



**Stevenage Borough Council  
2017/18 Annual Assurance Statement and  
Internal Audit Annual Report**

**12 June 2018**

**Recommendations**

Members are recommended to:

Note the Annual Assurance Statement and Internal Audit Annual Report

Note the results of the self-assessment required by the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance and Improvement Programme (QAIP)

Accept the SIAS Audit Charter

Seek management assurance that the scope and resources for internal audit were not subject to inappropriate limitations in 2017/18

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## 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 Stevenage Borough Council's (the Council) control environment. 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's performance in respect of delivering the Council's audit plan.
  - e) Presents the 2018/19 Audit Charter.

### Background

- 1.2 A key duty of the Head of Assurance is to provide an annual opinion on the Council's internal control environment. This opinion informs the conclusions of the Council's Annual Governance Statement.
- 1.3 The assurance opinion in this report is based on internal audit work undertaken during 2017/18 which was planned and amended to give sufficient assurance on the Council's management of its key risks. Also considered is any relevant work undertaken in 2018/19 before the audit committee report deadline.
- 1.4 SIAS is grateful for the co-operation and support it has received from client officers during 2017/18.

## 2. Annual Assurance Statement 2017/18

### 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.

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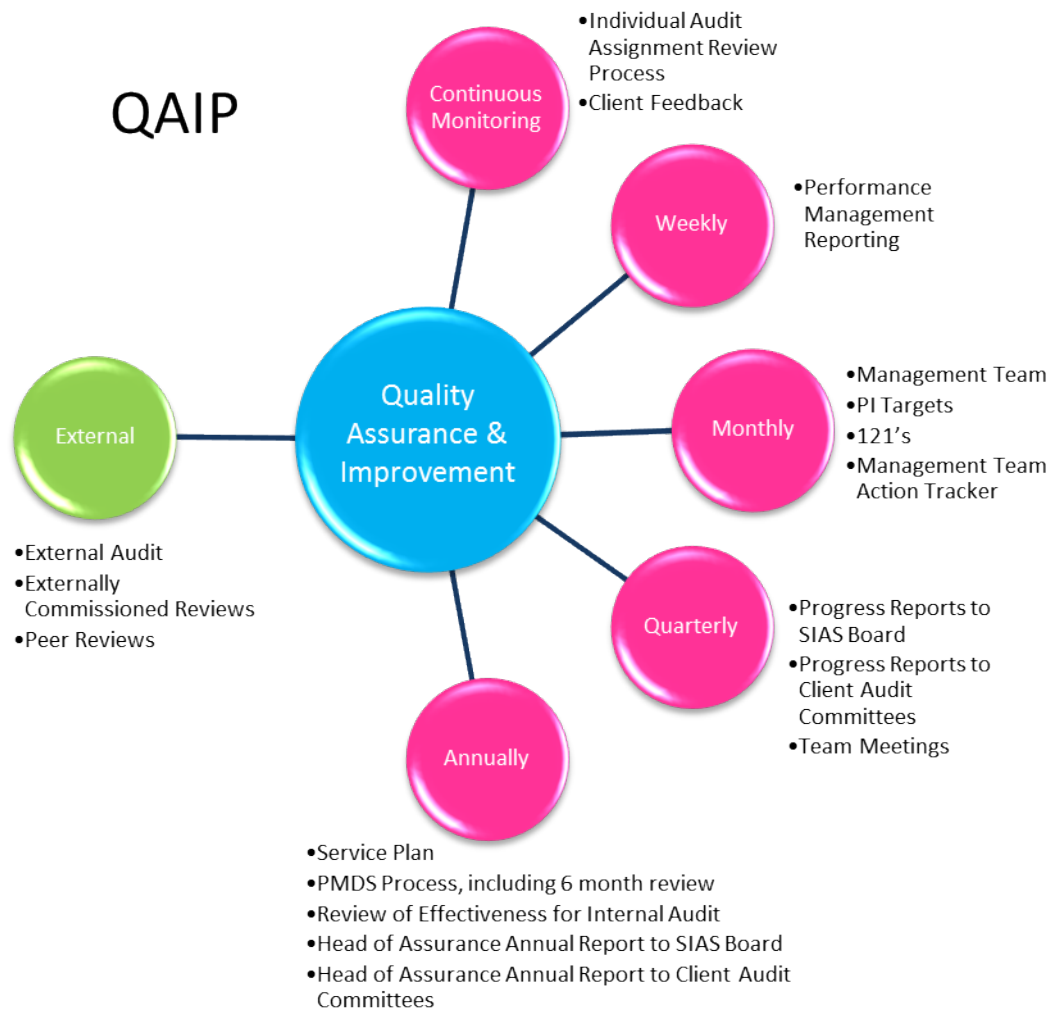
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### *Control environment*

