



# **ANNUAL ASSURANCE STATEMENT AND INTERNAL AUDIT ANNUAL REPORT 2021/22**

**NORTH HERTS COUNCIL  
FINANCE AUDIT AND RISK COMMITTEE  
JUNE 2022**

## **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)
- Approve the SIAS Audit Charter for 2022/23
- Seek management assurance that the scope and resources for internal audit were not subject to inappropriate limitations in 2021/22

## **Contents**

1. Purpose and Background
  - 1.1 Purpose
  - 1.2 Background
  
2. Annual Assurance Statement for 2021/22
  - 2.1 Context
  - 2.2 Control Environment
  - 2.4 Review of Effectiveness - compliance with the PSIAS and QAIP
  - 2.13 Confirmation of independence of internal audit and assurance on limitations
  - 2.14 Assurance Opinion on Internal Control
  - 2.15 Assurance Opinion on Corporate Governance and Risk Management
  
3. Overview of Internal Audit Activity at the Council in 2021/22
  
4. Performance of the Internal Audit Service in 2021/22
  - 4.1 Performance Indicators
  - 4.2 Service Developments
  
5. Audit Charter 2022/23

## **Appendices**

- A Final position against the Council's 2021/22 Audit Plan
  
- B Definitions of Assurance Recommendation Priority Levels
  
- C Position against Public Sector Internal Audit Standards as of April 2022
  
- D Internal Audit Charter 2022/23

## 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 North Herts Council's (the Council) framework of governance, risk management and control. Reference is made to significant matters and key themes
- b) Shows the outcomes of the self-assessment against the Public Sector Internal Audit Standards (PSIAS) incorporating the requirements of the Quality Assurance and Improvement Programme (QAIP).
- c) Summarises the audit work that informs this opinion.
- d) Shows SIAS performance in respect of delivering the Council's audit plan.
- e) Presents the 2022/23 Audit Charter for approval.

### Background

- 1.2 A key duty of the Chief Audit Executive (the Council's Client Audit Manager) is to provide an annual internal audit opinion, concluding on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion informs the conclusions of the Council's Annual Governance Statement.
- 1.3 In preparing this annual report, it is important to acknowledge the challenges presented to Local Authorities in responding to COVID-19, which continued to impact the Council during 2021/22. Whilst the Council has essentially returned to business as usual, some changes to governance structures and internal control arrangements in response to the challenges presented by the pandemic would have been operating during 2021/22.
- 1.4 The assurance opinion in this report is based on internal audit work undertaken during 2021/22. 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 2022/23 before the Finance, Audit and Risk Committee report deadline.
- 1.5 As reported to the Finance, Audit and Risk Committee in June 2021, SIAS changed the scale and definitions of assurance ratings used to communicate the results of audit assignments from 1 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
- 1.6 The associated definitions for the opinions of Substantial, Reasonable, Limited and No assurance, can be found within Appendix B of this report.
- 1.7 SIAS is grateful for the co-operation and support it has received from client officers during 2021/22.

