North Hertfordshire District Council

2015/16 Annual Assurance Statement

and

Internal Audit Annual Report

13 June 2016

Recommendations

Members are recommended to:

Note the Annual Assurance Statement and Internal Audit Annual Report

Note the results of the self-assessment as required by both the Public Sector Internal Audit Standards and the Quality Assurance and Improvement Programme

Accept the SIAS Audit Charter

Seek assurance from management that the scope and resources for internal audit were subject to no inappropriate limitations in 2015/16

Contents

1.   Purpose and Background

Purpose of Report

1.1   The purpose of this report is to:

- Document and communicate internal audit's overall opinion on the adequacy and effectiveness of the Council's control environment, commenting on significant matters and key themes
- Summarise the audit work from which the opinion is derived
- Summarise the performance of the Shared Internal Audit Service (SIAS) in respect of audit work delivered for the Council
- Show 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)
- Present the Audit Charter for 2016/17.

Background

1.2   The provision to the Council of an annual opinion on internal control is a key duty of the Head of Assurance. It is timed to support the production of the Council's Annual Governance Statement.

1.3   Reporting the work of SIAS to Audit Committee Members 'charged with governance' provides them with an opportunity to review and monitor the outputs of internal audit activity and gain assurance that the Council's internal audit function is fulfilling its statutory obligations. This process is an integral component of corporate governance.

1.4   The Head of Assurance's opinion is based on internal audit work undertaken during the 2015/16 financial year. SIAS is grateful for the co-operation and support it has received from all those who have engaged with the audit process during the period.

2. Annual Assurance Statement 2015/16

Context

2.1 *Scope of responsibility*
The management of the Council is responsible for ensuring its 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.

The management of the Council is also responsible for ensuring that there is a sound system of internal control, which includes arrangements for managing risk.

2.2 *Control environment*
The Council's control environment comprises three key areas: internal control, governance, and risk management arrangements. Together these areas are designed to manage risk to a reasonable level rather than eliminate risk completely.

The purpose of these arrangements is to help ensure that the Council's policies, priorities and objectives are achieved.

2.3 *Review of effectiveness*
The Head of Assurance is required to confirm the fitness for purpose of internal audit to carry out work that informs the assurance opinion.

A self-assessment exercise, thus satisfying PSIAS requirements 1311 and 1312 for periodic self-assessments as part of a Quality Assurance and Improvement Programme was conducted against the PSAIS requirements and its results allow SIAS to evidence that effective arrangements are in place and internal audit standards are in line with good practice.

As a result, the Head of Assurance is able to report a substantial level of conformance with the Public Sector Internal Audit Standards and considers the internal audit service to be effective.

The exercise did not identify any significant deviations from Standards which warrant inclusion in the Council's Annual Governance Statement. Appendix C of this report contains a table setting out areas where further action is needed in order to ensure conformance and discloses areas of intentional non-conformance.

Further, an independent review of internal audit has taken place and the effectiveness of the service has been confirmed as a result. Detail of the key findings and recommendations of the independent review is shown in Section 4 of this report.

2.4   *Confirmation of independence of internal audit and assurance on limitations*
The Head of Assurance confirms that during the year there have been no matters arising which have threatened the independence of the internal audit function. The Head of Assurance also confirms that there have been no inappropriate scope or resource limitations on the internal audit function during the year.
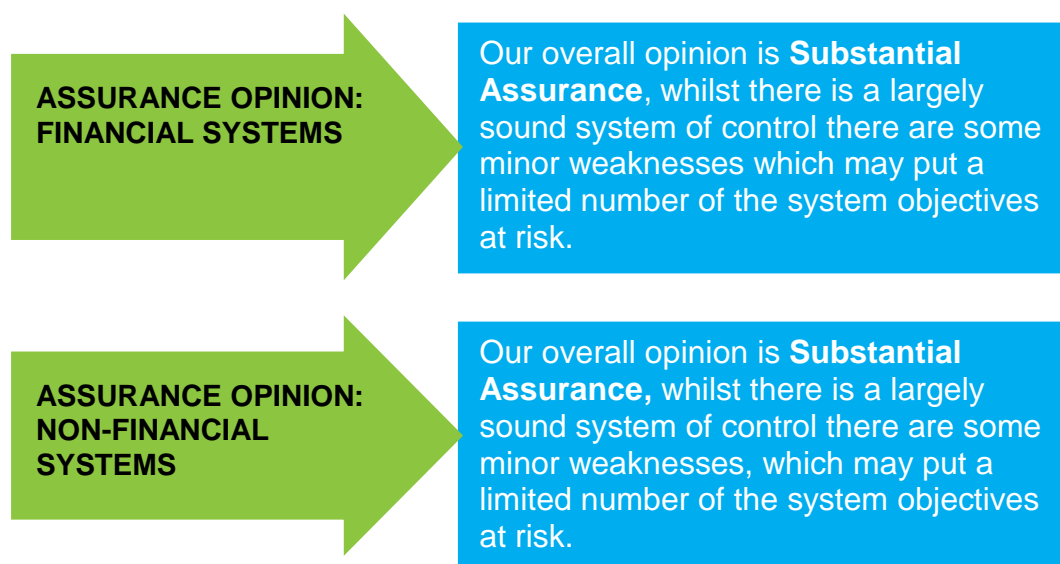
2.5   *Basis of assurance opinion*
Our assurance opinion is based on the work carried out by SIAS during 2015/16 which has been planned in order to give sufficient assurance on the management of key risks within the organisation.