- 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 Head of Assurance must confirm annually that the internal audit function is suitably qualified to carry out the work that informs the assurance opinion.
- 2.5 As part of a QAIP, a self-assessment was conducted against the Public Sector Internal Audit Standards (PSIAS). The PSIAS encompass the mandatory elements of the Chartered Institute of Internal Auditors (CIIA) International Professional Practices Framework (IPPF). They promote professionalism, quality, consistency and effectiveness of internal audit across the public sector. They highlight the importance of robust, independent and objective internal audit arrangements to provide senior management with the key assurances needed to support them in both managing the organisation and producing the Annual Governance Statement.
- 2.6 The 2017/18 self-assessment identified 2 areas of agreed non-conformance. These are detailed in Appendix C. There are no significant deviations from Standards which warrant inclusion in the Council's Annual Governance Statement
- 2.7 The Head of Assurance has concluded, therefore, that SIAS 'generally conforms' to the PSIAS, including the Definitions of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. 'Generally conforms' is the highest rating and means that SIAS has a charter, policies and processes assessed as conformant to the Standards and is consequently effective.
- 2.8 The SIAS QAIP includes both internal and external monitoring and reporting to assess the efficiency and effectiveness of internal audit activity and identify opportunities for improvement. The diagram below details the methods used to monitor and report on these. Detailed information outlining activity in each area is contained in the SIAS Audit Manual.
- 2.9 The Head of Assurance confirms that during 2017/18 SIAS operated according to its QAIP with evidence available within the service to support the achievement of each QAIP element.



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

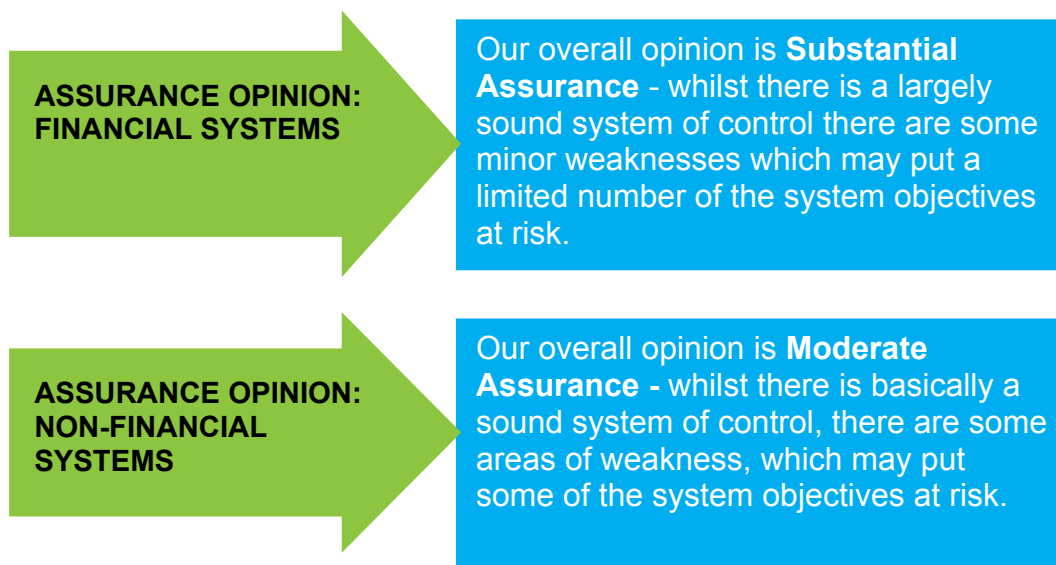
2.10 The Head of Assurance confirms that during the year:

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

Annual Assurance Statement for 2017/18

*Assurance opinion on internal control*

- 2.11 Based on the internal audit work undertaken at the Council in 2017/18, SIAS can provide the following unqualified opinion on the adequacy and effectiveness of the Council's control environment, broken down between financial and non-financial systems.



