



**Watford Borough Council**  
**2013/14 Annual Assurance Statement**  
**and**  
**Internal Audit Annual Report**  
**30 June 2014**

***Recommendations***

Members are recommended to:

Note the Annual Assurance Statement and Internal Audit Annual Report

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

Accept the SIAS Audit Charter

Seek assurance from management that the scope and resources for internal audit were subject to no inappropriate limitations in 2013/14

## Contents

1. Purpose and Background
  - 1.1 Purpose
  - 1.2 Background
2. Annual Assurance Statement for 2013/14
  - 2.1 Context
  - 2.6 Annual Assurance Statement for 2013/14
3. Overview of Internal Audit Activity in 2013/14
4. Performance of the Internal Audit Service in 2013/14
5. Compliance with the Public Sector Internal Audit Standards and Quality Assurance Improvement Programme
6. Audit Charter

## Appendices

- A Final position of the 2013/14 Audit Plan
- B Definitions of Assurance Levels and Priority of Recommendations
- C Progress against Public Sector Internal Audit Standards as at May 2014
- D Internal Audit Charter 2014/15

## **1. Purpose and Background**

### Purpose of Report

1.1 The purpose of this report is to:

- Document and communicate internal audit's overall opinion on the adequacy and effectiveness of the Council's control environment, commenting on significant matters and key themes
- Summarise the audit work from which the opinion is derived
- Summarise the performance of the Shared Internal Audit Service (SIAS) in respect of audit work delivered for the Council
- Show the outcomes of the self-assessment against the Public Sector Internal Audit Standards (PSIAS) incorporating the requirements of the Quality Assurance and Improvement Programme (QAIP)
- Present the Audit Charter for 2014/15.

### Background

- 1.2 The provision to the Council of an annual opinion on internal control is a key duty of the Head of Assurance Services. It is timed to support the production of the Council's Annual Governance Statement.
- 1.3 Reporting the work of SIAS to Audit Committee Members 'charged with governance' provides them with an opportunity to review and monitor the outputs of internal audit activity and gain assurance that the Council's internal audit function is fulfilling its statutory obligations. This process is an integral component of corporate governance.
- 1.4 The Head of Assurance Services' opinion is based on internal audit work undertaken during the 2013/14 financial year. SIAS is grateful for the co-operation and support it has received from all those who have engaged with the audit process during the period.

## 2. Annual Assurance Statement 2013/14

### Context

#### 2.1 *Scope of responsibility*

The management of the Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

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

#### 2.2 *Control environment*

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

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

#### 2.3 *Review of effectiveness*

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

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

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

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

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

The Head of Assurance confirms that during the year there have been no matters arising which have threatened the independence of the internal audit function. The Head of Assurance also confirms that there have been no inappropriate scope or resource limitations on the internal audit function during the year.

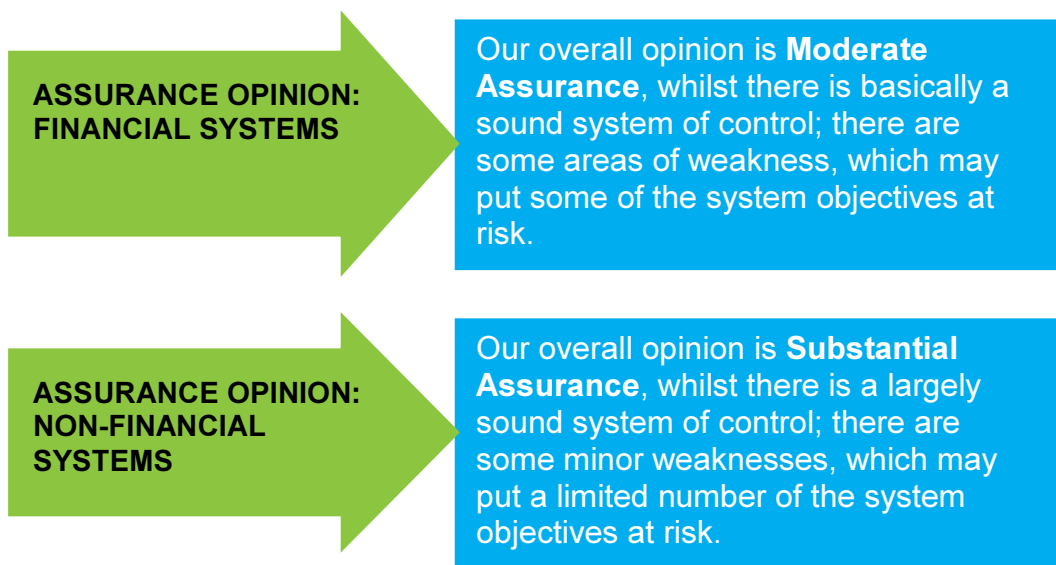
**2.5**    *Basis of assurance opinion*

Our assurance opinion is based on the work carried out by SIAS during 2013/14 which has been planned in order to give sufficient assurance on the management of key risks within the organisation.