## 2. Annual Assurance Statement 2021/22

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

#### *Review of effectiveness*

- 2.4 The 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

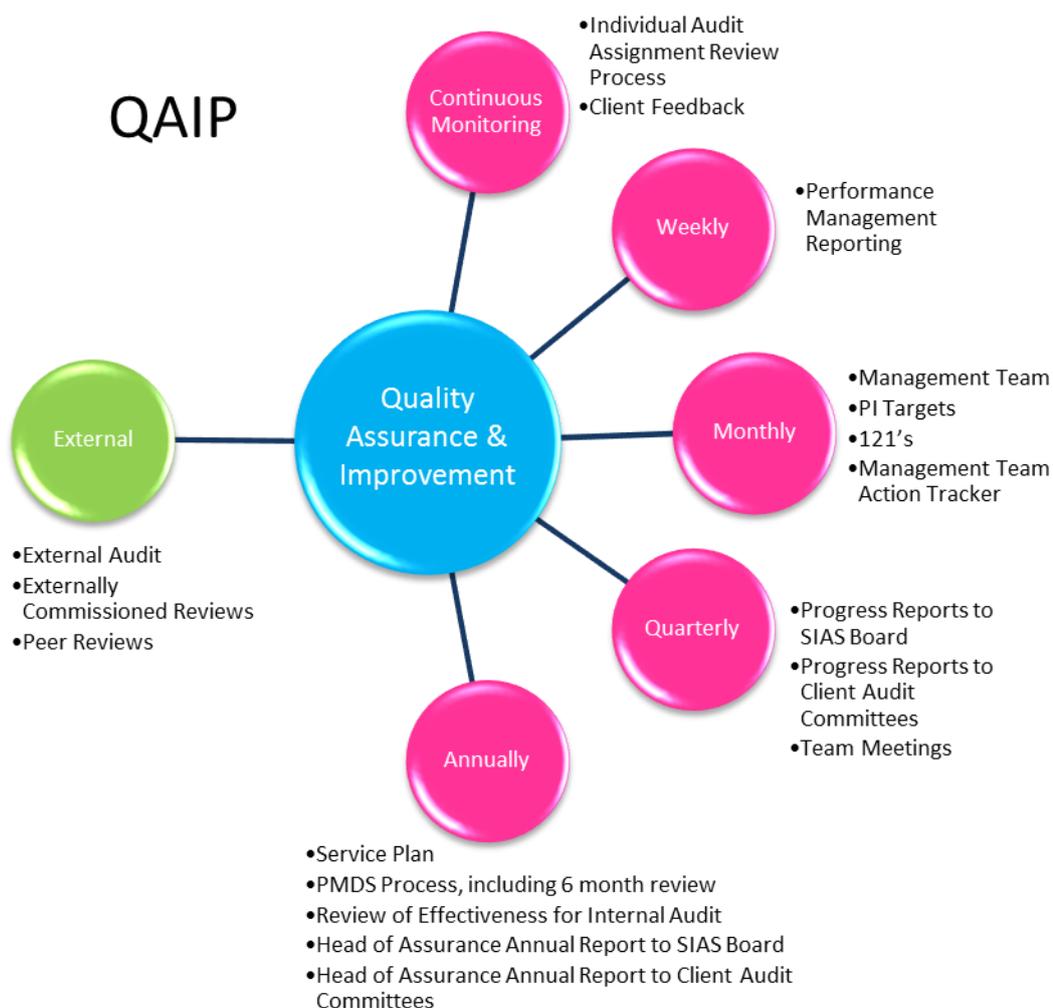
## Annual Assurance Statement and Internal Audit Annual Report - North Herts Council

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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 outside the organisation. This review was completed in June 2021 (the previous review being undertaken in 2015/16), with the result of the assessment reported to the Finance, Audit and Risk Committee in December 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 Within the EQA report, the assessors provided ratings of 'generally conforms' (the highest rating) for 36 of the 43 PSIAS standards, and 'partially conforms' for the remaining seven standards. The assessors concluded that revisions to Audit Charter would address the three relevant areas of partial conformance that would allow SIAS to self-assess as generally conforms. The revisions to the Audit Charter were completed, presented to, and approved by the Finance, Audit and Risk Committee in December 2021.
- 2.9 In respect of the remaining four areas of partial conformance, these were not deemed material by the assessors to the overall assessment rating, but nevertheless were identified as areas for further development. These have been addressed in year by SIAS as part of our service plan activities.
- 2.10 Based on the results of the 2022/23 PSIAS self-assessment, the Head of Assurance (HCC) 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. 'Generally conforms' is the highest rating and means that SIAS has a charter, policies and processes assessed as conformant to the Standards and is consequently effective.
- 2.11 The self-assessment identified two 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.

2.12 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.



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

2.13 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 and Internal Audit Annual Report - North Herts Council

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### Annual Assurance Statement for 2021/22

#### *Assurance opinion on internal control*

- 2.14 Based on the internal audit work undertaken at the Council in 2021/22, 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*

- 2.15 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 2021/22 and the specific coverage of governance and risk management arrangements related to the areas included within approved internal audit plan.

