommendation

Members are recommended to:
a) Note the Internal Audit Progress Report
b) Note the Status of Critical and High Priority
   Recommendations
c) Approve the Revised Audit Charter for 2021/22

Contents

Appendices:

1 Introduction and Background

1.1   To provide Members with:

a) The progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's 2021/22 Internal Audit Plan to 22 October 2021.
b) The findings for the period 10 July 2021 to 22 October 2021.
c) Details of any changes required to the approved Internal Audit Plan.
d) The implementation status of previously agreed audit recommendations.
e) An update on performance management information to 22 October 2021.
f) The outcomes of the Public Sector Internal Audit Standards External Quality Assessment and required revisions to the Audit Charter for 2021/22.

Background

1.2   Internal Audit's Annual Plan for 2021/22 was approved by the Audit and Governance Committee at its meeting on 16 March 2021. The Audit and Governance Committee receive periodic updates against the Internal Audit Plan. This is the second update report for 2021/22.

1.3   The work of Internal Audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit function is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed changes to the agreed Annual Internal Audit Plan.

2 Audit Plan Update

Delivery of Audit Plan and Key Audit Findings

2.1   As of 22 October 2021, 36% of the 2021/22 Audit Plan days have been delivered (the calculation excludes contingency days that have not yet been allocated).

2.2   The following final reports have been issued since the last Progress Report to the Audit and Governance Committee:

Audit Title	Date of Issue	Assurance Level	Number of Recommendations
Equalities 2021/22	Aug 2021	Not Assessed (advisory project)	One High, Five Medium, and One Low priority
Homes England – grant compliance audit	Sept 2021	Unqualified	Not applicable

2.3   The table below summarises the position regarding 2021/22 projects to 22 October 2021. Appendix A provides a status update on each individual project within the 2021/22 Internal Audit Plan.

Status	No. of Audits at this Stage	% of Total Audits
Final Report Issued	3	16%
Draft Report Issued	3	16%
In Fieldwork/Quality Review	3	16%
In Planning/Terms of Reference Issued	1	5%
Allocated	7	36%
Not Yet Allocated	0	0%
Cancelled/Deferred	2	11%
Total	**19**	**100**

Proposed Audit Plan Changes

2.4   There has been no amendments to the Internal Audit Plan since the last committee meeting.

Critical and High Priority Recommendations

2.5   Members will be aware that a Final Audit Report is issued when it has been agreed ("signed off") by management; this includes an agreement to implement the recommendations that have been made.

2.6   The schedule attached at Appendix B details any outstanding Critical and High priority audit recommendations. One new High Priority recommendation has been added to the schedule arising from an audit of Equalities.

Performance Management

2.7   The 2021/22 annual performance indicators were approved at the SIAS Board meeting in March 2021.

2.8   The actual performance for East Herts Council against the targets that can be monitored in year is set out in the table below:

Performance Indicator	Annual Target	Profiled Target	Actual to 22 Oct 2021
1. Planned Days – percentage of actual billable days against planned chargeable days	95%	37% (107/285 days)	36% (102.5/285 days)

completed			
2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects	95%	41% (7/17 projects)	35% (6/17 projects)
3. Client Satisfaction – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100% (2 received) Note (1)
4. Number of Critical and High Priority Audit Recommendations agreed	95%	95%	100% (1 High Agreed)

Note (1) – 1 received in 2021/22 relates to a 2020/21 audit.

<u>Public Sector Internal Audit Standards (PSIAS) External Quality Assessment</u>

3.1   The Public Sector Internal Audit Standards (PSIAS) and the International Standards for the Professional Practice of Internal Auditing require that an external quality assessment (EQA) of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The EQA can be accomplished through a full external assessment or a self-assessment with independent validation.

3.2   SIAS appointed Orbis and South West London Audit Partnership (SWLAP) as the qualified, independent external assessment team to conduct a validation of the self-assessment by SIAS. In addition, the assessment team was also asked to consider, drawing on their previous extensive partnership experiences, what actions might be taken to further improve the overall quality and effectiveness of the service.

