Watford Borough Council

2018/19 Annual Assurance Statement

and

Internal Audit Annual Report

30 July 2019

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 2018/19

Contents

1. Purpose and Background

<u>Purpose of Report</u>

1.1 This report:

- Details the Shared Internal Audit Service's (SIAS) overall opinion on the adequacy and effectiveness of Watford Borough Council's (the Council) control environment. Reference is made to significant matters and key themes
- 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)
- Summarises the audit work that informs this opinion
- Shows SIAS's performance in respect of delivering the Council's audit plan
- Presents the 2019/20 Audit Charter

<u>Background</u>

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 2018/19 internal audit work 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 2019/20 before the committee report deadline.

1.4 SIAS is grateful for the co-operation and support it has received during 2018/19.

2. Annual Assurance Statement 2018/19

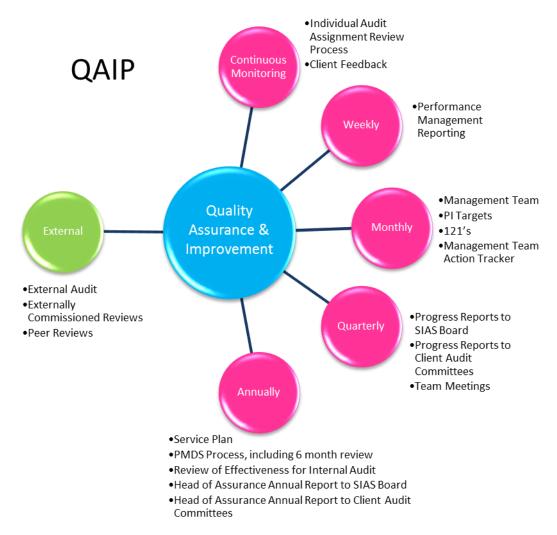<u>Context</u>

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: internal control, governance, and risk management. Together these aim to manage risk to an acceptable level but not to eliminate it.

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

Review of effectiveness

2.4   The 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 2018/19 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 2018/19 SIAS operated according to its QAIP with evidence available within the service to support the achievement of each QAIP element.

QAIP

Continuous Monitoring
- Individual Audit Assignment Review Process
- Client Feedback

Weekly
- Performance Management Reporting

Quality Assurance & Improvement

Monthly
- Management Team
- PI Targets
- 121's
- Management Team Action Tracker

External
- External Audit
- Externally Commissioned Reviews
- Peer Reviews

Quarterly
- Progress Reports to SIAS Board
- Progress Reports to Client Audit Committees
- Team Meetings

Annually
- Service Plan
- PMDS Process, including 6 month review
- Review of Effectiveness for Internal Audit
- Head of Assurance Annual Report to SIAS Board
- Head of Assurance Annual Report to Client Audit Committees

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 2018/19

Assurance opinion on internal control

2.11 Based on the internal audit work undertaken at the Council in 2018/19, 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: FINANCIAL SYSTEMS	Our overall opinion is **Satisfactory Assurance** – whilst the internal control environment is largely working well in managing the key risks in scope, there are some audit findings relating to the current arrangements.
ASSURANCE OPINION: NON-FINANCIAL SYSTEMS	Our overall opinion is **Satisfactory Assurance** – whilst the internal control environment is largely working well in managing the key risks in scope, there are some audit findings relating to the current arrangements.

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 2018/19 and the outcomes of the Risk Management audit undertaken by SIAS in 2018/19.

T.V.Barrett

Head of Assurance for the Shared Internal Audit Service
June 2019

3. Overview of Internal Audit Activity at the Council in 2018/19

3.1 This section summarises work undertaken at the Council by SIAS in 2018/19. It highlights 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. While we have shown the number of recommendations for 2017/18, we have not done this for the number of reports and assurance levels due to the changes in assurance opinion definitions.

Assurance Level	Number of reports 2018/19	Percentage of reports 2018/19
Good	7	39%
Satisfactory	10	56%
Limited	0	0%
No	0	0%
Not Assessed	1	5%
Total	18	100%

Recommendation Priority Level	Number of recommendations 2018/19 (2017/18 data in brackets)	Percentage of recommendations 2018/19 (2017/18 data in brackets)
Critical	0 (0)	0 (0%)
High	0 (3)	0% (13%)
Medium	14 (18)	45% (74%)
Merits Attention	17 (3)	55% (13%)
Total	31 (24)	100% (100%)

3.3 **The satisfactory overall assurance opinion overall on financial systems** has been concluded from the nine financial systems audits finalised and where an opinion has been given. Five received good assurance and four received satisfactory assurance. No critical or high priority recommendations were made in these audits.

3.4 **The satisfactory overall assurance opinion on non-financial systems** has been concluded from the eight non-financial systems audits finalised and where an opinion has been given. Two received good assurance and six received satisfactory assurance. No critical or high priority recommendations were made in these audits.