**Chris Wood**  
**Chief Audit Executive (Client Audit Manager)**  
**May 2022**

### 3. Overview of Internal Audit Activity at the Council in 2021/22

- 3.1 This section summarises work undertaken at the Council by SIAS in 2021/22. It highlights any significant internal control matters and opportunities for improvement.
- 3.2 Appendix A shows the final position against the audit plan, assurance levels and the number of recommendations made. A summary of assurance levels and recommendation priorities is shown in the tables below (2020/21 data in brackets).

Assurance Level	Number of reports 2021/22 (2020/21 data in brackets)	Percentage of reports 2021/22 (2020/21 data in brackets)
Substantial	5 (8)	21% (31%)
Reasonable	6 (8)	25% (31%)
Limited	1 (1)	4% (4%)
No	0 (0)	0% (0%)
Not Assessed	8 (5)	33% (19%)
Not Complete	4 (4)	17% (15%)
<b>Total</b>	<b>24 (26)</b>	<b>100% (100%)</b>

Recommendation Priority Level	Number of recommendations 2021/22 (2020/21 data in brackets)	Percentage of recommendations made 2021/22 (2020/21) data in brackets)
Critical	0 (0)	(0%)
High	3 (3)	14% (8%)
Medium	9 (19)	41% (50%)
Low / Advisory	10 (16)	45% (42%)
<b>Total</b>	<b>22 (38)</b>	<b>100% (100%)</b>

- 3.3 **The Reasonable overall assurance opinion on financial systems** has been concluded from five financial systems audits. One received Substantial assurance, one received Reasonable assurance and one received Limited assurance. Three high priority recommendations and one medium priority recommendation were made across these audits. Whilst the issues raised in the Limited assurance report (see paragraph 3.11) are significant, the audit conclusions on their own are insufficient to reduce the overall annual assurance opinion.
- 3.4 There were two projects with an opinion of 'Not Assessed' that provided consultancy advice on the planned control environment, but an assurance opinion for the work was not provided. No material or significant

## Annual Assurance Statement and Internal Audit Annual Report - North Herts Council

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observations or issues arose from these two consultancy projects, and the outcomes informed the overall assurance opinion. One audit from the 2021/22 plan (Grants Administration) was still in progress at the time of writing this report.

- 3.5 **The Reasonable assurance opinion overall on non-financial systems** has been concluded from 15 audits. Four audits received Substantial assurance and five received Reasonable assurance. In addition, six projects were classified as “Not Assessed” i.e., no audit assurance opinion was given. Three audits from the 2021/22 plan were still in progress at the time of writing this report, these being Shaping our Future, Health and Safety of Lone Workers (EH and Housing) and Ways of Working. No high priority recommendations were made across these audits, although eight medium priority recommendations and ten low priority recommendations were made.
- 3.6 In arriving at our Reasonable assurance opinion for non-financial systems, we highlight that 100% of opinions issued for individual audits during the year were assessed as Substantial or Reasonable assurance. This generally indicates the Council has good systems of internal control for a wide range of areas. In reaching our opinion, we have also included two reports where the opinion was not considered in the 2020/21 annual assurance opinion resulting from work undertaken in that year but not finalised until 2021/22. These audits were Trade Waste (Substantial Assurance; one low priority recommendation) and Climate Change and Sustainability (Reasonable assurance, two medium priority recommendations).
- 3.7 There were three projects with an opinion of ‘Not Assessed’ that provided consultancy advice on the planned governance and control environment, but an assurance opinion for the work was not provided. No material or significant observations or issues arose from these three consultancy projects, and the outcomes informed the overall assurance opinion on non-financial systems. Three further projects were also classified as “Not Assessed” and contributed to the assurance opinion on non-financial systems. These consisted of compliance work carried out during the year on the effectiveness of the Finance, Audit and Risk Committee) and two audits of charitable trust accounts run through the Council’s bank accounts, both of which certified that the accompanying final accounts presented an accurate picture of the activities and transactions undertaken through the account and of the financial position at the end of the year.
- 3.8 Two audits were at draft report stage at the time of writing this Annual Report, with a management response awaited. These audits (Grants Administration and Shaping our Future) have not influenced or affected the assurance opinion on non-financial systems for 2021/22 and will be considered when forming our opinion for 2022/23. The same will apply to the two audits (Health and Safety of Lone Workers (EH and Housing) and Ways of Working) in quality review and in planning respectively.