*Assurance opinion on Corporate Governance and Risk Management*

- 2.12 SIAS has concluded that the corporate governance and risk management frameworks substantially comply with the CIPFA/SOLACE best practice guidance on corporate governance. This conclusion is based on the work undertaken by the Council and reported in its Annual Governance Statement for 2017/18 and the specific reviews of Risk Management and Corporate Governance carried out by SIAS during the year.

*T. V. Bennett*

**Head of Assurance for the Shared Internal Audit Service  
May 2018**

### 3. Overview of Internal Audit Activity at the Council in 2017/18

- 3.1 This section summarises work undertaken at the Council by SIAS in 2017/18. It highlights any significant internal control matters and opportunities for improvement.
- 3.2 Appendix A shows the final position against the agreed revised audit plan, assurance levels and the number of recommendations made. A summary of assurance levels and recommendation priorities is shown in the tables below and compared to 2016/17.

Assurance Level	Number of reports 2017/18 <i>(2016/17 data in brackets)</i>	Percentage of reports 2017/18 <i>(2016/17 data in brackets)</i>
Full	6 (8)	15% (22%)
Substantial	15 (17)	37% (47%)
Moderate	7 (2)	17% (6%)
Limited	2 (1)	5% (3%)
No	0 (0)	0% (0%)
Not Assessed	6 (4)	15% (11%)
Not Complete	4 (4)	11% (11%)
Total	40 (36)	100% (100%)

Recommendation Priority Level	Number of recommendations 2017/18 <i>(2016/17 data in brackets)</i>	Percentage of recommendations made 2017/18 <i>(2016/17 data in brackets)</i>
High	12 (0)	13% (0%)
Medium	37 (34)	41% (52%)
Merits Attention	41 (31)	46% (48%)
Total	90 (65)	100% (100%)

- 3.3 **The substantial assurance opinion overall on financial systems** (same as 2016/17) has been concluded from ten financial systems audits, where an opinion has been given. Two received full assurance and eight received substantial assurance. No high priority recommendations were made in these audits.
- 3.4 **The moderate assurance opinion overall on non-financial systems** (substantial in 2016/17) has been concluded from thirty audits, where an opinion has been given. Four received full assurance, seven received substantial assurance, eight received moderate assurance and three received limited assurance. Further details on the audits where moderate

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or limited assurance opinions were provided are given in paragraph 3.7 and 3.8 of this report. Twelve high priority recommendations were made across these audits.

- 3.5 Six audit projects were classified as “Not Assessed”, i.e. no audit opinion was given. These were the IT Shared Service Agreement, DFG Capital Grant Certification, Museum Lease Payments, Housing Allocations Follow up, Cemetery Fuel Follow up and Local Authority Serious and Organised Crime Checklist. These projects have not directly contributed to the assurance opinion on non-financial systems, although they were nonetheless important pieces of consultancy and advice work carried out during the course of the year.
- 3.6 Four audits were not at final report stage at the time of writing this Annual Report. Shared Legal Service and Cyber Security were at draft report stage and detailed management responses for the recommendations proposed are awaited. These drafts reports have not been challenged and did therefore influence the assurance opinion. Empty Properties/Voids was at Quality Review stage and Complaints Handling was at Fieldwork/Drafting stage. These two audits will form part of the overall assurance opinion for 2018/19.
- 3.7 Details of the moderate assurance audits issued during 2017/18 are as follows:
- a) Repairs and Voids Service
  - b) Commercial Properties
  - c) Shared Legal Service (at draft report)
  - d) GDPR Preparedness
  - e) Managing Use of Council Vehicles
  - f) Overtime
  - g) Fire Safety
  - h) IT Procurement

Management action plans have been prepared to address the matters arising in the above audits.