3.5   The Agency Staffing audit is currently at draft report stage. Provisionally, this audit has a satisfactory assurance rating and no critical or high priority recommendations have been made. This report would not therefore impact on the overall satisfactory assurance opinion for non-financial systems.

3.6   Herts Home Improvement Agency (joint audit with all partners) is also at draft report stage and final sign-off of management responses is awaited. The outcomes of this audit will be taken into account in the 2019/20 Head of Assurance opinion for non-financial systems audits.

3.7   We recognise the continued positive direction of travel in the year, both through management assurances provided and by the further reduction in the number of outstanding IT audit recommendations. Currently there are three 'medium' priority recommendations from the 2018/19 Cyber Security audit, finalised in January 2019) which are due to be implemented between 30 June and 30 November 2019.

4.   Performance of the Internal Audit Service in 2018/19

Performance indicators

4.1   The table below compares SIAS's performance at the Council against the 2018/19 targets set by the SIAS Board.

Indicator	Target 2018/19	Actual to 31 March 2019
1 SIAS Planned Days – percentage of actual billable days delivered against planned billable days	**95%**	**99%** 248 days delivered out of a total of 251 (272 agreed days less 21 to be allocated days)
2 SIAS Planned Projects – actual completed projects to draft report stage against planned completed projects	**95%**	**100%** 20 projects delivered out of a total of 20 agreed projects
3 External Auditors' Satisfaction – the Annual Audit Letter formally records that the External Auditors are able to rely upon the range and quality of SIAS' work	**Formal Reliance**	**Achieved**

4 SIAS Annual Plan – presented to the March Audit Committee or the first meeting of the financial year should a March committee not meet	Deadline met	Achieved
5 Client Satisfaction - client satisfaction questionnaires returned at 'satisfactory overall' level (minimum of 39/65 overall)	100%	91% (10 out of 11 received at satisfactory level)
6 Head of Assurance's Annual Report – presented at the first Audit Committee meeting of the financial year.	Deadline met	Achieved
7 Number of High Priority Audit Recommendations agreed	95%	N/A (none made in 2018/19)

Service Developments

4.2 During 2018/19 the development activities for SIAS included:

- Recruitment of two new trainee auditors forming a key part of our 'grow your own' strategy, given known industry difficulties in recruiting at the senior auditor level.

- Tendering for our co-sourced audit delivery partner to provide service resilience and access to audit specialists, saw the re-appointment of BDO for a second term.

- Hosting a Commercialism and Local Authority Trading workshop for our SIAS partners in January 2019.

- Continued review of key business processes, including work allocation, the Audit Manual and performance dashboards, to reduce administrative overheads and improve efficiency in delivering the audit plan.

- Formally implementing, quarterly reporting to all HCC Service Boards on the delivery and outcomes of the internal audit plan.

- Designed a new self and management assessed training and skills matrix to supplement the appraisal process and personal development plans for each auditor. This is an important part of our Quality

Assurance and Improvement Programme (QAIP) required by the professional standards. Analysis of the results will inform a training programme in 2019/20.

5. Audit Charter 2019/20

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 2019/20 review did not result in any fundamental changes although a number of minor amendments were made. The 2019/20 Charter is attached at Appendix D.

APPENDIX A - FINAL POSITION FOR THE 2018/19 AUDIT PLAN

2018/19 Watford Borough Council Audit Plan

	Level of Assurance	Recommendations				Plan Days	Audit Progress /Status
		C	H	M	L		
Key Financial Systems							
Benefits (shared plan)	Satisfactory	0	0	2	0	14	Final Report Issued*
Council Tax (shared plan)	Satisfactory	0	0	1	4	13	Final Report Issued
Creditors (shared plan)	Good	0	0	0	0	10	Final Report Issued
Debtors (shared plan)	Good	0	0	0	0	10	Final Report Issued
Main Accounting (shared plan)	Satisfactory	0	0	0	3	14	Final Report Issued*
NDR (shared plan)	Satisfactory	0	0	1	2	13	Final Report Issued
Payroll (shared plan)	Good	0	0	0	0	10	Final Report Issued
Treasury Management (shared plan)	Good	0	0	2	0	5	Final Report Issued
Budget Monitoring (shared plan)	Good	0	0	0	0	5	Final Report Issued
Operational Audits							
Agency Spend (shared plan)						10	Draft Report Issued**
GDPR Preparedness	Satisfactory	0	0	2	2	12	Final Report Issued