Annual Assurance Statement for 2015/16

2.6 *Assurance opinion on internal control*
From the internal audit work undertaken in 2015/16 we can provide the following opinion on the adequacy and effectiveness of the Council's control environment, broken down between financial and non-financial systems. There are no qualifications to this assurance.

ASSURANCE OPINION: FINANCIAL SYSTEMS

Our overall opinion is **Substantial Assurance**, whilst there is a largely sound system of control there are some minor weaknesses which may put a limited number of the system objectives at risk.

ASSURANCE OPINION: NON-FINANCIAL SYSTEMS

Our overall opinion is **Substantial Assurance,** whilst there is a largely sound system of control there are some minor weaknesses, which may put a limited number of the system objectives at risk.

2.7 *Assurance opinion on Corporate Governance and Risk Management*
In our opinion the corporate governance and risk management framework substantially complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This conclusion is based on the work undertaken by the Council and reported in its Annual Governance Statement for 2015/16. Although SIAS did not undertake a specific risk management audit in 2015/16, risk management arrangements are considered during annual audit planning and the delivery of individual audit assignments.

T.V. Barrett

Head of Assurance for the Shared Internal Audit Service
May 2016

3. Overview of Internal Audit Activity in 2015/16

3.1 This section of the report summarises the work of the audit service during the year, highlighting matters of significance in respect of the internal control environment and opportunities for improvement.

3.2 Appendix A lists the audit work that was completed in the year and the final position on the agreed audit plan, including the assurance level provided and number of recommendations made. The levels of assurance and priority of recommendations are summarised in the tables below, and include a comparison against 2014/15.

Assurance Level	Number of reports 2015/16 *(2014/15 data in brackets)*	Percentage of reports 2015/16 *(2014/15 data in brackets)*
Full	6 (2)	26% (8%)
Substantial	15 (16)	65% (67%)
Moderate	2 (6)	9% (25%)
Limited	0 (0)	0% (0%)
No	0 (0)	0% (0%)
Not Assessed	3 (6)	
Total	26 (30)	100% (100%)

Recommendation Priority Level	Number of recommendations 2015/16 *(2014/15 data in brackets)*	Percentage of recommendations made 2015/16 *(2014/15 data in brackets)*
High	1 (2)	2% (2%)
Medium	27 (46)	50% (45%)
Merits Attention	26 (55)	48% (53%)
Total	54 (103)	100% (100%)

3.3 The substantial assurance opinion overall on financial systems (same as 2014/15) has been concluded from the eight financial systems audits where an opinion has been given. Four received full assurance and four received substantial assurance. No high priority recommendations were made in these audits.

3.4 The substantial assurance opinion overall on non-financial systems has been concluded from the fourteen audits where an opinion has been given. One received full assurance, eleven substantial assurance and two moderate assurance. One high priority recommendation was made in respect of the Community Centres and Halls audit. The substantial

assurance opinion overall on non-financial systems is the same as that given in 2014/15.

3.5   Details of the moderate assurance audits for 2015/16 are as follows:

- Ongoing Financial Viability of Contractors – Three medium priority recommendations relating to the required level of monitoring of contractor's financial and operational viability, guidance for contract managers and documentation of the process to follow in the case of the failure of a contract.
- Community Centres and Halls – one high and one medium priority recommendation relating to the need for an updated report to be taken to Cabinet to obtain a formal decision on how the Council should progress and complete community centre lease negotiations and the production of guidance to Members acting in additional outside roles to limit the impact of potential conflicts.