- 3.8 Details of the limited assurance audits issued during 2017/18 are as follows:
- a) Incident Management
  - b) Cyber Security (at draft report)
  - c) Digital Information Management

Management action plans have been prepared to address the matters arising in the above audits.



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High Priority Recommendations

- 3.8 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 implementation of high priority recommendations; it is the responsibility of Officers to implement the recommendations by the agreed date.
- 3.9 Twelve high priority recommendations were made within audits carried out during 2017/18, across five different audits. In respect of these recommendations, the agreed management actions were not yet all due for completion.
- 3.10 Members will continue to receive updates on the implementation progress of high priority recommendations through the SIAS quarterly progress reports to the Audit Committee.

## 4. Performance of the Internal Audit Service in 2017/18

Performance indicators

- 4.1 The table below compares SIAS's performance at the Council against the 2017/18 targets set by the SIAS Board.

<b>Indicator</b>	<b>Target 2017/18</b>	<b>Actual to 31 March 2018</b>
<b>1 SIAS Planned Days</b> – percentage of actual billable days delivered against planned billable days	<b>95%</b>	<b>95%</b> <b>(370.5 / 390)</b>
<b>2 SIAS Planned Projects</b> – actual completed projects to draft report stage against planned completed projects	<b>95%</b>	<b>94.3%</b> <b>(33 / 35)</b>
<b>3 External Auditors' Satisfaction</b> – the Annual Audit Letter formally records that the External Auditors are able to rely upon the range and quality of SIAS' work	<b>Formal Reliance</b>	<b>Yes</b>
<b>4 SIAS Annual Plan</b> – presented to the March Audit Committee or the first	<b>Deadline met</b>	<b>Met</b> - 2017/18 Audit Plan presented to the March 2017 Audit Committee

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meeting of the financial year should a March committee not meet.		
<b>5 Client Satisfaction</b> - client satisfaction questionnaires returned at 'satisfactory overall' level (minimum of 39/65 overall)	<b>100%</b>	<b>100%</b> (Eleven received).
<b>6 Head of Assurance's Annual Report</b> – presented at the first Audit Committee meeting of the financial year.	<b>Deadline met</b>	<b>Met</b> - 2016/17 Annual Report Presented to the July 2017 Audit Committee
<b>7 Number of High Priority Audit Recommendations agreed</b>	<b>95%</b>	<b>100%</b> (Nine agreed)

Service Developments

4.2 During 2017/18 the development activities for SIAS included:

- Implementing the SIAS restructure in order to streamline the delivery of the Audit Service and meet future client needs.
- Implementing a new time recording and audit plan management database, allowing the service to make cost savings and improve the ability to streamline business processes in the future.
- Continued review of key business processes, including work allocation, to reduce administrative overheads and improve efficiency in delivering the audit plan.

## 5. Audit Charter 2018/19

5.1 The PSIAS require a local authority to formally adopt an Audit Charter which covers the authority and responsibility for an internal audit function.

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

5.3 The Audit Charter is reviewed annually. The review in April 2018 did not result in any fundamental changes although a number of minor amendments were made. The 2018/19 Charter is attached at Appendix D.

## APPENDIX A – FINAL POSITION AGAINST THE COUNCIL’S 2017/18 AUDIT PLAN

### 2017/18 Stevenage Borough Council Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	STATUS/COMMENT
		H	M	MA		
<b>Key Financial Systems</b>						
Main Accounting System	Substantial	0	1	2	8	Final Report Issued *
Debtors	Substantial	0	1	5	10	Final Report Issued *
Creditors	Substantial	0	2	1	12	Final Report Issued
Treasury Management	Full	0	0	0	8	Final Report Issued
Payroll	Substantial	0	0	2	12	Final Report Issued
Council Tax	Full	0	0	0	10	Final Report Issued
NDR	Substantial	0	0	1	10	Final Report Issued
Housing Benefits	Substantial	0	0	1	12	Final Report Issued
Cash and Banking	Substantial	0	0	0	8	Final Report Issued *
Housing Rents	Substantial	0	0	3	10	Final Report Issued