3.3   The above review was undertaken at the start of June 2021, with the draft Independent External Assessment Report being issued to SIAS on 30th June 2021.

3.4   Within the above report the External Assessors concluded that SIAS partially conforms with the Standards and the associated Code of Ethics. This opinion is defined in the Standards as "Deficiencies in practice are noted that are judged to deviate from the Standards and the Code of Ethics; however, these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner".

3.5   In respect of the above, the assessors concluded that "Overall, we identified two main areas of non-conformance with the Standards that we believe means that SIAS currently only 'Partially Conforms'. These primarily relate to defining and clarifying the Board and Chief Audit Executive (CAE) role(s) across the partnership. Whilst reasonably significant in the context of the Standards, both issues are relatively easy and swift to resolve, and once addressed, would enable the service to be classified as 'Generally Conforms'. A small number of other areas

of partial conformance were also identified, however, these were minor observations, and none were significant enough to affect the overall opinion".

3.6   It should be noted that in all material respects, SIAS delivered the functions and requirements of the CAE role as defined in the PSIAS. Similarly, the Audit & Governance Committee carried out the functions and requirements of the Board role as defined in the PSIAS. The findings were about clearly identifying the person or post fulfilling the CAE role, and the body fulfilling the role of the Board, given that these roles are integral to the PSIAS, and ensuring that accountability was clearly assigned in the Internal Audit Charter.

3.7   The report also highlighted that SIAS was a "well-regarded internal audit partnership, delivering professional and quality services to its partner organisations with a high-level conformance with PSIAS. Whilst some areas of partial conformance with the Standards have been identified, these can be relatively easily and swiftly resolved".

3.8   In response to the report, SIAS are in the process of revising the Audit Charters for each individual partner council to address the issues that gave rise to a partially conforms opinion, with this completed for East Herts Council and the revised Charter presented in Appendix E of this report. The Committee are asked to approve the revised Charter which, upon approval, will allow SIAS to self-assess compliance with the PSIAS as "Generally Conforms" (the highest rating). Any revisions are shown by being struck through (deletions) or in red (additions).

APPENDIX A - PROGRESS AGAINST THE 2021/22 INTERNAL AUDIT PLAN

2021/22 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
Key Financial Systems – 71 days									
Provision for full or targeted audit of one or more key financial systems. Mapping the remaining key financial systems to confirm appropriate lines of assurance and to inform the annual assurance opinion						71	Yes	5.5	In Fieldwork
Operational Audits – 127 days									
Resources Benefits Realisation						12	Yes	0	Allocated
Capital Programme Delivery						12	Yes	0.5	In Planning
Corporate Capacity						1	N/A	1	Cancelled
Contract Management						10	Yes	9.5	Draft Report Issued
COVID-19 Pandemic Response						12	Yes	7	In Fieldwork
Fly-Tipping	Reasonable	0	0	5	2	11	Yes	11	Final Report Issued
Property Investment						10	Yes	9.5	Draft Report Issued
Licensed Premises						10	Yes	0	Allocated
Economic Development						12	Yes	0	Allocated
Equalities	Not Assessed	0	1	5	1	12	Yes	12	Final Report Issued
Safeguarding						10	Yes	9.5	Draft Report Issued
Temporary Accommodation/Rough Sleepers						10	Yes	0	Allocated
Homes England grant compliance audit	Unqualified	0	0	0	0	5	Yes	5	Complete
Follow Up Audits – 6 days									
Follow Up 1						0	N/A	0	Cancelled
Follow Up 2						6	Yes	0	Allocated