- 3.9 As with many other areas of the Council's operations, the impacts of COVID-19 and the move to hybrid working arrangements resulted in SIAS continuing to review and adjust the approach to audits. This includes SIAS undertaking audits through remote approaches, such as MS Teams. Whilst a different approach, this did not present significant issues in relation to conducting our work.
- 3.10 We have considered the following other sources of assurance available to support our view on the adequacy and effectiveness of the Council's risk management, governance and internal controls in light of the ongoing impact of COVID-19 during 2021/22:
- a) SIAS continues to maintain close working relationships with risk management through the quarterly Risk Management Group.
  - b) The implementation status of the high priority recommendations throughout the year, as reported to the FAR Committee.
  - c) The proactive work undertaken by the Shared Anti-Fraud Service, including that in relation to the COVID-19 grant claims, as well as the advice and investigative work completed and reported to the Council.

#### Critical and High Priority Recommendations

- 3.10 Members will be aware that a final audit report is issued when it has been agreed by management; this includes an agreement to implement the recommendations made. It is Internal Audit's responsibility to advise Members of progress on the implementation of critical and high priority recommendations; it is the responsibility of Officers to implement the recommendations by the agreed date.
- 3.11 Three High priority recommendations were made within work carried out during 2021/22, all arising from the 'Resilience in the Revenues and Benefits Systems and Technical Team' audit. Members will continue to receive updates on the implementation progress of critical and High priority recommendations through the SIAS quarterly progress reports to the Finance, Audit and Risk Committee.

## **4. Performance of the Internal Audit Service in 2021/22**

#### Performance indicators

- 4.1 The table below compares SIAS's performance at the Council against the 2021/22 targets set by the SIAS Board.

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

<b>Indicator</b>	<b>Target 2021/22</b>	<b>Actual to 31 March 2022</b>
<b>1 SIAS Planned Days</b> – percentage of actual billable days delivered against planned billable days	<b>95%</b>	<b>91%</b> (247 / 270 days)
<b>2 SIAS Planned Projects</b> – actual completed projects to draft report stage against planned completed projects	<b>95%</b>	<b>92%</b> (22 / 24 audit projects)
<b>3 SIAS Annual Plan</b> – presented to the March Finance, Audit and Risk Committee or the first meeting of the financial year should a March committee not meet.	<b>Deadline met</b>	<b>Yes</b>
<b>4 Client Satisfaction</b> - client satisfaction questionnaires returned at 'satisfactory overall' level (minimum of 39/65 overall)	<b>100%</b>	<b>86%</b> (6 out 7 received)
<b>5 Head of Assurance's Annual Report</b> – presented at the first Finance, Audit and Risk Committee meeting of the financial year	<b>Deadline met</b>	<b>Yes</b>
<b>6 Number of High Priority Audit Recommendations agreed</b>	<b>95%</b>	<b>100%</b> (3 agreed)

Service Developments

4.2 During 2021/22 the main service and development activities for SIAS included:

- a) Organisational Change – the Service was restructured during the Autumn, partly as a response to changes in client commissions and budgetary pressures, but also recognition that the Service needed to re-skill staff in areas such as data analytics and assurance mapping. As part of the above changes SIAS will be following a “grow your own” strategy, looking to develop staff from the bottom of the structure to progress through the different levels of the Service. A Training & Development Strategy has also been produced to build staff skills and knowledge to support the above Strategy.