The Asset Management, Safer Staffing and Waste Contract audits were not at final report stage at the time of writing this Annual Report. The outcomes from these audits have not been taken into account when determining the overall assessment for the Council.

A verbal update on these audits will be given at the committee meeting.

4. Performance of the Internal Audit Service in 2015/16

Performance indicators

4.1 The table below compares the performance in 2015/16 of SIAS at North Hertfordshire District Council against targets set by the Board of the Shared Internal Audit Service.

Indicator	Target for 2015/16	Actual to 31 March 2016
1 SIAS Planned Days – percentage of actual billable days delivered against planned billable days	**95%**	**99%***
2 SIAS Planned Projects – actual completed projects to draft report stage against planned completed projects	**95%**	**100%****
3 External Auditors' Satisfaction – the Annual Audit Letter should formally record whether or not the External Auditors are able to rely upon the range and the quality of SIAS' work	**Formal Reliance**	**Achieved**
4 SIAS Annual Plan – prepared in time to present to the March meeting of each Audit Committee. If there is no March meeting then the plan should be prepared for the first meeting of the financial year	**Deadline met**	**Achieved**
5 Client Satisfaction - client satisfaction questionnaires returned at 'satisfactory overall' level (minimum of 39/65 overall)	**100%**	**95%*****
6 Head of Assurance's Annual Report – prepared in time to present to the first meeting of each Audit Committee in the financial year	**Deadline met**	**Achieved**

7 Number of High Priority Audit Recommendations agreed	95%	100%

* Figure calculated as follows:

Original NHDC plan days 2015/16	400
Less unused contingency days	6

Total deliverable days available	394
Billed days for 2015/16	389

Billed days as a percentage of total deliverable days available = 389/394= 99%

The remaining 5 days (394 – 389) represent work to be completed in 2016/17.

Completion of 389 actual billable days in the year provides for an adequate level of assurance and is consistent with the 400 budgeted plan days for 2015/16.

** Figure calculated as follows:

29 deliverable projects / 29 total 2015/16 projects in the Audit Plan = 100%

*** Figure calculated as follows:

Based on 18 out of 19 client satisfaction questionnaires received for 2015/16 projects returned as 'satisfactory overall' level.

Developments in the year

4.2   During 2015/16 a number of service development activities took place within SIAS, designed to continually enhance the service offering:

- Shared Learning – a joint review took place to compare Risk Management processes across the partnership; further, quarterly shared learning updates are published.
- Procurement of external partner – SIAS worked in conjunction with the new external partner (BDO) for year one of a three year contract.
- Methodology review – a project to review the means by which audit fieldwork is documented by SIAS auditors.
- External Peer Review – see sections 4.3 to 4.9 below.

Review of Effectiveness

4.3   The PSIAS state that an external review of the effectiveness of Internal Audit should be undertaken at least every five years (date of first review 2011/12). SIAS elected to join a peer review group which also comprises the South West Audit Partnership, the Devon Audit Partnership and Veritau Ltd. The latest external review conducted in January 2016 was

undertaken by Veritau Ltd (a local authority controlled company which provides internal audit, counter fraud and other governance services).

4.4   The objectives of the review were:

- To assess the effectiveness of the SIAS Partnership for key stakeholders
- To meet the PSIAS requirement for an annual review of effectiveness for internal audit
- To make recommendations to help improve the effectiveness of SIAS.

4.5   The assessors reviewed an evidence pack submitted by the Head of Assurance and interviewed various stakeholder groups representing: senior leaders; auditees; employees of SIAS and the SIAS management team.

4.6   The review concluded that SIAS 'generally conforms' to the PSIAS, including the Definitions of Internal Auditing, the Code of Ethics and the Standards. 'Generally conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards.

4.7   The assessors' identified the following areas of good practice:

a)   The partnership is now well established and has gained an extremely good reputation with its member councils, both from officers and audit committee members
b)   The service has credibility and its recommendations and advice are valued by management
c)   The auditors conduct themselves in a professional manner, display knowledge of the areas they are auditing, adopt a flexible approach and are seen to be responsive to the needs of the client.
d)   The audit team is well resourced and the auditors take pride in the work they do.
e)   Time management is excellent and there is a real emphasis on efficient working, assignment planning, review and control
f)   The partnership has achieved its original objectives in terms of greater resilience, improved capacity, more efficient working and enhanced professionalism
g)   The service is endeavouring to develop a number of areas to help support its future work, including use of computer assisted audit techniques and assurance mapping.