**APPENDIX A – FINAL POSITION AGAINST THE COUNCIL’S 2017/18 AUDIT PLAN**

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	STATUS/COMMENT
		H	M	MA		
<b>Operational Audits</b>						
Mutual Exchanges	Substantial	0	0	0	10	Final Report Issued
Empty Properties/Voids					10	In Quality Review ***
Off-street Parking	Substantial	0	1	3	10	Final Report Issued
Repairs and Voids Service	Moderate	2	1	1	18	Final Report Issued
Health and Safety Compliance	Substantial	0	0	1	10	Final Report Issued
Commercial Properties	Moderate	0	1	1	10	Final Report Issued
Payroll Self-Service	Full	0	0	0	10	Final Report Issued *
Integra Upgrade	Substantial	0	1	2	10	Final Report Issued
Complaints Handling					10	Drafting Report ****
Standby and Callout Payments	Substantial	0	0	3	7	Final Report Issued *
Shared Legal Service	Moderate	0	3	1	10	At draft **
DFG Capital Grant Certification	NA	0	0	0	2	Complete

**APPENDIX A – FINAL POSITION AGAINST THE COUNCIL’S 2017/18 AUDIT PLAN**

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	STATUS/COMMENT
		H	M	MA		
Fire Safety	Moderate	0	7	3	10	Final Report Issued **
Contract Management	Substantial	0	0	1	11	Final Report Issued *
Museum Lease Payments	NA	0	0	1	2.5	Final Report Issued
Risk Management	Full	0	0	0	6	Final Report Issued
Corporate Governance	Substantial	0	1	2	6	Final Report Issued *
Housing Allocations Follow up	NA	0	0	0	5	Final Report Issued
Cemetery Fuel Follow up	NA	0	0	0	3	Final Report Issued *
Local Authority Serious and Organised Crime Checklist	NA	0	0	0	12	Complete
<b>IT Audits</b>						
IT Procurement	Moderate	0	2	1	6	Final Report Issued
IT Shared Service Agreement	NA	0	2	1	6	Final Report Issued **
Incident Management	Limited	4	1	0	6	Final Report Issued
Cyber Security	Limited	3	2	3	6	At draft **

**APPENDIX A – FINAL POSITION AGAINST THE COUNCIL’S 2017/18 AUDIT PLAN**

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	STATUS/COMMENT
		H	M	MA		
GDPR Preparedness	Moderate	1	2	1	6	Final Report Issued *
<b>Other Chargeable</b>						
2018/19 Audit Planning	NA	0	0	0	5	Complete
Plan Delivery Monitoring	NA	0	0	0	12	Complete
Head of Internal Audit Opinion 2016/17	NA	0	0	0	5	Complete
Client Liaison	NA	0	0	0	8	Complete
External Audit Liaison	NA	0	0	0	2	Complete
Adhoc Advice	NA	0	0	0	5	Complete
Audit Committee	NA	0	0	0	10	Complete
Shared Learning	NA	0	0	0	7	Complete
SIAS Development	NA	0	0	0	5	Complete
Other					2.5	Complete

## APPENDIX A – FINAL POSITION AGAINST THE COUNCIL’S 2017/18 AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	STATUS/COMMENT
		H	M	MA		
<b>16/17 Projects Requiring Completion</b>						
Managing Use of Council Vehicles	Moderate	0	4	0	5	Final Report Issued
Refugee Resettlement Programme	Full	0	0	0	5	Final Report Issued
Overtime	Moderate	0	4	0	9	Final Report Issued
Agency Staffing	Full	0	0	0	4	Final Report Issued
Digital Information Management	Limited	2	1	1	3	Final Report Issued
<b>Total</b>		<b>12</b>	<b>37</b>	<b>41</b>	<b>390</b>	

\* At Draft Report stage at 31 March 2018, Final Report issued after year end

\*\* At Draft Report stage at 31 March 2018

\*\*\* Draft Report issued after 31 March 2018

\*\*\*\* Deferred to 2018/19

Key to Assurance Level and Recommendation Priority Levels: NA = Not Applicable; H = High priority recommendations; M = Medium priority recommendations; MA = Merits Attention priority recommendations

## APPENDIX B – DEFINITIONS OF ASSURANCE LEVELS AND PRIORITY OF RECOMMENDATIONS

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

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



## APPENDIX C – PROGRESS AGAINST PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT APRIL 2018 – ACTION PLAN

**Section A: Conformance** - During 2017/18 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) (Head of Assurance)?</p>	<p>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.</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 Director of Resources (HCC).</p>	<p><b>Non-conformance</b></p> <p>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.</p>



## **Audit Charter 2018/2019**

### **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.

### **2. Scope**

- 2.1. This Charter applies to all clients of the Shared Internal Audit Service (SIAS).

