



East Herts Council
2022/23 Annual Assurance Statement and
Internal Audit Annual Report

31 May 2023

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 for 2023/24

Seek management assurance that the scope and resources for internal audit were not subject to inappropriate limitations in 2022/23

Contents

1. Purpose and Background
 - 1.1 Purpose
 - 1.2 Background

2. Annual Assurance Statement for 2022/23
 - 2.1 Context
 - 2.2 Control Environment
 - 2.4 Review of Effectiveness - compliance with the PSIAS and QAIP
 - 2.11 Confirmation of independence of internal audit and assurance on limitations
 - 2.12 Assurance Opinion on Internal Control
 - 2.13 Assurance Opinion on Corporate Governance and Risk Management

3. Overview of Internal Audit Activity at the Council in 2022/23

4. Performance of the Internal Audit Service in 2022/23
 - 4.1 Performance Indicators
 - 4.2 Service Developments

5. SIAS Audit Charter 2023/24

Appendices

- A Final position against the Council's 2022/23 Internal Audit Plan

- B Definitions of Assurance Recommendation Priority Levels

- C Position against Public Sector Internal Audit Standards as of April 2023

- D SIAS Audit Charter 2023/24

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 any 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 performance in respect of delivering the Council's internal audit plan.
- e) Presents the SIAS Audit Charter for 2023/24.

Background

1.2 A key duty of the Chief Audit Executive (the Council's Client Audit Manager) is to provide an annual opinion on the Council's internal control environment. This opinion helps inform 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 2022/23. The Audit Plan continued to give sufficient assurance on the Council's management of its key risks. Also considered is any relevant work undertaken in 2023/24 before the Audit Committee report deadline.

1.4 As reported to the Audit & Governance Committee in July 2021, SIAS changed the scale and definitions of assurance ratings used to communicate the results of audit assignments from 1st April 2021. This change was in response to the CIPFA publication in April 2020, "Internal Audit Engagement Opinions – Setting Common Definitions", where CIPFA recommended that a standard range of opinions and definitions were used by Internal Audit teams with the intention of:

- Increasing confidence amongst audit committee members and managers that the engagement opinion issued is consistently applied.
- Assist the sharing, comparability and understanding of assurances across public bodies.
- Supporting audit committee members and senior managers in their understanding of audit reports, in particular those that sit on more than one public sector audit committee, or in respect of partnerships and joint ventures.
- Supporting the training of internal audit staff, helping to drive up the quality and consistency of audit opinions, and facilitate staff moving across different internal audit teams.

- Reducing disruption when changing internal audit provider
- 1.5 The associated definitions for the opinions of Substantial, Reasonable, Limited and No assurance, can be found within Appendix B of this report.
- 1.6 SIAS is grateful for the co-operation and support it has received from Council officers during 2022/23.

2. Annual Assurance Statement 2022/23

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.

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 eliminate it.
- 2.3 A robust control environment helps ensure that the Council's policies, priorities, and objectives are achieved.