4.8   The assessors identified the following areas which merit further attention:

a)   The self-assessment questionnaire would benefit from more detailed commentary
b)   The Audit Charter should be updated
c)   Consideration should be given to including a disclaimer on the Terms of Reference and template report format

e) Measures should be taken to increase staff engagement in 'shared learning' across the member councils
f) Steps should be taken to promote the availability of SIAS as a source of strategic advice and support
g) Consideration should be given to formalising the existing follow up arrangements so that there is greater consistency in practice across the client councils.

4.9 These areas will be addressed as part of the 2016/17 SIAS Service Plan as approved by the SIAS Board.

5. Compliance with the Public Sector Internal Audit Standards and Quality Assurance and Improvement Programme

5.1   The Public Sector Internal Audit Standards are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). They promote the professionalism, quality, consistency and effectiveness of internal audit across the public sector. They highlight the importance of robust, independent and objective internal audit arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement.

5.2   A review of SIAS' conformance with the PSIAS standards was carried out as part of an external peer review (please see 4.3 above).

5.3   The previous self-assessment carried out in May 2015 identified three areas of part-conformance. Progress against these areas has been re-assessed and now considered to be in conformance. Details are shown in Appendix C, Section C.

5.4   In relation to areas of intentional non-conformance these are set out in Appendix C, Section B and cover the requirement for the chief executive sign off for the Head of Assurance Appraisal. The Head of Assurance Appraisal includes an opportunity for Chief Financial Officers across the SIAS partnership to input views. It is considered that this is appropriate given the shared nature of the service and no further action is currently proposed.

5.5   One of the main elements of the PSIAS is the requirement to define a Quality Assurance and Improvement Programme (QAIP) for SIAS. This work has been duly undertaken.

5.6   The SIAS QAIP includes both internal and external monitoring and reporting to assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement. The diagram below details the methods used to monitor and report on quality and performance. Detailed information outlining activity in each area is contained in the SIAS Audit Manual.

QAIP

- **Continuous Monitoring**
  - Individual Audit Assignment Review Process
  - Client Feedback
- **Weekly**
  - Performance Management Reporting
- **Monthly**
  - Management Team
  - PI Targets
  - 121's
  - Management Team Action Tracker
- **Quarterly**
  - Progress Reports to SIAS Board
  - Progress Reports to Client Audit Committees
  - Team Meetings
- **Annually**
  - Service Plan
  - PMDS Process, including 6 month review
  - Review of Effectiveness for Internal Audit
  - Head of Assurance Annual Report to SIAS Board
  - Head of Assurance Annual Report to Client Audit Committees
- **External**
  - External Audit
  - Externally Commissioned Reviews
  - Peer Reviews

Quality Assurance & Improvement

5.7 During the year SIAS has operated according to its QAIP. Evidence is available within the service to support the achievement of each of the QAIP elements.

5.8 An externally commissioned review of the service's conformance with PSIAS standards has to be undertaken at least once every five years. A review was undertaken by Veritau in 2015/16 (see sections 4.3 to 4.9).

6. Audit Charter

6.1   The Public Sector Internal Audit Standards require that a local authority formally adopts an Audit Charter covering the authority and responsibility for its internal audit function.

6.2   The SIAS Audit Charter sets out the framework within which it discharges its internal audit responsibilities to those charged with governance in the Council. It also details the permanent arrangements for the internal audit and key governance roles and responsibilities to ensure the effectiveness of internal audit provision.

6.3   An annual review of the Audit Charter is undertaken as part of the SIAS Service Plan activity. The review for 2016/17 did not result in any fundamental changes to the document, although a number of minor amendments have taken place. The Charter for 2016/17 is attached at Appendix D.