APPENDIX A - PROGRESS AGAINST THE 2021/22 INTERNAL AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
Risk Management and Governance – 12 days									
Provision for full or targeted audits or mapping the lines of assurance to inform the annual assurance opinion						12	Yes	0	Allocated
IT Audits – 16 days									
IT Resilience						6	Yes	0	Allocated
Cyber Security Assurance Mapping						10	Yes	4.5	In Fieldwork
Shared Learning and Joint Reviews – 6 days									
Joint Review(s) – Topics to be confirmed by SIAS Board						6	No	0	Not Yet Allocated
Follow Up of Audit Recommendations – 4 days									
Follow up of critical and high priority audit recommendations						4	Yes	2	Through Year
Completion of 2020/21 Projects – 3 days									
Various						3	Yes	3	Complete
Contingency – 15 days									
Contingency						15	N/A	0	Through Year
Strategic Support – 40 days									
Head of Internal Audit Assurance Opinion 2020/21						3	Yes	3	Complete
External Audit Liaison						1	Yes	0.5	Through Year
Audit Committee						8	Yes	3.5	Through Year
Client Meetings & Ad hoc Advice						7	Yes	3.5	Through Year
Plan Monitoring, Work Allocation and Scheduling						12	Yes	7	Through Year
SIAS Development/External Quality						5	Yes	5	In Progress

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
Assessment									
Audit Planning 2022/23						4	Yes	0	Through Year
EHC TOTAL		**0**	**1**	**10**	**3**	**300**		**102.5**	

The following appendix provides Audit and Governance Committee Members with a summary of the most recent update provided by management in respect of outstanding high priority recommendations.

No.	Report Title	Recommendation / Original Management Response	Responsible Officer / Original Due Date	Latest management update (or previous commentary where appropriate)	Status of Progress (Oct 2021)
1.	**Payment Card Data Security Standard (2020/21).**	**Recommendation:** PCI-DSS Self-Assessment & Compliance Structure. The Council has not completed a SAQ and does not have a formal PCI-DSS compliance strategy/program in place to meet required data security standards. As the option for non-compliance was taken several years ago and since that point there have been multiple personnel changes, the Council should re-assess the level of risk and decide if the non-compliant route is still the most preferred option. A cross-Council PCI-DSS working group should be established to focus on assessing the level of risk presented by sustained non-compliance with the PCI-DSS. This group's primary objective should be to determine whether to accept the level of risk and continue to pay the monthly penalty imposed by WorldPay or agree roles and responsibilities to engineer and maintain compliance with the published standards. Should the decision be made to focus on compliance, the Councils are recommended to consult the best practice guidance produced by the PCI DSS Council in January 2019. **Agreed Management Action(s):** The s.151 officer has advised that the level of risk and the monthly fines for non-compliance does not represent proper management of financial affairs. In addition, the expansion of the number of services to be put on the web, which require the ability to have payment facilities, means that the Council must be PCIDSS compliant in order to proceed. Having previous experience of ICON it is not possible to achieve PCIDSS compliance with this software and suitable replacement software has been identified. This will be implemented jointly with Stevenage BC. A revised Information Security Policy has been developed and will	**Responsible Officer:** Head of Strategic Finance & Property. **Due Date:** 31 March 2022.	<u>**July 2021.**</u> This is a new addition and the management response opposite is therefore the latest comment. <u>**October 2021.**</u> The replacement of ICON has been included in the Transforming East Herts Programme as part of the Technology Workstream. We are currently working with Stevenage Borough Council to replace ICON at both councils, as a joint transformation project. We are on target to hit the 29/10/2021 target for a business case. The revised information security policy will be issued to all staff using ICON on 1 November 2021, which will be the annual date for the reissuing of the policy to all users.	**Partially implemented.**