Annual Assurance Statement for 2013/14

**2.6** *Assurance opinion on internal control*

From the internal audit work completed in 2013/14 we can provide the following opinion on the adequacy and effectiveness of the Council's control environment, broken down between financial and non-financial systems. There are no qualifications to this assurance.



**2.7** *Assurance opinion on Corporate Governance and Risk Management*

In our opinion the corporate governance and risk management framework substantially complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This conclusion is based primarily on the work undertaken by the Council and reported in its Annual Governance Statement for 2013/14; and, the specific reviews of Risk Management and Corporate Governance carried out by SIAS over February and March 2014 both of which received overall Full Assurance opinions.

**Head of Assurance for the Shared Internal Audit Service  
June 2014**

### 3. Overview of Internal Audit Activity in 2013/14

- 3.1 This section of the report summarises the work of the audit service during the year, highlighting matters of significance in respect of the internal control environment and opportunities for improvement.
- 3.2 Appendix A lists the audit work that was completed in the year and the final position on the agreed audit plan, including the assurance level provided and number of recommendations made. The levels of assurance and priority of recommendations are summarised in the tables below. In future years a comparison against the prior year will be provided, however, as this is the first year of SIAS providing the internal audit service, no comparison is available.

<b>Assurance Level</b>	<b>Number of reports 2013/14</b>	<b>Percentage of reports 2013/14</b>
Full	5	19%
Substantial	9	35%
Moderate	8	31%
Limited	0	0%
No	0	0%
Not Assessed	4	15%
Total	26	100%

<b>Recommendation Priority Level</b>	<b>Number of recommendations 2013/14</b>	<b>Percentage of recommendations made 2013/14</b>
High	6	8%
Medium	44	56%
Merits Attention	28	36%
Total	78	100%

The moderate assurance opinion overall on financial systems has been concluded from the following work completed in the year:

- Two of the three revenues and benefits audits (Council Tax and Benefits) received moderate assurance and one high priority recommendation was made regarding system access controls which applies across all areas of the service (including NDR) as a single

system is used. We recognise that recent changes have been made to the structure within the service and we will re-assess the control environment when the 2014/15 audits are completed in quarter 3.

- The Creditors system received a moderate opinion with one high priority recommendation made relating to supplier set-up controls. Strong controls in this area are crucial in minimising the risk of fraud through misdirection of payments.
- Asset Management received moderate assurance in relation to findings on rent reviews and authorisation of transactions.

**3.3 During the year six high priority recommendations were made as follows:**

- Three arose from the Recruitment follow up audit and all were fully implemented with immediate effect.
- One was made in the Council Tax audit relating to system access rights for users of the Academy revenues and benefits system. Management agreed to initiate an immediate review of access rights and implementation of this action will be monitored via the normal quarterly follow up process brought before this committee.
- One was made in the Creditors audit relating to the set-up and amendment of supplier accounts. Management agreed to enhance segregation of duties in this area and to standardise the approach to evidencing changes to supplier details.
- One was made in the IT Cyber Risk audit relating to Data Loss prevention policies and controls.

Implementation of the above recommendations will be monitored via the normal quarterly follow up process reported to this committee.

**3.4 Two audits are not at final report stage at the time of writing this Annual Report.**

- a) Health and Safety (shared plan) is at draft report stage. Further evidence is awaited from management which could impact on the assurance opinion and therefore this audit has not been taken into account in the overall assessment for the Council and will be carried into 2014/15.
- b) The joint review of Herts Waste Partnership across the SIAS client base is at draft report stage. With the focus of the review on management and administrative arrangements at Hertfordshire County Council and Welwyn Hatfield Borough Council, this has not been taken into account when forming the assurance opinion at WBC.

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



## 4. Performance of the Internal Audit Service in 2013-14

### Performance indicators

- 4.1 The table below compares the performance in 2013/14 of SIAS at Watford Borough Council against targets set by the Board of the Shared Internal Audit Service.