2015/16 North Hertfordshire District Council Audit Plan

	Level of Assurance	Recommendations			Plan Days	Audit progress /Status
		H	M	MA		
Key Financial Systems						
Main Accounting - CRSA Year 1	Full	0	0	0	8	Final report issued
Debtors - CRSA Year 1	Full	0	0	0	8	Final report issued
Creditors – CRSA Year 1	Full	0	0	0	8	Final report issued
Treasury Management – CRSA Year 2	Substantial	0	0	2	8	Final report issued
Payroll	Substantial	0	3	1	12	Final report issued
Council Tax	Substantial	0	3	3	12	Final report issued
Non Domestic Rates	Substantial	0	2	1	12	Final report issued
Housing & Council Tax Benefits	Full	0	0	0	14	Final report issued
Asset Management					12	Draft report issued
Operational Audits						
Ongoing Financial Viability of Contractors	Moderate	0	3	1	15	Final report issued
Elections Payroll	Substantial	0	2	2	15	Final report issued

	Level of Assurance	Recommendations			Plan Days	Audit progress /Status
		H	M	MA		
Community Centres & Halls	Moderate	1	1	0	15	Final report issued
Careline Expansion Initiative	Substantial	0	1	2	12	Final report issued
Social Media	Substantial	0	1	1	10	Final report issued
Insurance	Substantial	0	0	1	15	Final report issued
District Museum Project	-	-	-	-	-	Audit deferred to 16/17
Profit Share Arrangements	Full	0	0	0	10	Final report issued
Review of FAR	Not assessed	0	0	0	3	Final report issued
DCO Refurbishment Project	Substantial	0	2	2	10	Final report issued
Section 106 Payments	Substantial	0	2	1	10	Final report issued
Use of Agency Staff	Substantial	0	2	1	15	Final report issued
Neighbourhood Plans	Substantial	0	1	5	15	Final report issued
Safer Staffing					10	Draft report issued
Officers & Members Expenses	Substantial	0	3	0	15	Final report issued

APPENDIX A - FINAL POSITION FOR THE 2015/16 AUDIT PLAN

	Level of Assurance	Recommendations			Plan Days	Audit progress /Status
		H	**M**	**MA**		
Repair & Renew Grant	Not assessed	0	0	0	1	Final report issued
Cemeteries	Substantial	0	1	1	12	Final report issued
King George V Trust	Not assessed	0	0	0	1	Final report issued
Procurement						
Waste Contract Mgt & Renewal					20	Draft report issued
Procurement Cards	Substantial	0	0	2	12	Final report issued
Shared Learning						
Shared Learning Newsletters and Summary Reports	-	-	-	-	2	Complete
Audit Committee Workshop	-	-	-	-	1	Complete
Joint Review – Risk Management Benchmarking Workshop	N/A	-	-	-	2	Complete
IT Audits						
Data Network	Full	0	0	0	15	Final report issued

APPENDIX A - FINAL POSITION FOR THE 2015/16 AUDIT PLAN

	Level of Assurance	Recommendations			Plan Days	Audit progress /Status
		H	M	MA		
Contingency						
Contingency	-	-	-	-	6	
Election Support						
Election Support	N/A	-	-	-	2	Complete
Strategic Support						
2016/17 Audit Planning	-	-	-	-	10	Complete
Audit Committee	-	-	-	-	12	Complete
Client Meetings	-	-	-	-	9	Complete
Liaison with External Audit	-	-	-	-	1	Complete
Head of Internal Audit Opinion 2014/15	N/A	-	-	-	5	Complete
Plan Monitoring	-	-	-	-	10	Complete
SIAS Development	-	-	-	-	5	Complete
2014/15 Projects Requiring Completion						
2014/15 Projects Requiring Completion	-	-	-	-	10	Complete

APPENDIX A - FINAL POSITION FOR THE 2015/16 AUDIT PLAN

	Level of Assurance	Recommendations			Plan Days	Audit progress /Status
		H	**M**	**MA**		
Recommendations		1	27	26		
Plan Days					400	

Key to Assurance Level and Recommendation Priority Levels:

N/A = Not Applicable

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

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

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

Section A: Conformance

During 2015/16 all areas apart from those identified in Section B below are conforming.

Section B: Intentional Non-Conformance

Ref	Area of Non-Conformance with the Standard	Commentary	
3.1a	**Purpose, Authority and Responsibility** Does the board (defined as the Audit Committee) approve decisions relating to the appointment and removal of the Chief Audit Executive (CAE) (Head of Assurance)	The Director of Resources, Hertfordshire County Council (HCC), in consultation with the Board of the Shared Internal Audit Services approves decisions relating to the appointment and removal of the CAE. This is as provided for in the governance of the Shared Internal Audit Service.	**Non-conformance** No further action proposed. The current arrangements are considered effective given the shared nature of SIAS.