No.	Report Title	Recommendation / Original Management Response	Responsible Officer / Original Due Date	Latest management update (or previous commentary where appropriate)	Status of Progress (Oct 2021)
		be distributed to staff annually as part of the compliance process. This emphasises card security measures in the short term.			
2.	**Payment Card Data Security Standard (2020/21).**	**Recommendation:** Roles and Responsibilities. As a subsequent output from the formation of the cross-Council PCI-DSS working group, there should be named individuals assigned to steering the Councils compliance journey. Traditionally, the ownership of the compliance process may be the Head of Finance, as they generally occupy the position of signing off the annual Attestation of Compliance (AoC). But it must also be noted that much of the compliance structure content relates to technical configuration, so the Council should designate roles based on this dual ownership. Whilst Finance owns the overall compliance objective, the IT work stream owns the infrastructure that the payment systems sit on. Both departments should have an equal vested interest in compliance. **Agreed Management Action(s):** The above will lead the new system implementation and compliance as he has done this at a previous authority. To achieve compliance the new system will not permit card number entry by staff. Instead, customers choosing to phone up to pay will be handed off to a secure IVR system and will need to enter card details on their phone keypad. Subsequent payments, providing it is for a service with an account number for the customer, e.g. Council Tax, then the system uses a secure token that shows the last 4 digits of the card number and the expiry date. The customer is asked to confirm the expiry date and payment can be taken from that card with no need for card input unless the card is replaced/renewed. About 60% of PCIDSS compliance relates to firewalls, encryption and network security and requires best practice testing and maintenance which will be usefully checked for PCIDSS compliance	**Responsible Officer:** Head of Strategic Finance & Property. **Due Date:** 31 March 2022.	**July 2021.** This is a new addition and the management response opposite is therefore the latest comment. **October 2021.** See comment at 1. above.	**Partially implemented.**

No.	Report Title	Recommendation / Original Management Response	Responsible Officer / Original Due Date	Latest management update (or previous commentary where appropriate)	Status of Progress (Oct 2021)
		as well as the standard annual cyber security checks.			
3.	Equalities (2021/22).	**Recommendation:** Governance Structure. The Equalities Officers Group should be reinstated. A clear terms of reference should be devised that covers: • Key roles and responsibilities. • Routes for escalation of issues. • How the Equalities Officers Group interacts with the Overview Scrutiny Committee. • Monitoring and oversight requirements for the new Equalities Strategy. • Frequency of meetings. • Membership, which should include staff that are able to drive progress against the strategy. **Agreed Management Actions:** Work has begun on this using the template provided and learning from existing structures within Herts County Council. We hope to have the first meeting of the group in September/ October.	**Responsible Officer:** Equalities Officer. **Due Date:** 31 December 2021.	**October 2021.** This is a new addition and the management response opposite is therefore the latest comment.	**Not yet implemented.**

APPENDIX C – AUDIT PLAN ITEMS (APRIL 2021 TO MARCH 2022) – INDICATIVE START DATES AGREED WITH MANAGEMENT

Quarter 1	Quarter 2	Quarter 3	Quarter 4
Corporate Capacity Cancelled	Contract Management Draft Report Issued	Key Financial Systems In Fieldwork	Key Financial Systems In Fieldwork
Fly Tipping Final Report Issued	COVID-19 Pandemic Response In Fieldwork	Resources Benefits Realisation Allocated	Licensed Premises Allocated
Equalities Final Report Issued	Property Investment Draft Report issued	Capital Programme Delivery In Planning	Temporary Accommodation / Rough Sleepers Allocated
Audit Follow Up 1 Cancelled	Safeguarding Draft Report Issued	Economic Development Allocated	Risk Management & Corporate Governance Allocated
	Homes England – Compliance Audit Complete	Audit Follow Up 2 Allocated	IT Resilience Allocated
		Cyber Security In Fieldwork (c/f from Q2)	

Audit Opinions	
Assurance Level	**Definition**
Assurance Reviews	
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Not Assessed	This opinion is used in relation to consultancy or embedded assurance activities, where the nature of the work is to provide support and advice to management and is not of a sufficient depth to provide an opinion on the adequacy of governance or internal control arrangements. Recommendations will however be made where required to support system or process improvements.
Grant / Funding Certification Reviews	
Unqualified	No material matters have been identified in relation the eligibility, accounting and expenditure associated with the funding received that would cause SIAS to believe that the related funding conditions have not been met.
Qualified	Except for the matters identified within the audit report, the eligibility, accounting and expenditure associated with the funding received meets the requirements of the funding conditions.
Disclaimer Opinion	Based on the limitations indicated within the report, SIAS are unable to provide an opinion in relation to the Council's compliance with the eligibility, accounting and expenditure requirements contained within the funding conditions.
Adverse Opinion	Based on the significance of the matters included within the report, the Council have not complied with the funding conditions associated with the funding received.