Review of effectiveness

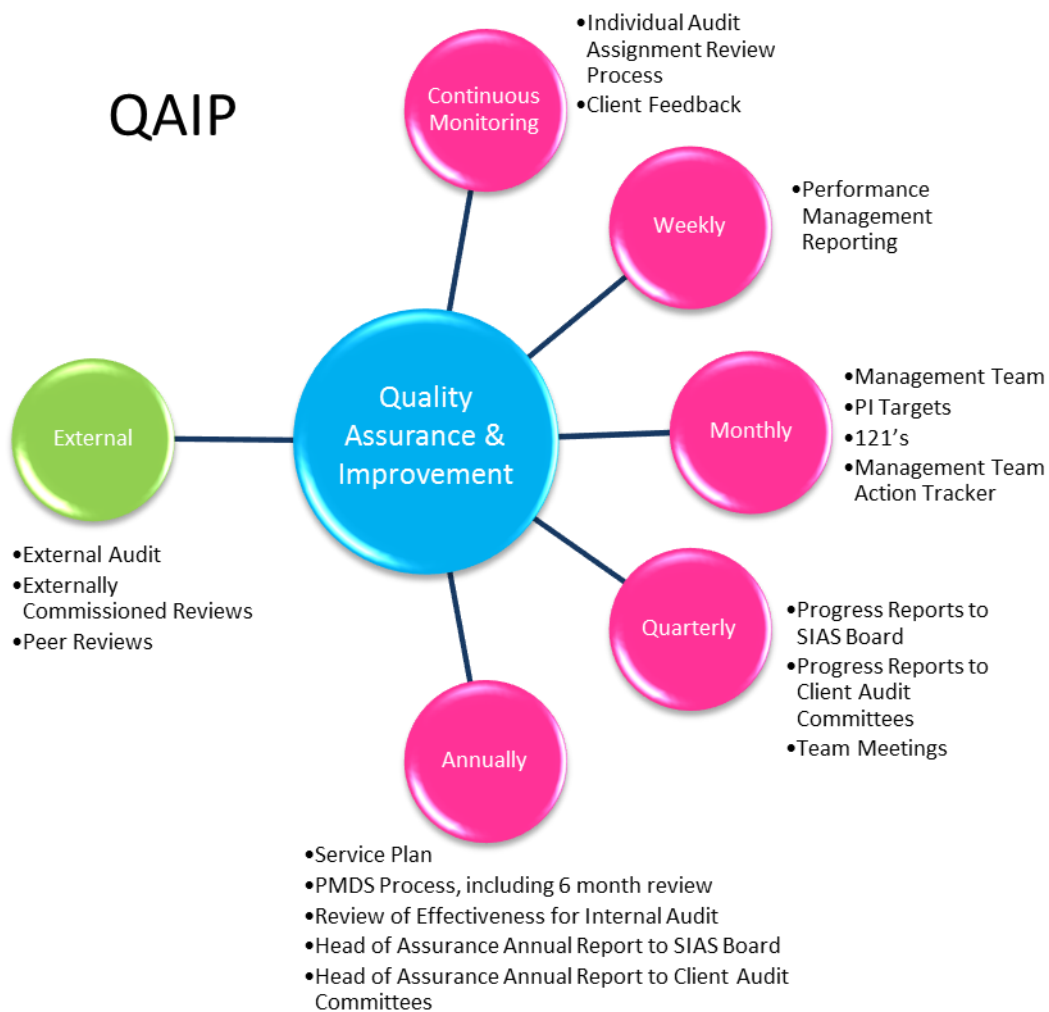
- 2.4 The Client Audit Manager must confirm annually that the internal audit function is suitably qualified to carry out the work that informs the assurance opinion.
- 2.5 As part of our Quality Assurance and Improvement Programme, a self-assessment was conducted against the Public Sector Internal Audit 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 also 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 PSIAS also requires that the SIAS be subject to an external quality assessment (EQA) at least once every five years. This should be conducted by a qualified, independent assessor or assessment team from

Annual Assurance Statement and Internal Audit Annual Report - East Herts Council

outside the organisation. This review was last completed in June 2021, with the result of the assessment reported to the Audit & Governance Committee in November 2021.

- 2.7 The EQA outcomes concluded that SIAS 'partially conforms' to the PSIAS. The findings that led to this conclusion largely related to defining the role of the Chief Audit Executive, the Audit Committee, and reflecting this in the Audit Charter. Associated recommendations made in the peer review were subsequently addressed in year, permitting SIAS to 'generally conform' to the Standards. 'Generally conforms' is the highest opinion within the scale of three ratings, and the peer review also identified areas of good practice and high standards.
- 2.8 Based on the results of the 2023/24 PSIAS self-assessment, the Client Audit Manager has concluded 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.
- 2.9 The self-assessment identified 2 areas of agreed non-conformance, these reflecting the unique nature of a partnership arrangement and are not considered material. These are detailed in Appendix C. There are no significant deviations from the Standards which warrant inclusion in the Council's Annual Governance Statement.
- 2.10 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.