3.1c	**Purpose, Authority and Responsibility** Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?	The performance appraisal is carried out by the Director of Resources (HCC).	**Non-conformance** No further action proposed. The appraisal process was carried out by the Director of Resources (HCC) with input from all partner chief finance officers. The current arrangements are considered effective given the shared nature of SIAS.

Section C: Previous Part Conformance – now Conformance

Ref	Area of Non-Conformance with the Standard	Position as at May 2015
3.3	**Proficiency and Due Professional Care** **Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques**?	**Conformance** Team members have appropriate knowledge and a strategy for computer assisted audit techniques now in place.

4.5	**Communicating results** **Does the Annual Report incorporate the results of the QAIP and any associated improvement actions**	**Conformance** QAIP in place and results reported annually. Process improvements implemented in 2015/16. These include Head of Assurance review of a sample of completed files (to cover quality of work, compliance with standards, challenge to assurance opinions) and regular QAIP meetings (involving The Management Team and Principal Auditors) to consider review and monitoring activities within SIAS.

| 4.5 | **Communicating results**

The results of the QAIP?
Progress against any improvement plans resulting from the QAIP? | **Conformance**

QAIP in place and results reported annually.

Process improvements implemented in 2015/16. These include Head of Assurance review of a sample of completed files (to cover quality of work, compliance with standards, challenge to assurance opinions) and regular QAIP meetings (involving The Management Team and Principal Auditors) to consider review and monitoring activities within SIAS. |

Internal Audit Charter

1. Introduction and Purpose

1.1. Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the Council. It assists the Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness and efficiency of the Council's risk management, control, and governance processes.

2. Scope

2.1. This Internal Audit Charter is applicable to all clients of Hertfordshire's Shared Internal Audit Service (SIAS) during 2016/17. These clients are:

- East Hertfordshire Council
- Hertfordshire County Council
- Hertsmere Borough Council
- North Hertfordshire District Council
- Stevenage Borough Council
- Three Rivers District Council
- Watford Borough Council
- Welwyn Hatfield Borough Council
- Welwyn Hatfield Community Housing Trust

3. Statutory Basis of Internal Audit

3.1. Within local government there is a statutory requirement for an internal audit function. The Accounts and Audit Regulations 2015 require that 'a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

3.2. In addition, a council's Chief Finance Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. The S151 officer relies, amongst other sources, upon the work of internal audit in reviewing the operation of systems of internal control and financial management.

4. Role

4.1. Internal audit activity provided by SIAS is overseen by the Audit Committee. The responsibilities of SIAS are defined by the Audit Committee, via this Charter, as part of its oversight role.

4.2. SIAS may undertake consultancy activity (additional activity requested by management) where it has the necessary skills and resources to do this. Such activity will be determined by the Head of Assurance on a case by case basis and significant additional consulting activities will not be carried out without prior consultation of the SIAS Board.

5. Professionalism

5.1. SIAS governs itself by adherence to the Public Sector Internal Audit Standards (PSIAS). These mandatory public sector specific standards were introduced on 1 April 2013, through a joint venture between the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA).

5.2. This mandatory guidance includes the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing ('the Standards') and sets out the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of an internal audit function's performance.

5.3. The IIA's Practice Advisories, Practice Guides, and Position Papers are adhered to as applicable to guide operations. In addition, SIAS adheres to the council's relevant policies and procedures, including compliance with the Bribery Act 2010 and other relevant legislation. These are included in SIAS's standard operating procedures manual, which is subject to regular review.

5.4. In the event of non-conformance with the Standards, the Head of Assurance will investigate and disclose, in advance if possible, the exact nature of the non-conformance, the reasons for it, and, if applicable, the impact on any specific engagement or engagement result.

6. Authority and Confidentiality

6.1. With strict accountability for confidentiality and safeguarding records and information, SIAS is authorised full, free, and unrestricted access to any and all of a client's records, physical properties, and personnel pertinent to carrying out an engagement.

6.2. Internal Auditors must only use this information for carrying out the audit, and must ensure that it is not used in any manner that would be contrary to the law, for personal gain, or detrimental to the legitimate and ethical objectives of the client organisation(s). However, disclosure must be made of all material facts known to Internal Auditors which, if not disclosed, could distort their reports or conceal unlawful practice.

6.3. All employees are requested to assist SIAS in fulfilling its roles and responsibilities. SIAS also has free and unrestricted access to the Audit Committee and Senior Management.