Recommendation Priority Levels		
Priority Level		**Definition**
Corporate	**Critical**	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	**High**	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.
	Medium	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.
	Low	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.

Audit Charter 2021/2022

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.

1.2.   The purpose of the Shared Internal Audit Service (SIAS) is to provide independent, objective assurance and consulting services designed to add value and improve client operations. The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. SIAS helps clients accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

2.   Statutory Basis of Internal Audit

2.1.   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'.

2.2.   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.

3.   Role

3.1.   SIAS internal audit activity is overseen by East Herts Council's committee charged with fulfilling audit committee responsibilities, herewith referred to as the Audit and Governance Committee. As part of its oversight role, the Audit and Governance Committee is responsible for defining the responsibilities of SIAS via this Charter.

3.2.   SIAS may undertake additional consultancy activity requested by management. The Head of Assurance Client Audit Manager 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 Audit and Governance Committee.

4.   Professionalism

4.1.   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.

4.2.   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.

4.3.   SIAS operations are guided by its operating procedures manual as well as applicable, Chartered Institute of Internal Auditors (CIIA) and Chartered Institute of Public Finance and Accountancy (CIPFA) Position Papers, Practice Advisories and Guides, and relevant council policies and procedures, including compliance with the Bribery Act 2010.

4.4.   Should non-conformance with the PSIAS be identified, the ~~Head of Assurance~~ Head of SIAS 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.

5.   Authority and Confidentiality

5.1.   Internal auditors are authorised full, free, and unrestricted access to any and all of a client's records, physical property, 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 an engagement is safeguarded and confidentiality respected in accordance with the Council's GDPR and information security policies.

5.2.   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.

6.   Organisation

6.1.   The ~~Head of Assurance~~ Client Audit Manager and their representatives have free and unrestricted direct access to Senior Management, the Audit and Governance Committee, the Chief Executive ~~/ Managing Director~~, the Chair of the Audit and Governance Committee and the External Auditor. The ~~Head of Assurance~~ Client

Audit Manager will communicate with any and all of the above parties at both committee meetings and between meetings as appropriate.

6.2. The Chairman of the Audit and Governance Committee has free and unrestricted direct access to both the ~~Head of Assurance~~ Client Audit Manager and the Council's External Auditor.

6.3. The ~~Head of Assurance~~ Client Audit Manager is line managed by the ~~host authorities Director of Resources~~ Head of SIAS who approves all decisions regarding the performance evaluation, appointment, or removal of the ~~Head of Assurance~~ Client Audit Manager, in consultation with the SIAS Board. ~~Each client's Section 151 Officer is asked to contribute to the annual appraisal of the Head of Assurance.~~

7. Stakeholders

The following groups are defined as stakeholders of SIAS:

7.1. The Head of SIAS, working with the ~~Head of SIAS~~ Client Audit Manager, both 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 SIAS staff possess or obtain the skills, knowledge, and competencies (including ethical practice) needed to effectively perform SIAS engagements

7.2. The Audit and Governance Committee is responsible for overseeing the effectiveness of SIAS and holding the ~~Head of Assurance~~ Client Audit Manager to account for delivery. This is achieved through the approval of the annual audit plan, approval of performance targets set by the SIAS Board and receipt of regular reports.

7.3. The Audit and Governance Committee is also responsible for the effectiveness of the governance, risk, and control environment within the Council, holding operational managers to account for its delivery.

7.4. Where stated in its Terms of Reference, the Audit and Governance Committee provides an annual report to the Council detailing the Committee's activities through the year. In addition, and as required, the Committee ensures that there is appropriate communication of, and involvement in, internal audit matters from the wider publicly elected Member body.

7.5. The ~~Head of SIAS~~ Client Audit Manager is responsible for ensuring that the outcome of all final Internal Audit reports is reported to all members of the Audit and Governance Committee, and Executive Member~~s~~ for Financial Sustainability, ~~(where relevant to their portfolio),~~ in a format agreed with these relevant parties.