### **3. Statutory Basis of Internal Audit**

- 3.1. Local government is statutorily required to have an internal audit function. The Accounts and Audit Regulations 2015 require that 'a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- 3.2. In addition, a council's Chief Finance Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To fulfil this requirement, the S151 officer relies, amongst other sources, upon the work of internal audit.

### **4. Role**

- 4.1. SIAS internal audit activity is overseen by each client council's committee charged with fulfilling audit committee responsibilities herewith referred to as the Audit Committee. As part of its oversight role, the Audit Committee is responsible for defining the responsibilities of SIAS via this Charter.
- 4.2. SIAS may undertake additional consultancy activity requested by management. The Head of Assurance will determine such activity on a case by case basis

assessing the skills and resources available. Significant additional consultancy activity not already included in the Internal Audit Plan will only be accepted and carried out following consultation with the SIAS Board.

### 5. Professionalism

- 5.1. SIAS governs itself by adherence to the Public Sector Internal Audit Standards (PSIAS). These standards include the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (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's performance.
- 5.2. SIAS also recognise the Mission of Internal Audit as identified within the IPPF, 'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight' and the Core Principles for the Professional Practice of Internal Auditing, which demonstrate an effective internal audit function, achieving internal audit's mission.
- 5.3. SIAS's operations are guided by its operating procedures manual as well as applicable, Chartered Institute of Internal Auditors (CIIA) Position Papers, Practice Advisories and Guides, and relevant council policies and procedures, including compliance with the Bribery Act 2010.
- 5.4. Should non-conformance with the PSIAS be identified, the Head of Assurance will investigate and disclose, in advance if possible, the exact nature of the non-conformance, the reasons for it and, if applicable, its impact on a specific engagement or engagement outcome.

### 6. Authority and Confidentiality

- 6.1. Internal auditors are authorised full, free, and unrestricted access to any and all of a client's records, physical properties, and personnel as required to carry out an engagement. All client employees are requested to assist SIAS in fulfilling its roles and responsibilities. Information obtained during the course of an engagement is safeguarded and confidentiality respected.
- 6.2. Internal auditors will only use information obtained to complete an engagement. It will not be used in a manner that would be contrary to the law, for personal gain, or detrimental to the legitimate and ethical objectives of the client organisation(s). Internal auditors will disclose all material facts known which if not disclosed, could distort a report or conceal unlawful practice.

### 7. Organisation

- 7.1. The Head of Assurance and their representatives, have free and unrestricted direct access to Senior Management, the Audit Committee, the Chief Executive,

the Chair of the Audit Committee and the External Auditor. The Head of Assurance will communicate with any and all of the above parties at both committee meetings and between meetings as appropriate.

- 7.2. The Head of Assurance is line managed by the Director of Resources at Hertfordshire County Council (HCC), who approves all decisions regarding the performance evaluation, appointment, or removal of the Head of Assurance, in consultation with the SIAS Board. Each partner's Section 151 Officer is asked to contribute to the annual appraisal of the Head of Assurance.

## 8. Stakeholders

The following groups are defined as stakeholders of SIAS:

- 8.1. The Head of Assurance and the SIAS Audit Manager, both suitably experienced and qualified (CCAB and / or CMIIA), are responsible for:
- hiring, appraising and developing SIAS staff in accordance with the host authority's HR guidance
  - maintaining up-to-date job descriptions which reflect the roles, responsibilities, skills, qualifications, and attributes required of SIAS staff
  - ensuring that together, SIAS staff possess or obtain the skills, knowledge and competencies (including ethical practice) needed to effectively perform SIAS engagements
- 8.2. The Audit Committee is responsible for overseeing the effectiveness of SIAS and holding the Head of Assurance to account for delivery. This is achieved through the approval of performance targets set by the SIAS Board and receipt of regular reports. The Audit Committee is also responsible for the effectiveness of the governance, risk and control environment within the Council, holding managers to account for delivery. The Audit Committee, as set out in its formal Terms of Reference, also ensures that there is appropriate communication of, and involvement in, internal audit matters as required from the wider publicly elected Member body.
- 8.3. Senior Management, defined as the Head of Paid Service, Chief Officers and their direct reports, are responsible for helping shape the programme of assurance work. This is achieved through analysis and review of key risks to achieving the Council's objectives and priorities.
- 8.4. The SIAS Board is the governance group charged with monitoring and reviewing the overall operation of SIAS including:
- resourcing and financial performance
  - operational effectiveness through the monitoring performance indicators
  - the overall strategic direction of the shared service

**9. Independence and Objectivity**

- 9.1 No element in the organisation should interfere with audit selection, scope, procedures, frequency, timing, or report content. This is necessary to ensure that internal audit maintains the necessary level of independence and objectivity.
- 9.2 As well as being impartial and unbiased, internal auditors will have no direct operational responsibility or authority over any activity audited. They will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that might impair their judgment.
- 9.3 When asked to undertake any additional roles/responsibilities outside internal auditing, the Head of Assurance will highlight to the Audit Committee any potential or perceived impairment to independence and objectivity having regard to the principles contained within the PSIAS Code of Ethics as well as any relevant requirements set out in other professional bodies to which the CAE may belong. The Audit Committee will approve and periodically review any safeguards put in place to limit any impairments to independence and objectivity.
- 9.4 The Head of Assurance will confirm to the Audit Committee, at least annually, the organisational independence of SIAS.

**10. Conflicts of Interest**

- 10.1. Internal auditors will exhibit clear professional objectivity when gathering, evaluating, and communicating engagement information. When forming judgments, they will make a balanced assessment of all relevant circumstances and not be influenced by their own interests or the views and interests of others.
- 10.2. Each auditor will comply with the ethical requirements of his/her professional body and proactively declare any potential conflict of interest, whether actual or apparent, prior to the start of an engagement.
- 10.3. All auditors sign an annual declaration of interest to ensure that the allocation of work avoids conflict of interest. Auditors who undertake consultancy work or are new to the team will be prohibited from auditing in those areas where they have worked in the past year. Audits are rotated within the team to avoid over-familiarity and complacency.
- 10.4. SIAS procures an arrangement with an external partner to provide additional internal audit days on request. The external partner will be used to deliver engagements as directed by the Head of Assurance in particular providing advice and assistance where SIAS staff lack the required skills or knowledge.

10.5. In the event of a real or apparent impairment of independence or objectivity, (acceptance of gifts, hospitality, inducements or other benefits) the Head of Assurance will investigate and report on the matter to appropriate parties.

## 11. Responsibility and Scope

11.1. The scope of SIAS encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes (as they relate to the organisation's priorities and objectives) and the promotion of appropriate ethics and values.

11.2. Internal control and risk management objectives considered by internal audit extend to the organisation's entire control and risk management environment and include:

- consistency of operations or programs with established objectives and goals, and effective performance
- effectiveness and efficiency of governance, operations and employment of resources
- compliance with significant policies, plans, procedures, laws, and regulations
- design, reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information
- safeguarding of assets

11.3. SIAS is well placed to provide advice and support on emerging risks and controls and will, if requested, deliver consulting and advisory services or evaluate specific operations.

11.4. SIAS is responsible for reporting to the Audit Committee and senior management, significant risk exposures (including those to fraud addressed in conjunction with the Shared Anti-Fraud Service), control and governance issues and other matters that emerge from an engagement.

11.5. Engagements are allocated to (an) internal auditor(s) with the appropriate skills, experience and competence. The auditor is then responsible for carrying out the work in accordance with the SIAS 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.

**12. Role in Anti-Fraud**

- 12.1. The SIAS work programme, designed in consultation with Senior Management, the Audit Committee and, where applicable, the Shared Anti-Fraud Service, seeks to help deter fraud and corruption.
- 12.2. In conjunction with the Shared Anti-Fraud Service SIAS shares information with relevant partners to increase the likelihood of detecting fraudulent activity and reducing the risk of fraud to all.
- 12.3. The Head of Assurance should be notified of all suspected or detected fraud, corruption or impropriety so that the impact upon control arrangements can be evaluated.