- b) Recruitment and Retention – in addition to the above, several staff have left the Service for new jobs during 2021/22. The current market is widely recognised as very challenging, however the Service has successfully recruited two new Trainees and a new Client Audit Manager during the last six months, as well as internal promotions for three staff members.
- c) External Quality Assessment (EQA) – As part of the terms of reference for the review, the Head of Assurance Services took the opportunity to ask the assessors to expand the remit of the assessment to look at improvement opportunities for the partnership, beyond just the requirements of PSIAS. Key changes prompted through this review include revisions to the audit planning process (improving the visibility of the links to risk registers, corporate objectives, and other assurance provision), review of the existing processes for customer feedback on the audit service and updates to the audit manual to support staff new to management / supervisory activities.
- d) Ways of Working – like other services, SIAS has considered how best to operate following the relaxation of COVID-19 home working arrangements. SIAS staff are now returning to the office when needing to collaborate, under an overall hybrid working arrangement. Visits to client premises have also resumed and are being made when it is beneficial to do so.
- e) Data Analytics – SIAS continue to progress the adoption of data analytics into the audit process where this is deemed feasible. Data analytics is a powerful tool which can be incorporated into the audit process and enhances the ability to carry out whole population testing and continuous auditing. This in turn can enhance the assurance provided on the management of risk and controls. The above is being supported through close collaboration with our colleagues in the Local Authority Chief Auditors Network, our co-sourced audit partner (BDO) and training and development for our audit staff.

## **5. Audit Charter 2022/23**

- 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 May 2022 did not result in any changes and the 2022/23 Charter is attached at Appendix D.

## APPENDIX A – FINAL POSITION AGAINST THE COUNCIL’S 2021/22 AUDIT PLAN

### North Herts Council Audit Plan – 2021/22

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	STATUS/COMMENT
		C	H	M	LA		
<b>Key Financial Systems</b>							
Grants Administration						10	Draft Report Issued
Discretionary Housing Payments	Reasonable	0	0	1	0	8	Final Report Issued
Resilience in Revs and Bens	Limited	0	3	0	0	8	Final Report Issued*
Integra Automation	Not Assessed	0	0	0	0	17	Final Report Issued
Non-UK Purchases	Substantial	0	0	0	0	6	Final Report Issued*
HMRC Tax Guidance	Not Assessed	0	0	0	0	6	Final Report Issued*
<b>Corporate Audits</b>							
Covid-19 Response	Reasonable	0	0	2	0	23	Final Report Issued
Covid-19 Recovery – Phase 1	Reasonable	0	0	1	2	10	Final Report Issued
Covid-19 Recovery – Phase 2	N/A					0	Audit Cancelled
Shaping Our Future						10	Draft Report Issued
Climate Emergency	N/A					0	Audit Cancelled
<b>Operational Audits</b>							

**APPENDIX A – FINAL POSITION AGAINST THE COUNCIL’S 2021/22 AUDIT PLAN**

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	STATUS/COMMENT
		C	H	M	LA		
Health and Safety of Lone Workers (EH and Housing)						10	Quality Review
Community Capital Grants Applications	Reasonable	0	0	1	1	3	Final Report Issued*
Financial Resilience of Suppliers Follow Up	Substantial	0	0	0	0	2	Final Report Issued*
Development Management Follow Up	Reasonable	0	0	3	2	5	Final Report Issued
LA Track and Trace Grant	N/A					2	Audit Closed
Energy Improvement to Park Homes Grant	N/A					2	Audit Closed
Review of FAR	Not Assessed	0	0	0	0	6	Final Report Issued
King George V Playing Fields	Unqualified	0	0	0	0	1	Final Report Issued
Workman’s Hall	Unqualified	0	0	0	0	1	Final Report Issued
Trade Waste - Whitespace Integration	N/A					0.5	Audit Cancelled
Anti-Social Behaviour	N/A					0	Audit Cancelled
Partnerships	N/A					0	Audit Cancelled
<b>Contract Audits</b>							
Leisure Contract	Substantial	0	0	0	1	15	Final Report Issued

**APPENDIX A – FINAL POSITION AGAINST THE COUNCIL’S 2021/22 AUDIT PLAN**

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	STATUS/COMMENT
		C	H	M	LA		
<b>Corporate Governance</b>							
Ways of Working						15	In Planning
<b>IT Audits</b>							
Data Breaches	Substantial	0	0	0	2	10	Final Report Issued
Cloud Computing	Reasonable	0	0	1	1	10	Final Report Issued
Freedom of Information and Subject Access Requests	Substantial	0	0	0	1	10	Final Report Issued
<b>Consultancy and Advisory</b>							
Breathing Space (Debt Recovery)	Not Assessed	0	0	0	0	10	Final Report Issued
Customer Services Strategy	Not Assessed	0	0	0	0	12	Final Report Issued
Income Generation (Selling our Services)	Not Assessed	0	0	0	0	10	Final Report Issued
<b>Shared Learning and Joint Reviews</b>							
Joint Reviews	N/A					3	Complete
Shared Learning	N/A					2	Complete
<b>Contingency</b>							