Annual Assurance Statement and Internal Audit Annual Report - East Herts Council



Confirmation of independence of internal audit and assurance on limitations

2.11 The Client Audit Manager 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 2022/23

Assurance opinion on internal control

- 2.12 Based on the internal audit work undertaken at the Council in 2022/23, 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

- 2.13 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 2022/23 and the specific reviews of Risk Management and Corporate Governance carried out by SIAS during the year.

**Client Audit Manager
May 2023**

3. Overview of Internal Audit Activity at the Council in 2022/23

- 3.1 This section summarises work undertaken at the Council by SIAS in 2022/23. It highlights any significant internal control matters and opportunities for improvement.
- 3.2 Appendix A shows the final position against the Internal Audit Plan at 30 April 2023, including assurance levels and the number of recommendations made. A summary of assurance levels and recommendation priorities is shown in the tables below (2021/22 data in brackets).

| Assurance Level | Number of reports 2022/23 (2021/22 data in brackets) | Percentage of reports 2022/23 (2021/22 data in brackets) |
|-----------------|--|--|
| Substantial | 11 (10) | 46% (45%) |
| Reasonable | 9 (6) | 38% (27%) |
| Limited | 0 (1) | 0% (5%) |
| No | 0 (0) | 0% (0%) |
| Not Assessed | 1 (3) | 4% (14%) |
| Unqualified | 1 (0) | 4% (0%) |
| Qualified | 0 (0) | 0% (0%) |
| Not Complete | 2 (2) | 8% (9%) |
| Total | 24 (22) | 100% (100%) |

| Recommendation Priority Level | Number of recommendations 2022/23 (2021/22 data in brackets) | Percentage of recommendations made 2022/23 (2021/22 data in brackets) |
|----------------------------------|---|--|
| Critical | 0 (0) | 0% (0%) |
| High | 0 (2) | 0% (6%) |
| Medium | 22 (22) | 46% (61%) |
| Low | 26 (12) | 54% (33%) |
| Total | 48 (36) | 100% (100%) |

- 3.3 **The Reasonable assurance opinion overall on financial systems** has been concluded from eight financial systems audits. Seven received Substantial assurance and one received Reasonable assurance. No Critical or High priority recommendations were made across these audits. However, two Medium priority recommendations were made.

Annual Assurance Statement and Internal Audit Annual Report - East Herts Council

- 3.4 **The Reasonable assurance opinion overall on non-financial systems** has been concluded from fourteen audits. Four audits received Substantial assurance and eight received Reasonable assurance. In addition, one grant audit received an Unqualified opinion, and one other audit was classified as Not Assessed, i.e. no audit assurance opinion was given.
- 3.5 In arriving at our Reasonable assurance opinion for non-financial systems, we highlight that all opinions issued for individual audits during the year were positively assessed. This generally indicates the Council has satisfactory or good systems of internal control for a wide range of areas.
- 3.6 Two audits were at draft report stage at the time of writing this Annual Report, with a management response awaited. These audits have contributed to the assurance opinion for 2022/23.

Critical and High Priority Recommendations

- 3.7 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. Members will continue to receive updates on the implementation progress of any Critical and High priority recommendations through the SIAS quarterly progress reports to the Audit Committee.