7.6. 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.

7.7. The SIAS Board is the governance group charged with monitoring and reviewing the overall operation of SIAS and reporting to the Audit and Governance Committee its findings, including:
- resourcing and financial performance
- operational effectiveness through the monitoring performance indicators
- the overall strategic direction of the shared service.

8. Independence and Objectivity

8.1. 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.

8.2. 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.

8.3. When asked to undertake any additional roles/responsibilities outside internal auditing, the ~~Head of Assurance~~ Client Audit Manager will highlight to the Audit and Governance 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~~ Client Audit Manager may belong. The Audit and Governance Committee will approve and periodically review any safeguards put in place to limit any impairments to independence and objectivity.

8.4. Where SIAS has been required to provide assurance to other partnership organisations, or arm's length bodies such as trading companies, the Client Audit Manager and Head of ~~Assurance~~ SIAS will ensure that the risks of doing so are managed effectively, having regard to the Head ~~of Assurance's~~ SIAS's primary responsibility to the management of the partners for which they are engaged to provide internal audit services.

8.5. The ~~Head of Assurance~~ Client Audit Manager will confirm to the Audit and Governance Committee, at least annually, the organisational independence of SIAS.

9. Conflicts of Interest

9.1. 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.

9.2.   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.

9.3.   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.

9.4.   SIAS procures an arrangement with an external delivery partner to provide service resilience, i.e., additional internal audit days on request. The external delivery partner will be used to deliver engagements as directed by the ~~Head of Assurance~~ Client Audit Manager in particular providing advice and assistance where SIAS staff lack the required skills or knowledge. The external delivery partner will also be used to assist with management of potential and actual conflicts of interest in internal audit engagements, providing appropriate independence and objectivity as required.

9.5.   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~~ Client Audit Manager will investigate and report on the matter to appropriate parties.

9.6.   Hertfordshire County Council's ~~The~~ Head of Assurance not only leads and has overall management responsibility for SIAS, but also the similarly constituted Shared Anti-Fraud Service (SAFS).

9.7.   Given that SIAS will potentially undertake internal audit activity in relation to SAFS, this relationship is formally disclosed, and appropriate safeguards will be put in place against any potential impairment to independence. The Head of SIAS will manage the internal audit engagement of this service and report findings directly to the Head of Strategic Finance and Property in their capacity as S151 Officer.

10.   Responsibility and Scope

10.1.   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.

10.2.   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

10.3. 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.

10.4. SIAS is responsible for reporting to the Audit and Governance 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.

10.5. 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.

11. Role in Anti-Fraud

11.1. The SIAS work programme, designed in consultation with Senior Management, the Audit and Governance Committee and, where applicable, the Shared Anti-Fraud Service (SAFS), seeks to provide assurance on how the council manages the fraud risks to which it is exposed.

11.2. SIAS must have sufficient knowledge to evaluate the risk of fraud and the way it is managed by the Council but are not expected to have the expertise of a person or team whose primary responsibility is detecting and investigating fraud.

11.3. SIAS will exercise due professional care by considering the probability of significant errors, fraud, or non-compliance when developing audit scopes and objectives.

11.4. EHC HCC is a partner of both SIAS and SAFS and benefits from collaboration and intelligence sharing between the teams. This informs both horizon scanning as part of the internal audit planning process and individual audit engagements.

11.5. The Head of Assurance Client Audit Manager should be notified of all suspected or detected fraud, corruption, or impropriety so that the impact upon control arrangements can be evaluated.

12. Internal Audit Plan

12.1. Following discussion with appropriate senior management, the Head of Assurance Client Audit Manager will submit a risk-based plan to the Audit and Governance Committee for review and approval. This will occur at least annually. The plan sets out the engagements agreed by Operational Directorate Boards and subsequently the Section 151 Officer and Chief Executive Senior Leadership Team 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.

12.2. 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.

12.3. 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.

