

Report to	-	Audit and Standards Committee
Date	-	26 June 2017
Report of the	-	Executive Director of Resources
Subject	-	Internal Audit Report to 31 March 2017

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**Recommendation:** It be **RESOLVED:** That:

- 1) the Internal Audit report to 31 March 2017 be noted;
  - 2) the overall assessment of the Council's internal control systems (paragraphs 26 to 29) and opinion on the control environment (paragraph 34) be approved; and
  - 3) the revised Internal Audit Charter shown in Appendix E be approved.
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**Audit Manager: Gary Angell**

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**Introduction**

1. The Council is required to ensure that it has reliable and effective internal control systems in place. The adequacy of these systems is tested by both Internal and External Audit.
2. To be effective, Internal Audit must be (and be seen to be) independent from the activities it evaluates. Rother's Internal Audit Service achieves this by operating as an independent unit within the Corporate Core. It has unrestricted access to Senior Management; reports in its own name; and has no managerial responsibility for any of the systems it reviews. This enables Internal Audit to provide independent and objective assurance when reporting on the Council's activities.
3. In the year up to 31 March 2017, Internal Audit has operated in accordance with the Public Sector Internal Audit Standards (hereafter referred to as 'the Standards'). It is a requirement of the Standards that we report to the Audit and Standards Committee on audit matters and any emerging issues not only in relation to audit but risk management and corporate governance.
4. In line with the Standards, the Audit Manager is expected to present an annual report on the performance of the Internal Audit Service that can be used by the Council to inform its Annual Governance Statement. The annual Internal Audit opinion must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
5. The annual report must incorporate:
  - the opinion;
  - a summary of the work that supports the opinion; and

- a statement on conformance with the Standards and the results of the Quality Assurance and Improvement Programme.

### Summary of Activity during 2016/17

6. The majority of the work planned for 2016/17 was completed but a management decision not to proceed with one particular project (i.e. Frontier HR 21 Self Service Computer System) meant that not all of the work could be carried out. However, all of the Governance Audits (which incorporate the key areas where External Audit place reliance on the work of Internal Audit when expressing their own opinion on the Council's final accounts) were completed.
7. Ten audit reports were issued in the final quarter of 2016/17. All of these gave good or substantial assurance on the governance arrangements. The executive summaries for each of these audits, giving an overview of the main findings of each report, is given in Appendix A.
8. Appendix B shows a summary of all audit reports completed in 2016/17, the level of compliance and assurance rating for each review, and the overall performance of the Internal Audit team against the plan. Members have already received details of all audit reports issued in the first three quarters of 2016/17 at previous meetings. An update on the action taken on all recommendations made in 2016/17 is shown elsewhere in this report.

### Implementation of Audit Recommendations

9. Each quarter, Internal Audit updates Members on the progress made on implementing the audit recommendations reported at previous meetings. Appendix C provides a summary of the current position. This shows that only a handful of recommendations made during the period 2012/13 to 2015/16 still remain outstanding. However, these include the high risk recommendations for Asset Management and Data Protection, both of which are once again flagged for inclusion in the Annual Governance Statement (paragraph 27). Although work has been carried out on both these recommendations there are some points to be completed before they can be signed off as complete.
10. The summary in Appendix C also shows that steady progress continues to be made on the recommendations issued in the first three quarters of 2016/17, with only six recommendations yet to be resolved.
11. The progress made to implement the two high risk recommendations mentioned above is outlined below.
  - a) **Asset Management** – Progress continues to be made on the new single source Asset Management system, however, it has previously been acknowledged that this work will take time to complete. It was therefore agreed at the September 2016 meeting (Minute A16/15) that no further updates would be reported until December 2017.
  - b) **Data Protection** – Issues were found with the way personal data is shared. In his latest progress update, the Service Manager – Corporate & Human Resources reiterates that Service areas are continuing to work through the high risk areas and are undertaking a self-audit in the first instance, and that a number of these reviews have already been completed. Data Protection training has also now been provided to staff.

NB - The adequacy of the progress made to resolve the above issue will soon be reviewed again as a further audit of the Data Protection arrangements is scheduled to take place in July 2017.