4. Performance of the Internal Audit Service in 2022/23

Performance indicators

- 4.1 The table below compares SIAS's performance at the Council against the 2022/23 targets set by the SIAS Board.

| Indicator | Target 2022/23 | Actual to 31 March 2023 |
|---|----------------|--|
| 1 SIAS Planned Days – percentage of actual billable days delivered against planned billable days | 95% | 94% (218.5 / 232 days) |
| 2 SIAS Planned Projects – actual completed projects to draft report stage against planned completed projects | 95% | 91% (21 out of 23 audits to draft) |

**Annual Assurance Statement and Internal Audit Annual Report -
East Herts Council**

| | | |
|--|---------------------|---|
| 3 SIAS Annual Audit Plan – presented to the March Audit Committee or the first meeting of the financial year should a March committee not meet. | Deadline met | Yes |
| 4 Client Satisfaction - client satisfaction questionnaires returned at 'satisfactory overall' level (minimum of 39/65 overall) | 100% | 100% (6 received) |
| 5 Chief Audit Executive's Annual Report – presented at the first Audit Committee meeting of the financial year | Deadline met | Yes |
| 6 Number of High Priority Audit Recommendations agreed | 95% | There were no High priority recommendations made |

Service Developments

4.2 During 2022/23 the main service and development activities for SIAS included:

- a) Recruitment and Retention – several staff have left the service during 2022/23, either accepting job offers elsewhere or choosing early retirement. The current market is widely recognised as extremely challenging, however SIAS successfully recruited a Trainee and an Auditor during the autumn. Since year end, existing Trainees were promoted to Auditor positions, this being consistent with the SIAS “grow your own” workforce strategy. The now vacant Trainee positions will be recruited to during June. An Assistant Client Audit Manager position was also recently advertised and an appoint made. The successful applicant is due to start in June.
- b) External Partner – during the year SIAS retendered for the supply of a call-in resource, which will be used to deliver both general and IT audit. The successful provider will continue to work across all partners during 2023/24, providing SIAS with additional resilience where there is a shortfall in capacity and access to specialist staff when required.
- c) Training & Development – needs have been identified beyond the qualifications being studied by members of SIAS staff. These fall into several broad categories such as professional practice, use of technology and local knowledge. This has been captured in a Plan that

is being delivered by members of the SIAS management team and external sources when required.

5. SIAS Audit Charter 2023/24

- 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 2023 did not result in any changes and the 2023/24 Charter is attached at Appendix D.

APPENDIX A – FINAL POSITION AGAINST THE COUNCIL’S 2022/23 AUDIT PLAN

East Herts Council Audit Plan – 2022/23

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | | AUDIT PLAN DAYS | STATUS/COMMENT |
|--|--------------------|------|---|---|----|-----------------|-------------------------|
| | | C | H | M | LA | | |
| Key Financial Systems | | | | | | | |
| Creditors (Assurance Mapping Refresh) | Substantial | 0 | 0 | 0 | 0 | 3 | Final Report Issued |
| Treasury Management (Assurance Mapping Refresh) | Substantial | 0 | 0 | 0 | 0 | 3 | Final Report Issued |
| Payroll (Assurance Mapping Refresh) | Reasonable | 0 | 0 | 2 | 3 | 3 | Final Report Issued (1) |
| Council Tax | Substantial | 0 | 0 | 1 | 1 | 7 | Final Report Issued |
| Business Rates | Substantial | 0 | 0 | 0 | 2 | 7 | Final Report Issued |
| Housing Benefits | Substantial | 0 | 0 | 0 | 2 | 7 | Final Report Issued |
| Main Accounting System (Assurance Mapping Refresh) | | | | | | 0 | Audit Cancelled |
| Debtors (Assurance Mapping Refresh) | Substantial | 0 | 0 | 0 | 0 | 3 | Final Report Issued |
| Asset Management | Substantial | 0 | 0 | 1 | 0 | 10 | Final Report Issued |
| Operational Audits | | | | | | | |
| Supply Chain Interruption | Substantial | 0 | 0 | 0 | 2 | 10 | Draft Report Issued (2) |
| Elections Payroll | | | | | | 10 | In Fieldwork (3) |