13. Reporting and Monitoring

13.1. 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 engagement may occur and will be agreed following consultation with the client.

13.2. A report will be issued to management 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.

13.3. 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~~ Client Audit Manager to all relevant parties. A revised internal audit opinion may be issued on the basis of follow-up activity.

13.4. In consultation with senior management, the ~~Head of Assurance~~ Client Audit Manager will consider, on a risk-basis, any request made by external stakeholders for sight of an internal audit report.

13.5. Quarterly update reports to the Audit and Governance 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. Hertfordshire County Council's ~~The~~ Head of Assurance will also make a statement of conformance with PSIAS, using the results of the annual self-assessment and Quality Assurance and Improvement Plan (QAIP) required by the PSIAS. The statement will detail the nature and reasons for any impairments, qualifications, or restrictions in scope for which the Committee should seek reassurances from management. Any improvement plans arising will be included in the annual report.

14. Periodic Assessment

14.1. PSIAS require ~~the~~ Hertfordshire County Council's Head of Assurance and the SIAS Board to arrange 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.

14.2. Hertfordshire County Council's ~~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.

14.3. A single review will be carried out to provide assurance to all SIAS partners with the outcomes included in the partner's Annual Report.

15. Review of the Audit Charter

15.1. The ~~Head of Assurance~~ Client Audit Manager will review this charter annually and will present, to the first audit committee meeting of each financial year, any changes for approval.

15.2. The ~~Head of Assurance~~ Client Audit Manager reviewed this Audit Charter in September 2021. It will next be reviewed in April 2022.

Glossary of Terms

Audit Committee	The PSIAS defines the Audit Committee as "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."
	The Audit and Governance Committee operates in accordance with its terms of reference contained in East Herts Council's Constitution.
	CIPFA's *Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition* indicates that for a local authority, it is best practice for the audit committee to report directly to full council rather than to another committee, as the council itself most closely matches the body of 'those charged with governance'. This is the case at EHC.
Audit Plan	The programme of risk-based work carried out by the Shared Internal Audit Service (SIAS) on behalf of its clients.
Board	The PSIAS defines the 'Board' as "The highest-

	level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organisation's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word "board" in the Standards refers to a group or person charged with governance of the organisation. Furthermore, "board" in the Standards may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an Audit Committee).
	For the purposes of the SIAS Audit Charter, the Board as referred to in the PSIAS shall be East Herts Council's Audit and Governance Committee. All references to the Audit and Governance Committee in the SIAS Audit Charter should be read in this context.
Chief Audit Executive (CAE)	The PSIAS describes the role of CAE as "a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The CAE or others reporting to the CAE will have appropriate professional certifications and qualifications. The specific job title and/or responsibilities of the CAE may vary across organisations."
	The CAE is fundamental to the success of the service and to the extent to which it complies with the Standards. Regular reference is made to this role throughout the PSIAS, including some specific requirements relating to whoever is designated the role.
	For the purposes of the SIAS Audit Charter, the CAE as referred to in the PSIAS shall be EHC's HCC's Head of Assurance Client Audit Manager. All references to the Head of Assurance Client Audit Manager in the SIAS Audit Charter should be read in this context.
	The Head of Assurance is supported in the role of CAE by the Head of SIAS, who is responsible for the day-to-day operational management of SIAS and performs the role of Client Audit Manager for HCC.

Management	Operational officers of the Council responsible for creating corporate policy and organising, planning, controlling, and directing resources to achieve the objectives of that policy. Senior management is defined as the Head of Paid Service, Chief Officers and their direct reports.
Public Sector Internal Audit Standards (PSIAS)	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.
Shared Internal Audit Service (SIAS)	SIAS is a local authority partnership comprising Hertfordshire County Council (HCC) and seven Hertfordshire district and borough councils. SIAS also provides internal audit services to a limited number of external clients. HCC is the host authority for the partnership and provides support services such as HR, technology, and accommodation.
SIAS Board	The Board that comprises officer representatives from the partner authorities and that is responsible for the governance of the SIAS partnership.

Note:

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