<b>Indicator</b>	<b>Target for 2013/14</b>	<b>Actual to 31 March 2014</b>
<b>1 SIAS Planned Days</b> – percentage of actual billable days delivered against planned billable days	<b>95%</b>	<b>96%*</b> <b>(306 billable days out of 318 possible billable days)</b>
<b>2 SIAS Planned Projects</b> – actual completed projects to draft report stage against planned completed projects	<b>95%</b>	<b>97%</b> <b>(29 projects out of an agreed 30 projects)</b>
<b>3 External Auditors' Satisfaction</b> – the Annual Audit Letter should formally record whether or not the External Auditors are able to rely upon the range and the quality of SIAS' work	<b>Formal Reliance</b>	<b>Achieved</b>
<b>4 SIAS Annual Plan</b> – prepared in time to present to the March meeting of each Audit Committee. If there is no March meeting then the plan should be prepared for the first meeting of the financial year	<b>Deadline met</b>	<b>Achieved</b>
<b>5 Client Satisfaction</b> - client satisfaction questionnaires returned at 'satisfactory overall' level (minimum of 39/65 overall)	<b>100%</b>	<b>100%</b>
<b>6 Head of Assurance's Annual Report</b> – prepared in time to present to the first meeting of each Audit	<b>Deadline met</b>	<b>Achieved</b>

## Annual Assurance Statement and Internal Audit Annual Report Watford Borough Council

---

Committee in the financial year		
<b>7 Number of High Priority Audit Recommendations agreed</b>	<b>95%</b>	<b>100%</b>

\* Actual and planned billable days are taken from final position spreadsheet. Planned billable days figure of 306 days = 318 (agreed plan days) less 12 days carried forward into 2014/15 (comprising 4 from the WBC plan and 8 days from the WBC and TRDC shared services plan).

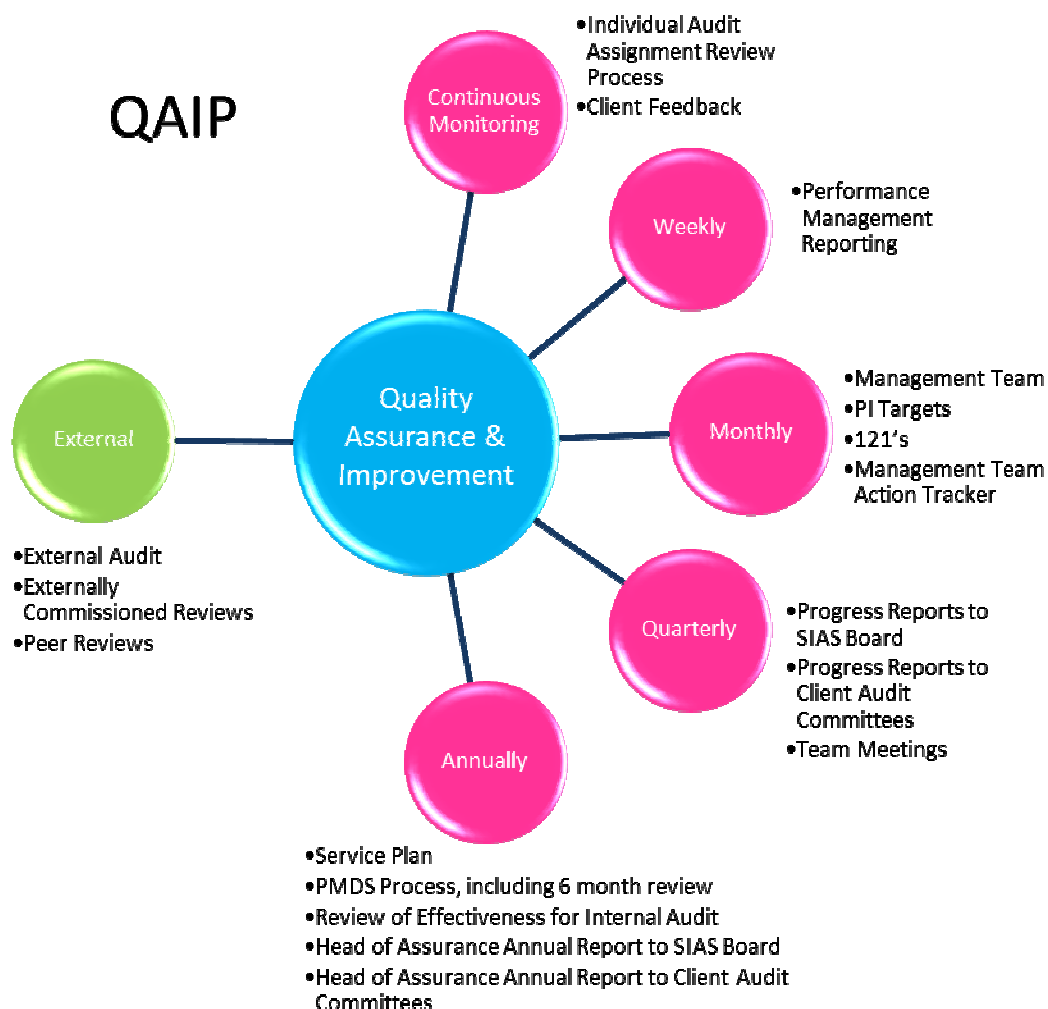
### Developments in the year

4.2 During 2013/14 a number of operational developments were introduced within SIAS, designed to enhance the service offering:

- Audit Planning – for 2014/15 planning, a standard planning document was introduced which included the requirement to provide links to other sources of assurance. Information gathered was used to inform the audit scoping process to ensure that there was neither duplication of effort or the creation of assurance gaps.
- Budgetary Control Joint Review – a cross-client review which examined the methodologies used in client finance functions for similarities and differences and reported on the challenges such functions face and how they might respond to them.
- Process development – 2013/14 has seen a range of incremental developments in relation to SIAS' working methodology. Developments have included: increased use of pre-populated documents, the introduction of an alternative short planning document and the creation of process maps for a range of procedures.

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

- 5.1 The Public Sector Internal Audit Standards are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). They promote the professionalism, quality, consistency and effectiveness of internal audit across the public sector. They highlight the importance of robust, independent and objective internal audit arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement.
- 5.2 The Head of Assurance has reviewed the conformance of SIAS with the PSIAS standards using a checklist. The checklist detailing this exercise is available on request.
- 5.3 The self-assessment carried out in 2012/13 identified thirteen areas of non-conformance. Progress against these areas is shown in detail in Appendix C to this report, with section A of the appendix showing conforming areas (8 areas), section B showing non-conforming areas (2 areas) and section C showing part conforming areas (3 areas).
- 5.4 In relation to non-conforming areas these cover the requirement for the chief executive sign off for the Head of Assurance Appraisal. The Head of Assurance Appraisal process was amended for 2013/14 with Audit Committee Chairs and Chief Financial Officers across the SIAS partnership invited to input views. It is considered that this is appropriate given the shared nature of the service and no further action is proposed currently.
- 5.5 One of the main elements of the PSIAS is the requirement to define a Quality Assurance and Improvement Programme (QAIP) for SIAS. This work has been duly undertaken.
- 5.6 The SIAS QAIP includes both internal and external monitoring and reporting to assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement. The diagram below details the methods used to monitor and report on quality and performance. Detailed information outlining activity in each area is contained in the SIAS Audit Manual.



- 5.7 During the year SIAS has operated according to its QAIP. Evidence is available within the service to support the achievement of each of the QAIP elements. An externally commissioned review of the service has to be undertaken at least once every five years, this has been scheduled for 2015/16. The Head of Assurance has concluded, therefore, that there have been no significant deviations from this framework during the year.

## **6. Audit Charter**

- 6.1 The Public Sector Internal Audit Standards require that a local authority formally adopts an Audit Charter covering the authority and responsibility for its internal audit function.
- 6.2 The SIAS Audit Charter sets out the framework within which it discharges its internal audit responsibilities to those charged with governance in the Council. It also details the permanent arrangements for the internal audit and key governance roles and responsibilities to ensure the effectiveness of internal audit provision. The original SIAS Audit Charter was agreed by the Audit Committee in June 2013.
- 6.3 An annual review of the Audit Charter is undertaken as part of the SIAS Service Plan activity. The review for 2014/15 did not result in any fundamental changes to the document, although a number of minor amendments to reflect PSIAS have taken place. Attention is drawn to the addition of paragraph 2 which has been included to highlight the bodies to which the Charter applies. The Charter for 2014/15 is attached at Appendix D.

## APPENDIX A - FINAL POSITION FOR THE 2013/14 AUDIT PLAN

---

### 2013/14 Watford Borough Council Audit Plan including Shared Services

	Level of Assurance	Recommendations			Plan Days	Audit Progress / Status
		H	M	MA		
Key Financial Systems						
Treasury Management	Full	0	0	0	5	Final Report Issued
Budgetary Monitoring	Substantial	0	1	1	8	Final Report Issued
Asset Management	Moderate	0	2	2	8	Final Report Issued
Main Accounting (shared)	Substantial	0	2	1	14	Final Report Issued
Payroll (shared)	Full	0	0	0	14	Final Report Issued*
NDR (shared)	Substantial	0	0	0	12	Final Report Issued
Council Tax (shared)	Moderate	1	7	2	12	Final Report Issued
Benefits Administration (shared)	Moderate	0	0	0	15	Final Report Issued
Creditors (shared)	Moderate	1	0	3	11	Final Report Issued
Debtors (shared)	Substantial	0	3	1	11	Final Report Issued