APPENDIX A - FINAL POSITION FOR THE 2018/19 AUDIT PLAN

GDPR – PIR	Good	0	0	0	0	8	Final Report Issued
Parking Strategy	Satisfactory	0	0	2	1	10	Final Report Issued
Temporary Accommodation	-	-	-	-	-	1	Cancelled
Commercial Strategy	-	-	-	-	-	0	Cancelled
Grants	Good	0	0	0	1	6	Final Report Issued
Equality Impact Assessments	Satisfactory	0	0	1	0	5	Final Report Issued
Herts Home Improvement Agency						3	Draft Report Issued**
DFG Capital Grant Certification	N/A	-	-	-	-	1	Complete
Procurement							
No Audits							
Risk Management and Corporate Governance							
Risk Management	Satisfactory	0	0	0	2	5	Final Report Issued
Shared Learning							
Shared Learning Newsletters and Summary Reports	-	-	-	-	-	3	Complete
Joint Reviews	-	-	-	-	-	2	Complete
IT Audits							

APPENDIX A - FINAL POSITION FOR THE 2018/19 AUDIT PLAN

Cyber Security (shared plan)	Satisfactory	0	0	3	0	12	Final Report Issued
IT Contract Management (shared plan)	Satisfactory	0	0	0	2	15	Final Report Issued*
IT Operations (shared plan)						4	Cancelled
To Be Allocated							
To Be Allocated (shared plan)						21	
Anti-Fraud							
No Audits							
Ad-Hoc							
Ad-Hoc Advice	-	-	-	-	-	2	Complete
Follow-Up Audits							
Follow up of outstanding audit recommendations	-	-	-	-	-	10	Complete
Strategic Support							
2019/20 Audit Planning	-	-	-	-	-	7	Complete
Audit Committee	-	-	-	-	-	10	Complete
Monitoring & Client Liaison	-	-	-	-	-	11	Complete
Liaison with External Audit	-	-	-	-	-	1	Complete

APPENDIX A - FINAL POSITION FOR THE 2018/19 AUDIT PLAN

Head of Internal Audit Opinion 2017/18	-	-	-	-	-	2	Complete
SIAS Development	-	-	-	-	-	3	Complete
AGS	-	-	-	-	-	3	Complete
2017/18 Projects Requiring Completion (5 days WBC, 6 days shared plan)	-	-	-	-	-	11	Complete
Plan Days						**272**	
Recommendations	0	0	14	17			

* - At Draft Report stage at 31 March 2019, Final Report issued after year end

** - Draft Report issued prior to 31 March 2019

Levels of assurance	
Good Assurance	The design and operation of the internal control framework is effective, thereby ensuring that the key risks in scope are being well managed and core objectives will likely be achieved. There are minor reportable audit findings.
Satisfactory Assurance	The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements.
Limited Assurance	The system of internal control is only partially effective, with important audit findings in key areas. Improvement in the design and/or operation of the control environment is necessary to gain assurance risks are being managed to an acceptable level, and core objectives will be achieved.
No Assurance	The system of internal control has serious gaps, and controls are not effective in managing the key risks in scope. It is highly unlikely that core objectives will be met without urgent management intervention.

Priority of recommendations	
Critical (Corporate)	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.
High	Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
Medium	Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
Low / Advisory	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.

Section A: Conformance - During 2018/19 all areas apart from those identified in Section B below are conforming.

Section B: Intentional Non-Conformance

Ref	Area of Non-Conformance with the Standard	Commentary	
3.1a	**Purpose, Authority and Responsibility** Does the board (defined as the Audit Committee) approve decisions relating to the appointment and removal of the Chief Audit Executive (CAE) (Head of Assurance)?	The Director of Resources, Hertfordshire County Council (HCC), in consultation with the Board of the Shared Internal Audit Services approves decisions relating to the appointment and removal of the CAE. This is as provided for in the governance of the Shared Internal Audit Service.	**Non-conformance** No further action proposed. The current arrangements are considered effective given the shared nature of SIAS.
3.1c	**Purpose, Authority and Responsibility** Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?	The performance appraisal is carried out by the Director of Resources (HCC).	**Non-conformance** No further action proposed. The appraisal process was carried out by the Director of Resources (HCC) with input from all partner chief finance officers. The current arrangements are considered effective given the shared nature of SIAS.

Audit Charter 2019/20

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 to achieve 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 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 Audit Committee.

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. 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 Chairman of the Audit Committee has free and unrestricted direct access to both, the Head of Internal Audit, and the Council's External Auditor.

7.3. 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 client's Section 151 Officer is asked to contribute to the annual appraisal of the Head of Assurance.

8. <u>Stakeholders</u>

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 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 the annual audit plan, approval of performance targets set by the SIAS Board and receipt of regular reports.

8.3. The Audit 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.

8.4. 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.

8.5. 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.

8.6. 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), 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 and the Audit Committee, seeks to help deter fraud and corruption.

12.2. 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 make reference to 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.

16.2. The Head of Assurance reviewed this Audit Charter in May 2019. It will next be reviewed in May 2020.

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.