7. Organisation

7.1. SIAS has direct access to Senior Management, the Audit Committee, the Chief Executive and the Chair of the Audit Committee. The Section 151 Officer and the Audit Committee will jointly agree the level of internal audit resource to be deployed. The Head of Assurance will communicate and interact directly with Senior Management, the Audit Committee, and the nominated external audit representative in executive sessions and between meetings as appropriate. Outside formal Senior Management and Audit Committee meetings, the Head of Assurance will have unrestricted access to the Chief Executive and the Chair of the Audit Committee.

7.2. For line management purposes, the Head of Assurance reports to the post of Director of Resources at Hertfordshire County Council (HCC), who approves all decisions regarding the performance evaluation, appointment, or removal of the Head of Assurance, in consultation with the SIAS Board. Feedback is also sought from the Audit Committee chairs of the SIAS partners.

8. Stakeholders

8.1. The following groups are defined as stakeholders of SIAS:

8.2. The Head of Assurance, who must be suitably experienced and qualified (CCAB and / or CMIIA), is responsible for hiring, appraising and developing appropriate Internal Audit staff in accordance with the HR guidance of the hosting Authority and the job descriptions which are kept up-to-date and reflect the roles, responsibilities, skills, qualifications, and attributes required of Internal Auditors. Together, the Internal Audit staff will possess or obtain the skills, knowledge and other competencies (including ethical practice) required to perform SIAS engagements.

8.3. The Audit Committee fulfils the role of 'board' in the majority of instances, and is responsible for overseeing the effectiveness of SIAS and holding the Head of Assurance to account for delivery, through the setting of performance targets and receipt of regular updates and reports. The Audit Committee is responsible for the effectiveness of the governance, risk and control environment within the Council, holding managers to account for delivery. The Chair of the Audit

Committee will also be asked to contribute to the annual appraisal of the Head of Assurance.

8.4. 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 through an analysis and review of key risks to achieving the Council's objectives and priorities. Senior management provides leadership and direction for the Council.

8.5. The SIAS Board is the governance group charged with monitoring and reviewing the overall operation of SIAS, including:

- resourcing and financial performance,
- performance indicators measuring operational effectiveness, and
- the overall strategic direction of the shared service.

9. Independence and Objectivity

9.1. SIAS will remain free from interference by any element in the organisation in matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

9.2. As well as having an impartial, unbiased attitude, Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair an internal auditor's judgment.

9.3. The Head of Assurance will confirm to the Audit Committee, at least annually, the organisational independence of SIAS.

10. Conflicts of Interest

10.1. Internal auditors must exhibit the highest level of professional objectivity when gathering, evaluating, and communicating information about the activity or process being examined.

10.2. In addition to ensuring that any information accessed as part of the audit process is not used for personal gain, Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

10.3. Each auditor is required, in addition to the ethical requirements of the various professional bodies, to proactively declare any potential conflict of interest, whether actual or apparent, prior to the commencement of each audit assignment.

10.4. All auditors are required to sign an annual declaration of interest to ensure that the allocation of audit work avoids conflict of interest. Auditors who undertake any

consultancy work or are new to the team will be prohibited from auditing in those areas where they have worked in the past year. Audits are rotated within the team to avoid over-familiarity and complacency.

10.5. SIAS has procured an arrangement with an external audit partner to provide additional internal audit days on request. The external partner will be used for the internal audit of any functions directed by the Head of Assurance and to provide competent advice and assistance to the Head of Assurance in the event that the skills, knowledge, and other competencies are lacked by SIAS staff.

10.6. In the event of a real or apparent impairment of independence or objectivity, including acceptance of gifts, hospitality, inducements or other benefits, investigation and declaration, in advance if possible, to appropriate parties will be carried out by the Head of Assurance.

11. Responsibility and Scope

11.1. The scope of SIAS encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control and risk management objectives considered by internal audit extend to the entire control and risk management environment of the organisation 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; and
- safeguarding of assets.

11.2. SIAS is responsible for evaluating all processes of the organisation including governance processes and risk management processes and promoting appropriate ethics and values within the organisation. It also assists the Audit Committee in evaluating the quality of performance of external auditors and ensuring a proper degree of coordination is maintained.

11.3. Due to its detailed knowledge and understanding of risks and controls, SIAS is well placed to provide advice and support on emerging risks and issues. As a result, it may perform consulting and advisory services as appropriate for the organisation. It may also evaluate specific operations at the request of the Audit Committee and senior management, as appropriate.