## APPENDIX A - FINAL POSITION FOR THE 2013/14 AUDIT PLAN

	Level of Assurance	Recommendations			Plan Days	Audit Progress / Status
		H	M	MA		
Operational Audits						
Project and Change Management	Substantial	0	1	0	10	Final Report Issued
Housing Redesign	Moderate	0	7	0	10	Final Report Issued
Review of Corporate Spatial Data	Not Assessed	0	0	0	10	Final Report Issued
Health Campus	Substantial	0	6	4	15	Final Report Issued
Commercial Rent	Substantial	0	1	2	6	Final Report Issued
Data Protection Follow Up	Not Assessed	0	0	0	6	Final Report Issued
Recruitment and Vetting Follow Up (shared)	Moderate	3	0	0	5	Final Report Issued
Health & Safety (shared)	Not yet entered	-	-	-	11	Draft Report Issued
Procurement						
Procurement & Contract Management Baseline Assessment	Substantial	0	3	4	10	Final Report Issued
Veolia Contract	Moderate	0	4	3	10	Final Report Issued
IT Contract (shared)	N/A	-	-	-	3	Audit Deferred to 2014/15

## APPENDIX A - FINAL POSITION FOR THE 2013/14 AUDIT PLAN

	Level of Assurance	Recommendations			Plan Days	Audit Progress / Status
		H	M	MA		
Counter Fraud						
Anti-Fraud and Corruption Baseline Assessment	Full	0	0	0	5	Final Report Issued
Counter Fraud Arrangements - Shared Service Benefit Fraud Team (shared)	Substantial	0	1	2	5	Final Report Issued
Risk Management & Governance						
Risk Management	Full	0	0	0	5	Final Report Issued
Corporate Governance	Full	0	0	1	5	Final Report Issued
IT Audits						
IT Vulnerabilities – extended follow up (shared)	Not Assessed	0	0	0	10	Final Report Issued
Cyber Risk (shared)	Moderate	1	6	2	10	Final Report Issued
Contingency						
Taxi Concerns	N/A	0	0	0	7	Final Report Issued
Boundary Way Insulation Project	N/A	0	0	0	1	Final Report Issued



## APPENDIX A - FINAL POSITION FOR THE 2013/14 AUDIT PLAN

	Level of Assurance	Recommendations			Plan Days	Audit Progress / Status
		H	M	MA		
SIAS Joint Reviews						
Herts Waste Partnership	Not yet entered	-	-	-	1	Draft Report Issued
New Ways of Working Seminar (shared)	N/A	-	-	-	0	Cancelled
Comparative review of budget setting and monitoring arrangements (shared)	Not Assessed	0	0	0	1	Final Report Issued
2012/13 Projects requiring completion						
Time required to complete work commenced in 2012/13 (shared)	N/A	-	-	-	30	Complete
Strategic Support						
Head of Internal Audit Opinion 2012/13	N/A	-	-	-	2	Complete
Introduction of Public Sector Internal Audit Standards	N/A	-	-	-	1	Complete
Audit Committee	N/A	-	-	-	8	Complete
Monitoring & Client Liaison	N/A	-	-	-	5	Complete
2014/15 Audit Planning	N/A	-	-	-	3	Complete
SIAS Development	N/A	-	-	-	3	Complete

## APPENDIX A - FINAL POSITION FOR THE 2013/14 AUDIT PLAN

	Level of Assurance	Recommendations			Plan Days	Audit Progress / Status
Follow up of recommendations	N/A	-	-	-	10	Complete
<b>WBC TOTAL</b>					<b>154**</b>	
<b>SHARED SERVICES TOTAL</b>					<b>164**</b>	
<b>TOTAL</b>					<b>318</b>	

### Notes

\* For the purposes of performance indicator 2 at section 4.1, these reports were not at draft report stage at 31 March 2014

\*\* The original plan days for WBC were 148 and for the shared plan were 170 (total 318). The plan days as reported above reflect the plan change amendments reported to Audit Committee during the course of the year as part of our regular update reports.

### Key to Recommendation Priority Levels

H = High

M = Medium

MA = Merits Attention

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

---

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.