### **Community Infrastructure Levy (CIL) and Section 106 Update**

12. At the last meeting, Members expressed concern about the findings of the CIL and Section 106 report and requested that the Service Manager – Strategy and Planning submit a separate update report to this Committee (Minute AU16/31). This report is attached in Appendix D.

### **Counter Fraud Work**

13. In addition to compliance work, the Audit Manager also coordinates the annual National Fraud Initiative (NFI) data matching exercises and the whole Internal Audit team assist in the process of reviewing the matches.
14. Internal Audit also allocates time each year to undertake other counter fraud duties. In 2016/17, this work focused on identifying properties within the district that could be liable for business rates but which had not previously been rated by the Valuation Office. With the support of colleagues in the Revenues & Benefits team several cases were identified resulting in £25,328 in additional revenue income from farm shops, holiday lets and an auction room. Further cases were also identified but these are yet to be rated by the Valuation Office. Any savings realised from these cases will therefore be included in next year's figures.
15. The Audit Manager has also drafted a Counter Fraud Strategy to help further develop the Council's counter fraud response. However, some further work will be required before this strategy can be finalised. For example, the Internal Audit team is currently in the process of evaluating the adequacy of existing counter fraud arrangements, and will be using this information to draw up an action plan to improve the Council's approach. Once complete, this action plan will be incorporated into the strategy document.

### **Other Financial Savings**

16. In addition to providing management with assurance on the adequacy of its control environment, routine audit work can also sometimes highlight financial errors which can result in savings (or increased income) once corrected. In 2016/17, a total of £23,027 in confirmed savings/extra income was identified as a by-product of this work. The sort of errors found include the miscalculation of monies paid to a contractor, uncollected income in respect of Section 106 inflation uplift, and the incorrect application of an empty property exemption marker on a NNDR account.

### **Quality Assurance and Improvement Programme**

17. The Audit Manager is required to develop and maintain a Quality Assurance and Improvement Programme in order to evaluate the Internal Audit team's conformance with the Standards, to assess the efficiency and effectiveness of all Internal Audit activity and to identify opportunities for improvement.
18. The proficiency, effectiveness and quality of the Internal Audit team is monitored and improved through:

- annual self-assessments (Review of Internal Audit)
  - 5-yearly external (peer review) assessments
  - supervision and the review of all Internal Audit output
  - obtaining client feedback
19. The Audit Manager's latest self-assessment of his team's compliance with the Standards (Review of Internal Audit 2016/17) was approved by Members on 27 March 2017 (Minute AU16/33 refers). The report concluded that there is a high level of effectiveness overall and while there are still a few areas of partial or non-compliance, none of them are significant in nature. The main issue coming out the self-assessment was the need for the Sussex Audit Group Assessment Team to complete its peer review of the Rother Internal Audit Service. This work was completed in April 2017 and the results are reported elsewhere in this agenda.
20. Quality assurance questionnaires are used to capture client feedback. Two different questionnaires are currently used: one to obtain immediate feedback from line management at exit meetings (once the fieldwork is complete and draft audit report has been issued and discussed); and the other to get the Service Manager's overall opinion on the quality of all audit reports issued to them in the previous quarter. Questionnaire recipients are invited to rate the service provided as either 'good', 'fair' or 'poor' and are also encouraged to comment where improvement is required.
21. A summary of the responses received in 2016/17 is shown in the table below.

Questionnaire Type	Responses to Individual Questions					
	Good		Fair		Poor	
Exit Meeting (Line Manager)	116	98%	3	2%	0	0%
Service Manager Meeting	63	100%	0	0%	0	0%
<b>Totals</b>	<b>179</b>	<b>98%</b>	<b>3</b>	<b>2%</b>	<b>0</b>	<b>0%</b>

22. Overall, it can be seen from the feedback received that there is currently a high level of satisfaction with the quality of the Internal Audit Service with all Service Managers and most line managers rating the service as 'good'.

## Performance Measures

23. The Audit Manager closely monitors the performance of the Internal Audit team throughout the year to ensure that agreed targets are achieved. The table below shows the performance indicators and targets for 2016/17 together with the actual results for the year.