APPENDIX A – FINAL POSITION AGAINST THE COUNCIL’S 2022/23 AUDIT PLAN

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | | AUDIT PLAN DAYS | STATUS/COMMENT |
|---|--------------------|------|---|---|----|-----------------|-------------------------|
| | | C | H | M | LA | | |
| Customer Services | Reasonable | 0 | 0 | 2 | 4 | 10 | Final Report Issued |
| Information Governance | Reasonable | 0 | 0 | 1 | 1 | 10 | Final Report Issued |
| Whistleblowing | Reasonable | 0 | 0 | 3 | 1 | 10 | Final Report Issued |
| Risk Management (Assurance Mapping Refresh) | Substantial | 0 | 0 | 0 | 0 | 3 | Final Report Issued (1) |
| Corporate Governance (Assurance Mapping Refresh) | Substantial | 0 | 0 | 0 | 0 | 3 | Final Report Issued (1) |
| Contract Management | Reasonable | 0 | 0 | 1 | 1 | 15 | Final Report Issued |
| Community Wellbeing & Partnerships | Reasonable | 0 | 0 | 3 | 1 | 10 | Final Report Issued |
| Housing Acquisitions & Conversions | | | | | | 0 | Audit Cancelled |
| General Fund Health & Safety Property Compliance | Reasonable | 0 | 0 | 1 | 0 | 10 | Final Report Issued |
| Refuse Services (shared with NHDC) | Reasonable | 0 | 0 | 3 | 0 | 9 | Final Report Issued (1) |
| Noise & Nuisance | Substantial | 0 | 0 | 0 | 1 | 6 | Final Report Issued |
| Contain Outbreak Management Fund (COMF) Grant Audit | Unqualified | 0 | 0 | 0 | 0 | 1 | Final Report Issued |
| Environmental Enforcement Joint Review | Not Assessed | 0 | 0 | 0 | 7 | 3 | Final Report Issued (1) |

APPENDIX A – FINAL POSITION AGAINST THE COUNCIL’S 2022/23 AUDIT PLAN

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | | AUDIT PLAN DAYS | STATUS/COMMENT |
|--|--------------------|------|---|---|----|-----------------|---------------------|
| | | C | H | M | LA | | |
| IT Audits | | | | | | | |
| Malicious Software (shared with SBC) | Reasonable | 0 | 0 | 4 | 0 | 7 | Draft Report Issued |
| Cyber Security Framework Assurance Mapping Refresh (shared with SBC) | | | | | | 0 | Audit Cancelled |
| Software Licence Management | | | | | | 15 | In Fieldwork (4) |
| Other Chargeable | | | | | | | |
| 2023/24 Audit Planning | - | - | - | - | - | 5 | Complete |
| Plan Delivery Monitoring | - | - | - | - | - | 12 | Complete |
| Annual Audit Opinion 2021/22 | - | - | - | - | - | 3 | Complete |
| Client Liaison | - | - | - | - | - | 10 | Complete |
| Shared Learning | - | - | - | - | - | 2 | Complete |
| Audit & Governance Committee | - | - | - | - | - | 12 | Complete |
| SIAS Development | - | - | - | - | - | 5 | Complete |
| 21/22 Projects Requiring Completion | - | - | - | - | - | 6 | Complete |

APPENDIX A – FINAL POSITION AGAINST THE COUNCIL’S 2022/23 AUDIT PLAN

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | | AUDIT PLAN DAYS | STATUS/COMMENT |
|---------------------------|--------------------|----------|----------|-----------|-----------|-----------------|----------------|
| | | C | H | M | LA | | |
| Matters Arising From SAFS | - | - | - | - | - | 2 | Complete |
| Contingency | - | - | - | - | - | 18 | N/A |
| Total | | 0 | 0 | 22 | 26 | 250 | |

(1) At Draft Report stage on 31 March 2023, Final Report issued after year end.

(2) At Draft Report stage on 30 April 2023.