## APPENDIX A – FINAL POSITION AGAINST THE COUNCIL’S 2021/22 AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	STATUS/COMMENT
		C	H	M	LA		
Contingency						0	Complete
<b>Client Management – Strategic Support</b>							
Head of Internal Audit Opinion 2020/21						3	Complete
Finance, Audit and Risk Committee						6	Complete
Client Meetings						6	Complete
Progress Monitoring						10	Complete
SIAS Development						5	Complete
2022/23 Audit Planning						10	Complete
Completion of outstanding 2020/21 projects						2.5	Complete
<b>Total</b>		<b>0</b>	<b>3</b>	<b>9</b>	<b>10</b>	<b>270</b>	

\* At Draft Report stage on 31 March 2022, Final Report issued after year end.

\*\* Draft Report issued after year end

\*\*\* Not Assessed means an assurance opinion was not required based on the nature of the work being performed.

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

### 2021/22 Definitions of Assurance and Recommendation Priority Levels

Assurance Level		Definition
<b>Substantial</b>		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.
<b>Reasonable</b>		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.
<b>Limited</b>		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.
<b>No</b>		Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks to the achievement of objectives in the area audited.
Priority Level		Definition
<b>Corporate</b>	<b>Critical</b>	Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
<b>Service</b>	<b>High</b>	Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
	<b>Medium</b>	Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	<b>Low / Advisory</b>	Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.

## APPENDIX C – POSITION AGAINST PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT APRIL 2022 – ACTION PLAN

**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><b>Purpose, Authority and Responsibility</b></p> <p>Does the board (defined as the Audit Committee) approve decisions relating to the appointment and removal of the Chief Audit Executive (CAE) and the Head of Assurance (HCC)?</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. The Deputy Chief Executive &amp; Executive Director of Resources (HCC), in consultation with the Board of the Shared Internal Audit Services, approves decisions relating to the appointment and removal of the Head of Assurance.</p> <p>This is as provided for in the governance of the Shared Internal Audit Service.</p>	<p><b>Non-conformance</b></p> <p>No further action proposed. The current arrangements are considered effective given the shared nature of SIAS.</p>
3.1c	<p><b>Purpose, Authority and Responsibility</b></p> <p>Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?</p>	<p>The performance appraisal is carried out by the Head of SIAS (HCC).</p>	<p><b>Non-conformance</b></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>



## Audit Charter 2022/2023

### 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 North Herts Council's committee charged with fulfilling audit committee responsibilities, herewith referred to as

the Finance, Audit and Risk Committee. As part of its oversight role, the Finance, Audit and Risk 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 Finance, Audit and Risk 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 Client Audit Manager 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 Finance, Audit and Risk Committee, the Chief Executive, the Chair of the Finance, Audit and Risk 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 Finance, Audit and Risk Committee has free and unrestricted direct access to both the Client Audit Manager and the Council's External Auditor.
- 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 SIAS Board.

## 7. Stakeholders

The following groups are defined as stakeholders of SIAS:

- 7.1. The Head of Assurance (HCC), working with the Head of SIAS, 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 Finance, Audit and Risk 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 Finance, Audit and Risk 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 Finance, Audit and Risk 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 Finance, Audit and Risk Committee, in a format agreed with these relevant parties.
- 7.6. Senior Management, defined as the Head of Paid Service, Chief Officers, and their direct reports, are responsible for helping shape the programme of assurance work. This is achieved through analysis and review of key risks to achieving the Council's objectives and priorities.
- 7.7. The SIAS Board is the governance group charged with monitoring and reviewing the overall operation of SIAS and reporting to the Finance, Audit and Risk Committee its findings, including:
  - resourcing and financial performance
  - operational effectiveness through the monitoring performance indicators
  - the overall strategic direction of the shared service.