Performance Indicator	Target	Actual
Audit Plan – Percentage of governance audits completed.	100%	100%
Audit Plan – Percentage of overall audit plan completed.	90%	96%
Audit Assignments – Final reports issued within 15 days of second draft report.	90%	81%
Audit Recommendations – Percentage of "high" risk recommendations accepted by management.	100%	100%
Satisfaction/Feedback – Overall percentage of customers rating the Internal Audit Service as "Good" or "Fair".	90%	100%

24. It can be seen from this table that most of the targets for 2016/17, have either been met or exceeded. The one target which was missed (i.e. the timescale

for issuing final reports) is not cause for concern since only four reports experienced minor delays, and all were due to factors beyond the auditor's control.

### **Conformance with the Public Sector Internal Audit Standards**

25. Both the annual self-assessment exercise performed by the Audit Manager and the results of the recent external peer review show that Rother's Internal Audit Service generally conforms with the Public Sector Internal Audit Standards.

### **Overall Assessment of the Council's Internal Control Systems**

26. Under the Accounts and Audit Regulations 2015, ultimate responsibility for maintaining a sound system of internal control rests with the Council but this has been delegated to the Service Manager – Finance and Welfare (s.151 Officer). The assessment of the control environment is made in two ways, by reviewing the recommendations made in Internal Audit reports and by the production of the Annual Governance Statement. The Annual Governance Statement will be considered by the Committee later on the agenda.
27. The following areas have been identified for inclusion in the Annual Governance Statement because the internal control environment is not satisfactory:
- a. *Asset Management* – Internal Audit highlighted inconsistencies in the records maintained on the land and property assets of the Council and the need for a single computerised asset management system. Work commenced entering records on to a new central asset management system (ePIMS) in November 2014 but this task has proven to be much bigger than was originally envisaged, and it is not now expected to be completed until December 2017.
  - b. *Data Protection* – An Internal Audit report issued in July 2013 found a problem with the way personal data is shared. Some progress has been made to address this issue but it is yet to be fully resolved.
28. One further area where only limited assurance could be given (Community Infrastructure Levy (CIL) and Section 106 Agreements) was also highlighted as a result of Internal Audit work in 2016/17 but the main issue that led to this assessment (i.e. concerns about the arrangements for collecting and accounting for CIL income) has since been resolved. A further review of the CIL system is planned for later this year.
29. Areas of emerging risk include:
- *Joint Waste Contract* – This will be an area of significant change over the next couple of years following a mutually agreed decision to terminate the existing contract with effect from 28 June 2019. The main issues facing the Council over the coming year concern the arrangements for managing the performance of the outgoing contractor, while simultaneously undertaking a major retendering exercise.
  - *General Data Protection Regulation (GDPR)* – The GDPR, will replace the Data Protection Act 1998 with effect from 25 May 2018, and will introduce

new obligations (including a requirement to appoint a qualified Data Protection Officer), enhanced data subject rights and tougher financial penalties. There is a risk that the Council will not have the necessary expertise/procedures in place to cope with the new legal requirements.

- *New Computer Systems* – Several new computer projects are currently ongoing including the Agresso upgrade/replacement, Document Image Processing and Workflow software, and a new Customer Relationship Management system. All face the same risks inherent in any major project but this is compounded by a lack of dedicated staff resources (with many of the officers involved also having to hold down their day jobs) and challenging implementation timescales.
- *Cash Collection Contract* – The main issue regarding the administration of this jointly procured contract (i.e. the Contractor's inability to bill the Council correctly for the collections it makes) has continued despite a number of meetings with the Contractor and assurances that things will improve. If the Contractor's performance does not improve over the coming year then the Council may be forced to consider its options.

### Opinion on the Control Environment

30. All audit reports are given an assurance rating based on the following criteria.

Rating	Description
Good	Strong controls are in place and are complied with.
Substantial	Controls are in place but improvements would be beneficial.
Limited	Improvements in controls or in the application of controls are required.
Minimal	Urgent improvements in controls or in the application of controls are required.