Section A: Conformance

Ref	Area of Non-Conformance with the Standard	Commentary as at May 2013	Position as at May 2014
2a	<p><b>Code of Ethics</b></p> <p>Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by performing services in accordance with the Public Sector Internal Audit Standards (PSIAS).</p>	<p>The SIAS Audit Manual sets out the working protocols for performing audit services. The Audit Manual reflects the CIPFA Code of Practice in force until 31 March 2013.</p>	<p><b>Conformance</b></p> <p><b>The Audit Manual has been updated to reflect the requirements of PSIAS.</b></p>
2b	<p><b>Code of Ethics</b></p> <p>Do internal auditors have regard to the Committee on Standards of Public Life's <i>Seven Principles of Public Life</i>?</p>	<p>Internal auditors have regard to the <i>Seven Principles of Public Life</i> although this is not explicitly documented in the SIAS ethical framework.</p>	<p><b>Conformance</b></p> <p><b>SIAS Audit Charter makes explicit reference to the <i>Seven Principles of Public Life</i>.</b></p>

## APPENDIX C – PROGRESS AGAINST PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2014 – ACTION PLAN

Ref	Area of Non-Conformance with the Standard	Commentary as at May 2013	Position as at May 2014
3.1b	<b>Purpose, Authority and Responsibility</b> Does the board (defined as the Audit Committee) seek reassurance from management and the CAE as to whether there are any inappropriate scope or resource limitations?	This is a new requirement. Provision for this is made through proposals for management to confirm to the Audit Committee the absence of inappropriate scope or resource limitations, at the point of receiving the Annual Report of the Head of Assurance.	<b>Conformance</b>  <b>The 2012/13 Annual Reports included this requirement. This requirement is also included in this Annual Report.</b>
3.1d	<b>Purpose, Authority and Responsibility</b> Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?	No such feedback is sought at present.	<b>Conformance</b>  <b>Feedback was sought from all partner audit committee chairs for the 2013/14 appraisal of the Head of Assurance.</b>

## APPENDIX C – PROGRESS AGAINST PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2014 – ACTION PLAN

Ref	Area of Non-Conformance with the Standard	Commentary as at May 2013	Position as at May 2014
3.4a	<b>Quality Assurance and Improvement Programme</b> Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?	<p>SIAS has a quality and performance framework which contains many elements of the QAIP, and therefore this is not a significant issue.</p> <p>However the SIAS quality and performance framework needs to be reviewed to ensure it meets the full requirements of the QAIP.</p>	<p><b>Conformance</b></p> <p><b>The SIAS quality and performance framework has been reviewed and updated and complies with the requirements of the QAIP.</b></p>
3.4b	<b>Quality Assurance and Improvement Programme</b> Does the CAE maintain the QAIP?	<p>The SIAS quality and performance framework is maintained regularly therefore this is not a significant issue; the review will ensure that ongoing maintenance arrangements are clarified.</p>	<p><b>Conformance</b></p> <p><b>The QAIP is now maintained as part of the Audit Manual with responsibility designated to a named officer.</b></p>

## APPENDIX C – PROGRESS AGAINST PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2014 – ACTION PLAN

Ref	Area of Non-Conformance with the Standard	Commentary as at May 2013	Position as at May 2014
3.4c	<b>Quality Assurance and Improvement Programme</b> Has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?	The CAE has considered and evidenced this in this document	<b>Conformance</b>  <b>Deviations are reported as part of the Annual Report and progress to implementation monitored through the audit year for reporting in the next Annual Report.</b>
4.5	<b>Communicating results</b> Does the Annual Report incorporate the results of the QAIP and any associated improvement actions	The Annual Report for 2012/13 reports on the first assessment against the PSIAS and notes that the SIAS quality and improvement framework will be reviewed to incorporate all the requirements of the QAIP. A report on this will be included within the 2013/14 Annual Report.	<b>Conformance</b>  <b>Results of the QAIP are reported in the Annual Report. There is no action plan emerging from the 2013/14 self-assessment process.</b>

Section B: Non Conformance

Ref	Area of Non-Conformance with the Standard	Commentary as at May 2013	Position as at May 2014
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 Deputy Chief Executive of Hertfordshire County Council, 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><b>No further action proposed. The current arrangements are considered effective given the shared nature of SIAS.</b></p>
3.1c	<p><b>Purpose, Authority and Responsibility</b></p> <p>Does the chief executive or equivalent undertake, countersign, contribute</p>	<p>The performance appraisal is carried out by the Deputy Chief Executive of Hertfordshire County Council (HCC)</p>	<p><b>Non-conformance</b></p> <p><b>No further action proposed. The</b></p>



---

**APPENDIX C – PROGRESS AGAINST PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2014 – ACTION PLAN**

---

Ref	Area of Non-Conformance with the Standard	Commentary as at May 2013	Position as at May 2014
	feedback to or review the performance appraisal of the CAE?		appraisal process for 2013/14 and the start of the 2014/15 cycle was carried out by the HCC Deputy Chief Executive with input from all partner audit committee chairs and chief finance officers. The current arrangements are considered effective given the shared nature of SIAS.