(3) In Fieldwork on 30 April 2023, delayed at management request due to elections.

(4) In Fieldwork on 30 April 2023, this audit was a late allocation at management request.

Key to Recommendation Priority Levels: 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

| Audit Opinions | | |
|---------------------------------------|---|--|
| Assurance Level | Definition | |
| Assurance Reviews | | |
| Substantial | A sound system of governance, risk management and control exist, 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. |

APPENDIX C – POSITION AGAINST PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT APRIL 2023

Section A: Conformance - 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>Purpose, Authority and Responsibility</p> <p>Does the board (defined as the Audit Committee) approve decisions relating to the appointment and removal of the Chief Audit Executive (CAE)</p> | <p>The Head of SIAS, 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>Non-conformance</p> <p>No further action proposed. The current arrangements are considered effective given the shared nature of SIAS.</p> |
| 3.1c | <p>Purpose, Authority and Responsibility</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 Head of SIAS (HCC).</p> | <p>Non-conformance</p> <p>No further action proposed. The appraisal process was carried out by the head of SIAS (HCC). The current arrangements are considered effective given the shared nature of SIAS.</p> |



SIAS Audit Charter 2023/2024

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 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 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 Client Audit Manager and their representatives have free and unrestricted direct access to Senior Management, the Audit and Governance Committee, the Chief Executive, the Chair of the Audit and Governance Committee and the External Auditor. The 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 Chair of the Audit and Governance Committee has free and unrestricted direct access to the Client Audit Manager.
- 6.3. The Client Audit Manager is line managed by the Head of SIAS who approves all decisions regarding the performance evaluation, appointment, or removal of the Client Audit Manager, in consultation with the Head of Assurance and SIAS Board.

7. Stakeholders

The following groups are defined as stakeholders of SIAS:

- 7.1. The Head of SIAS, working with the 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 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 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 Members for Financial Sustainability, 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, with SIAS reporting key information to the Audit and Governance Committee within progress and annual reports, 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 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 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 SIAS will ensure that the risks of doing so are managed effectively, having regard to the Head of SIAS's primary responsibility

to the management of the partners for which they are engaged to provide internal audit services.

- 8.5. The 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 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 Client Audit Manager will investigate and report on the matter to appropriate parties.
- 9.6. Hertfordshire County Council's 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 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 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 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 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 the Section 151 Officer and 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 other assurance considered during the planning process. 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 Client Audit Manager to all relevant parties.
- 13.4. In consultation with senior management, the 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 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 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 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 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 Client Audit Manager reviewed this Audit Charter in April 2023. It will next be reviewed in April 2024.

Glossary of Terms

| | |
|------------------------|---|
| <p>Audit Committee</p> | <p>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.”</p> <p>The Audit and Governance Committee operates in accordance with its terms of reference contained in East Herts Council’s Constitution.</p> <p><i>CIPFA’s Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition</i> 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.</p> |
| <p>Audit Plan</p> | <p>The programme of risk-based work carried out by the Shared Internal Audit Service (SIAS) on behalf of its clients.</p> |
| <p>Board</p> | <p>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</p> |

APPENDIX D – SIAS AUDIT CHARTER 2023/2024

| | |
|---|--|
| | <p>certain functions (e.g., an Audit Committee).</p> <p>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.</p> |
| <p>Chief Audit Executive (CAE)</p> | <p>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.”</p> <p>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.</p> <p>For the purposes of the SIAS Audit Charter, the CAE as referred to in the PSIAS shall be EHC’s Client Audit Manager. All references to the Client Audit Manager in the SIAS Audit Charter should be read in this context.</p> |
| <p>Management</p> | <p>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.</p> |
| <p>Public Sector Internal Audit Standards (PSIAS)</p> | <p>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</p> |

APPENDIX D – SIAS AUDIT CHARTER 2023/2024

| | |
|--------------------------------------|---|
| | 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 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.