**13. Internal Audit Plan**

- 13.1. Following discussion with appropriate senior management, the Head of Assurance will submit a risk based plan to the Audit Committee for review and approval. This will occur at least annually. The plan sets out the engagements agreed and demonstrates the priorities of both SIAS (the need to produce an annual internal audit opinion) and those of the organisation. Also included will be any relevant declarations of interest.
- 13.2. The plan will be accompanied by details of the risk assessment approach used and will 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.
- 13.3. The plan will be subject to regular review in year, and may be modified in response to changes in the organisation's business, risks, operations, programmes, systems and controls. All significant changes to the approved internal audit plan will be communicated in the quarterly update reports.

**14. Reporting and Monitoring**

- 14.1. A draft written Terms of Reference will be prepared and issued to appropriate personnel at the start of an engagement. It will cover the intended objectives, scope and reporting mechanism and will be agreed with the client. Changes to the terms of reference during the course of the engagement may occur and will be agreed following consultation with the client.
- 14.2. A report will be issued on completion of an engagement. It will include a reasoned opinion, details of the time period and scope within which it was prepared, management's responses to specific risk prioritised findings and recommendations made and a timescale within which corrective action will be /

has been taken. If recommended action is not to be taken, an explanation for this will also be included.

- 14.3. SIAS will follow-up the implementation of agreed recommendations in line with the protocol at each client. As appropriate, the outcomes of this work will be reported to the audit committee and may be used to inform the risk-based planning of future audit work. Should follow-up activity identify any significant error or omission, this will be communicated by the Head of Assurance to all relevant parties. A revised internal audit opinion may be issued on the basis of follow-up activity.
- 14.4. In consultation with senior management, the Head of Assurance will consider, on a risk-basis, any request made by external stakeholders for sight of an internal audit report.
- 14.5. Quarterly update reports to the Audit Committee will detail the results of each engagement, including significant risk exposures and control issues. In addition, an annual report will be produced giving an opinion on the overall control, governance, and risk management environment (and any other issues judged relevant to the preparation of the Annual Governance Statement), with a summary of the work that supports the opinion. The Head of Assurance will also make a statement of conformance with PSIAS, and detail the nature and reasons for any impairments, qualifications or restrictions in scope for which the Committee should seek reassurances from management.

### 15. Periodic Assessment

- 15.1. PSIAS require the Head of Assurance and the SIAS Board to make arrangements for an independent review of the effectiveness of internal audit undertaken by a suitably knowledgeable, qualified and competent individual or organisation. This should occur at least every five years.
- 15.2. The Head of Assurance will ensure that continuous efforts are made to improve the efficiency, effectiveness, and quality of SIAS. These will include the Quality Assurance and Improvement Programme, client feedback, appraisals and shared learning with the external audit partner as well as coaching, supervision, and documented review.
- 15.3. A single review will be carried out to provide assurance to all SIAS partners with the outcomes included in the partner's Annual Report.

### 16. Review of the Audit Charter

- 16.1. The Head of Assurance will review this charter annually and will present, to the first audit committee meeting of each financial year, any changes for approval.



## APPENDIX D – AUDIT CHARTER 2018/2019

16.2. The Head of Assurance reviewed this Audit Charter in April 2018. It will next be reviewed in April 2019.

### Glossary of Terms

Audit Committee	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.
Management	Operational officers of the Council responsible for creating corporate policy and organising, planning, controlling, and directing resources in order to achieve the objectives of that policy. Senior management is defined as the Head of Paid Service, Chief Officers and their direct reports.
The SIAS Board	The Board that comprises officer representatives from the client authorities and that is responsible for the governance of the SIAS partnership
The Audit Plan	The programme of risk based work carried out by the Shared Internal Audit Service on behalf of its clients
The Public Sector Internal Audit Standards	These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide stakeholders with the key assurances they need to support them both in managing and overseeing the organisation and in producing the annual governance statement.

### Note:

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