11.4. Based on its activity, SIAS is responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to senior management, including fraud risks, governance issues, and other matters needed or requested by these bodies. This ensures SIAS plays a key role in providing assurance to the Audit Committee and senior management on the effectiveness of the entire control environment.

11.5. Each engagement will be allocated to (an) Internal Auditor(s) with the appropriate skills, experience and competence, who is then responsible for carrying out the work in accordance with the SIAS Audit Manual, and considering, as well as the relevant elements of internal control outlined above, the needs and expectations of clients, the extent of work required to meet the engagement's objectives, its cost effectiveness, and the probability of significant error or non-compliance.

12. Role in Anti-Fraud

12.1. The work programme of SIAS is designed, in part, to help deter fraud and corruption. With this in view, SIAS bases its planning on regular risk assessment, and works with Chief Financial Officers, the Shared Anti-Fraud Service, other senior managers and the Audit Committee in determining its programme of work.

12.2. SIAS also shares information with relevant partners, including with government via the National Fraud Initiative and the Shared Anti-Fraud Service, to increase the likelihood of detecting fraudulent activity and reducing the risk of fraud to all.

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

13. Internal Audit Plan

13.1. At least annually, the Head of Assurance will submit to the Audit Committee for review and approval a risk-based plan which sets out in priority order the audit and other work to be carried out and demonstrates SIAS' priorities (e.g. the need to produce an annual internal audit opinion) and those of the organisation and sector, including any relevant declarations of interest.

13.2. The plan will include the risk assessment approach used and reference to the organisation's assurance framework, as well as timing, budget and resource requirements (including specialist input) for the next financial year. These requirements will include a contingency for new or changed risks, time for planning and reporting, and a contribution to the development of SIAS. The Head of Assurance will communicate the impact of resource limitations and significant interim changes of senior management to the Audit Committee, who should seek similar reassurance from management.

13.3. Prior to submission to the Audit Committee for approval, the plan is discussed with appropriate senior management. 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. However, any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process.

14. Reporting and Monitoring

14.1. The Head of Assurance will, following discussion if necessary, arrange for a written Terms of Reference to be prepared and issued to appropriate personnel at the start of the engagement, outlining the intended objectives, scope, and reporting. This may be subject to review in consultation with the client during the course of the engagement.

14.2. At the conclusion of an engagement, an internal audit report will be issued, including a reasoned opinion, along with the framework, time period and scope within which it was prepared and management's response and corrective action taken or to be taken in response to the specific risk prioritised findings and recommendations. Management's response will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

14.3. SIAS will be responsible for appropriate follow-up on findings and recommendations and will use this work to inform the risk-based planning of future audit work. SIAS will also report to the Audit Committee on the results of this activity, and may, if necessary, consider revising the internal audit opinion on the basis of this follow-up. Should the follow-up bring to light any significant error or omission, the Head of Assurance will ensure that it is communicated to all relevant parties.

14.4. The Head of Assurance will consider on a risk-basis any request from external stakeholders for reports on the results of internal audit activity, in consultation with senior management

14.5. The Head of Assurance will arrange for quarterly update reports to the Audit Committee to advise on the results of each engagement, including significant risk exposures and control issues, and provide an annual report to the Audit Committee. The annual report will include 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), and a summary of the work that supports the opinion including a comparison with the plan, a statement of conformance with PSIAS, and the nature and reasons for any impairments, qualifications or restrictions in scope.

15. Periodic Assessment

15.1. In accordance with the PSIAS the Head of Assurance and the SIAS Board will make arrangements for the conduct by a suitably knowledgeable, qualified and competent individual or organisation of an independent review of the effectiveness of internal audit.

15.2. The Head of Assurance will ensure that continuous efforts are made to improve the efficiency, effectiveness, and quality of SIAS. This will be carried out formally through the Quality Assurance and Improvement Programme, client feedback, appraisals, and shared learning with the external audit partner, and informally through coaching, supervision, and documented review.

15.3. The work will be conducted on the basis of one review of SIAS providing assurance for all SIAS partner members. The results of the review will be included in the Annual Report.

16. Review of the Audit Charter

16.1. This charter will be subject to annual review by the Head of Assurance and any changes presented to Audit Committee for approval at the first audit committee meeting in each financial year.

16.2. The Audit Charter was last reviewed by Terry Barnett, Head of Assurance in May 2016. The date of the next review will be May 2017.

Note:

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