---

Section C: Part Conformance

Ref	Area of Non-Conformance with the Standard	Commentary as at May 2013	Position as at May 2014
3.3	<b>Proficiency and Due Professional Care</b> Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?	<p>There is sufficient knowledge of the appropriate computer assisted audit techniques. Therefore this is not considered to be a significant issue.</p> <p>However there are opportunities to increase the use of such techniques in the performance of audit activity.</p>	<p>Part conformance</p> <p>Strategy for computer assisted audit techniques to be developed.</p> <p>December 2014</p>
4a	<b>Performance Standards</b> Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	<p>There is no documented note of the approach to other sources of assurance, or mapping exercise, and any work that may be required to place reliance upon these sources</p>	<p>Part Conformance</p> <p>Assurance mapping is now included as part of the audit planning process. Further work will be done on this as part of the 2015/16 audit planning process.</p>
4b		<p>This is not significant because albeit not documented in the audit plan</p>	

## APPENDIX C – PROGRESS AGAINST PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2014 – ACTION PLAN

Ref	Area of Non-Conformance with the Standard	Commentary as at May 2013	Position as at May 2014
	<b>Performance Standards</b> <b>Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?</b>	covering report, discussions about other assurance sources are regularly held as part of the overall audit planning process.	<b>September 2014</b>
<b>4.4</b>	<b>Engagement Planning</b> Are the retention requirements for engagement records consistent with the organisation's own guidelines as well as any relevant regulatory or other requirements?	An exercise to review the consistency of retention periods is underway. However, because SIAS already has a document retention guide this is not considered to be significant.	<b>Part Conformance</b>  <b>Complete exercise to review consistency between retention periods.</b> <b>June 2014</b>



## Internal Audit Charter

### Introduction and Purpose

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

### Scope

2. This Internal Audit Charter is applicable to all partners within Hertfordshire's Shared Internal Audit Service (SIAS) during 2014/15. These clients are:

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

### Statutory Basis of Internal Audit

3. Within local government there is a statutory requirement for an internal audit function. The 2003 Accounts and Audit Regulations (as amended by the 2006, 2009 and 2011 Regulations) require that a local authority 'must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

## APPENDIX D

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

### Role

5. Internal audit activity provided by SIAS is established by the Audit Committee. The responsibilities of SIAS are defined by the Audit Committee, via this Charter, as part of its oversight role.
6. SIAS may undertake consultancy activity (additional activity requested by management) where it has the necessary skills and resources to do this. Such activity will be determined by the Head of Assurance on a case by case basis.

### Professionalism

7. SIAS governs itself by adherence to the Public Sector Internal Audit Standards (PSIAS). These mandatory public sector specific standards were introduced on 1 April 2013, through a joint venture between the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA).
8. This mandatory guidance includes the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing ('the Standards'). It sets out the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of an internal audit function's performance.
9. The CIIA's Practice Advisories, Practice Guides, and Position Papers are adhered to as applicable to guide operations. In addition, SIAS adheres to relevant policies and procedures and SIAS's standard operating procedures manual.

### Authority

10. With strict accountability for confidentiality and safeguarding records and information, SIAS is authorised full, free, and unrestricted access to any and all records, physical properties, and personnel pertinent to carrying out an engagement. All employees are requested to assist SIAS in fulfilling its roles and responsibilities. SIAS also has free and unrestricted access to the Audit Committee and Senior Management.

### Organisation

11. SIAS has direct access to Senior Management, the Audit Committee, the Chief Executive and the Chair of the Audit Committee. The Section 151 Officer and the Audit Committee will jointly agree the level of internal audit resource to be

## APPENDIX D

deployed. The Head of Assurance Services will communicate and interact directly with Senior Management and the Audit Committee in executive sessions and between meetings as appropriate. Outside formal Senior Management and Audit Committee meetings, the Head of Assurance Services will have unrestricted access to the Chief Executive and the Chair of the Audit Committee.

12. For line management purposes, the Head of Assurance Services reports to the post of Deputy Chief Executive and Chief Financial Officer at Hertfordshire County Council (HCC). The Deputy Chief Executive of HCC approves all decisions regarding the performance evaluation, appointment, or removal of the Head of Assurance Services, in consultation with the SIAS Board.
13. The following groups are defined as stakeholders of SIAS:

### Audit Committee

The Audit Committee is responsible for overseeing the effectiveness of SIAS and holding the Head of Assurance Services to account for delivery, through the receipt of regular updates and reports. The Audit Committee is responsible for the effectiveness of the governance, risk and control environment within the Council, holding managers to account for delivery.