### 8. Independence and Objectivity

- 8.1. No element in the organisation should interfere with audit selection, scope, procedures, frequency, timing, or report content. This is necessary to ensure that internal audit maintains the necessary level of independence and objectivity.
- 8.2. As well as being impartial and unbiased, internal auditors will have no direct operational responsibility or authority over any activity audited. They will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that might impair their judgment.
- 8.3. When asked to undertake any additional roles/responsibilities outside internal auditing, the Client Audit Manager will highlight to the Finance, Audit and Risk 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 Finance, Audit and Risk 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 Finance, Audit and Risk 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 Strategic Director (CFO) 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 Finance, Audit and Risk 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 Finance, Audit and Risk Committee and, where applicable, the Shared Anti-Fraud Service (SAFS), seeks to provide assurance on how the council manages the fraud risks to which it is exposed.
- 11.2. SIAS must have sufficient knowledge to evaluate the risk of fraud and the way it is managed by the Council but are not expected to have the expertise of a

person or team whose primary responsibility is detecting and investigating fraud.

- 11.3. SIAS will exercise due professional care by considering the probability of significant errors, fraud, or non-compliance when developing audit scopes and objectives.
- 11.4. North Herts Council (NHC) 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 Finance, Audit and Risk 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 will take into account the organisation's assurance framework. Also shown will be the timing of an engagement, its budget in days, details of any contingency for new or changed risks, time for planning and reporting and a contribution to the development of SIAS.
- 12.3. The plan will be subject to regular review in year and may be modified in response to changes in the organisation's business, risks, operations, programmes, systems, and controls. All significant changes to the approved internal audit plan will be communicated in the quarterly update reports.

### 13. Reporting and Monitoring

- 13.1. A draft written Terms of Reference will be prepared and issued to appropriate personnel at the start of an engagement. It will cover the intended objectives, scope and reporting mechanism and will be agreed with the client. Changes to the terms of reference during the engagement may occur and will be agreed following consultation with the client.
- 13.2. A report will be issued to management on completion of an engagement. It will include a reasoned opinion, details of the time period and scope within which it

was prepared, management's responses to specific risk prioritised findings and recommendations made and a timescale within which corrective action will be / has been taken. If recommended action is not to be taken, an explanation for this will also be included.

- 13.3. SIAS will follow-up the implementation of agreed recommendations in line with the protocol at each client. As appropriate, the outcomes of this work will be reported to the Finance, Audit and Risk 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. A revised internal audit opinion may be issued on the basis of follow-up activity.
- 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 Finance, Audit and Risk 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 Finance, Audit and Risk Committee meeting of each financial year, any changes for approval.
- 15.2. The Head of Assurance (HCC), acting as Client Audit Manager for NHC, reviewed this Audit Charter in May 2022. It will next be reviewed in April 2023.

**Glossary of Terms**

<p>Finance, Audit and Risk 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 Finance, Audit and Risk Committee operates in accordance with its terms of reference contained in North Herts Council’s Constitution.</p> <p>CIPFA’s <i>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 NHC.</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</p>

**APPENDIX D – AUDIT CHARTER 2022/2023**

	<p>with governance of the organisation. Furthermore, “board” in the Standards may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an Audit Committee).</p> <p>For the purposes of the SIAS Audit Charter, the Board as referred to in the PSIAS shall be North Herts Council’s Finance, Audit and Risk Committee. All references to the Finance, Audit and Risk 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 NHC’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</p>

**APPENDIX D – AUDIT CHARTER 2022/2023**

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	<p>professionalism, quality, consistency, and effectiveness of internal audit across the public sector. They reaffirm the importance of robust, independent, and objective internal audit arrangements to provide stakeholders with the key assurances they need to support them both in managing and overseeing the organisation and in producing the annual governance statement.</p>
<p>Shared Internal Audit Service (SIAS)</p>	<p>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.</p>
<p>SIAS Board</p>	<p>The Board that comprises officer representatives from the partner authorities and that is responsible for the governance of the SIAS partnership.</p>

Note:

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