### Senior management

Senior Management are responsible for helping shape the programme of assurance work through an analysis and review of key risks to achieving the Council's objectives and priorities. Senior Management provides leadership and direction for the Council.

### SIAS Board

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

- Resourcing and financial performance
- Performance indicators measuring operational effectiveness
- The overall strategic direction of the shared service.

### Independence and Objectivity

14. SIAS will remain free from interference by any element in the organisation in matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.
15. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair an internal auditor's judgment.

## **APPENDIX D**

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

### Conflicts of Interest

17. Internal auditors must exhibit the highest level of professional objectivity when gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
18. In addition to the ethical requirements of the various professional bodies, each auditor is required to proactively declare any potential 'conflict of interest' prior to the commencement of each audit assignment.
19. All auditors are required to sign an annual declaration of interest to ensure that the allocation of audit work avoids conflict of interest. Auditors who undertake any consultancy work will be prohibited from auditing in those areas where they have declared an interest. Audits are rotated within the team to avoid over-familiarity and complacency.
20. SIAS has procured an arrangement with Price Waterhouse Coopers (PWC) to provide additional internal audit days on request. PWC will be used for the internal audit of any functions where Head of Assurance has managerial responsibility in order to mitigate any conflict of interest.

### Responsibility and Scope

21. The scope of SIAS encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by internal audit extend to the entire control environment of the organisation and include:
  - Consistency of operations or programs with established objectives and goals, and effective performance
  - Effectiveness and efficiency of operations and employment of resources
  - Compliance with significant policies, plans, procedures, laws, and regulations
  - Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information
  - Safeguarding of assets
22. It is responsible for evaluating all processes ('audit universe') of the organisation including governance processes and risk management processes. It also assists the Audit Committee in evaluating the quality of performance of external auditors and ensuring a proper degree of coordination is maintained.
23. Due to its detailed knowledge and understanding of risks and controls, SIAS is well placed to provide advice and support on emerging risks and issues. As a result, it may perform consulting and advisory services as appropriate for the organisation.



## APPENDIX D

It may also evaluate specific operations at the request of the Audit Committee and senior management, as appropriate.

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

### Role in Anti-Fraud

25. The work programme of SIAS is designed, in part, to help deter fraud and corruption. With this in view, SIAS bases its planning on regular risk assessment, and works with Chief Financial Officers, other senior managers and the Audit Committee in determining its programme of work.
26. SIAS also shares information with relevant partners, including with government via the National Fraud Initiative, to increase the likelihood of detecting fraudulent activity and reducing the risk of fraud to all.
27. SIAS offers fraud investigation services and can support organisations in ensuring their fraud prevention arrangements are robust. 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.

### Internal Audit Plan

28. At least annually, the Head of Assurance Services will submit to the Audit Committee an internal audit plan including risk assessment criteria, for review and approval. The internal audit plan will include timings as well as budget and resource requirements for the next financial year. The Head of Assurance Services will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee.
29. The internal audit plan is developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management. Prior to submission to the Audit Committee for approval, the plan is discussed with appropriate senior management. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process.

### Reporting and Monitoring

30. The Head of Assurance will arrange for a written report to be prepared and issued following the conclusion of each internal audit engagement; this will be distributed as appropriate.

## APPENDIX D

31. The internal audit report will include management's response and corrective action taken or to be taken in response to the specific findings and recommendations. Management's response will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.
32. SIAS will be responsible for appropriate follow-up on audit findings and recommendations and will report to the Audit Committee on the results of this activity.
33. The Head of Assurance will consider any request from external stakeholders for reports on the results of internal audit activity, in consultation with senior management.
34. The Head of Assurance will arrange for quarterly update reports to the Audit Committee to advise on the results of each internal audit project, and provide an annual report to the Audit Committee giving an opinion on the overall internal control environment.

### Periodic Assessment

35. In accordance with Section 6 of the Accounts and Audit (England) Regulations 2011 and as documented in the Quality Assurance and Improvement Programme, the SIAS Board will make arrangements for the conduct of a review of the effectiveness of internal audit.
36. The review is designed to ensure that the opinion given in the Annual Report of the Head of Assurance Services may be relied upon as a key source of evidence in the Annual Governance Statement.
37. Where an external assessment is undertaken the work will be conducted on the basis of one review of SIAS providing assurance for all SIAS partner members.

### Review of the Audit Charter

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

Helen Maneuf - Head of Assurance Services  
May 2014

(Date of next review: May 2015)

### Note:

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