31. Limited/minimal ratings are triggered by the presence of either high risk recommendations or five or more medium risk recommendations – which refer to likelihood and impact of a negative outcome occurring if the expected controls are not in place.
32. In forming an overall opinion, Internal Audit findings need to be set in context and viewed corporately. The summary of the audit reports completed in 2016/17 (Appendix B) shows that just one audit report (4.8%) was given a "limited" assurance rating and only one of the 90 control objectives examined during the year was not "met" at least in part.
33. The quarterly Internal Audit activity reports submitted to this Committee have also shown that the vast majority of the expected controls are in place although it has been necessary to make a number of recommendations during the year where areas were identified for improvement.
34. Taking all of the factors highlighted in this and the quarterly reports into account, the Internal Audit overall assessment of the Council's framework of governance, risk management and control is that it is adequate and effective. This assessment is without qualification.

## **Internal Audit Charter**

35. The Standards require the development and adoption of an Internal Audit Charter to define the purpose, authority and principal responsibilities of the Internal Audit Service. The existing charter was last revised in September 2015 and now needs to be updated to incorporate enhancements suggested by the recent peer review and few other minor amendments. A revised Internal Audit Charter is therefore provided in Appendix E for Members consideration and approval.

Malcolm Johnston  
Executive Director of Resources

### **Risk Assessment Statement**

A strong, independent and well supported Internal Audit function ensures that the Council does not suffer from poor internal control systems.

**COUNCIL TAX AUDIT****ROTHER DISTRICT COUNCIL**

Service Manager: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Rebecca Algar and Tracey Remnant

Overall Level of Assurance **SUBSTANTIAL****Purpose & Objectives**

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

**Control Objectives**

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

<b>Valuation and Liability</b> – All taxable properties and liable persons are identified, and exemptions, discounts and disregards are correctly applied.	<b>P</b>
<b>Billing</b> – The Council complies with all statutory requirements for tax setting and amounts due in respect of each taxable property have been correctly calculated and payment promptly demanded.	<b>M</b>
<b>Collection and Refunds</b> – There is a sound system for the collection of income and the refund of overpayments.	<b>M</b>
<b>Recovery and Enforcement</b> – All arrears are promptly identified, and effectively pursued in accordance with statutory requirements/laid down procedures. All write-offs are valid and authorised.	<b>P</b>
<b>System Reconciliation</b> – Amounts are properly recorded and reconciled to the main accounting system.	<b>P</b>

**Level of Assurance**

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements.

The main issues found relate to:

- **Valuation and Liability** – Action needs to be taken to ensure that Building Control completion lists (containing information about new and modified dwellings) are more promptly received and acted upon.
- **Recovery and Enforcement** – Diary codes that actively suppress recovery action should be reviewed on a regular basis and removed at the earliest opportunity.
- **System Reconciliation** – Further action is required to improve how standing order payments are accounted for so as to enable all income to be more promptly reconciled to the main accounting system.



**Executive Summary**

Overall, the control objectives are considered to have largely been met but we have made three medium and two low risk recommendations to management to further enhance the governance arrangements and provide for greater efficiency.

Internal Audit Service  
January 2017

**NATIONAL NON-DOMESTIC RATES (NNDR) AUDIT****ROTHER DISTRICT COUNCIL**

Service Manager: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Tony Lockey

Overall Level of Assurance: **SUBSTANTIAL****Purpose & Objectives**

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

**Control Objectives**

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

<b>Valuation and Liability</b> – All properties liable for NNDR are identified and assessed, and all reliefs and exemptions correctly applied.	<b>P</b>
<b>Billing</b> – NNDR liability is accurately assessed and correct bills are issued to the occupiers of all rateable hereditaments.	<b>M</b>
<b>Collection and Refunds</b> – There is a sound system for the collection of income and the refund of overpayments.	<b>M</b>
<b>Recovery and Enforcement</b> – All arrears are promptly identified, and effectively pursued in accordance with statutory requirements/laid down procedures. All write-offs are valid and authorised.	<b>M</b>
<b>System Reconciliation</b> – Amounts are properly recorded and reconciled to the main accounting system.	<b>P</b>
<b>Government Returns</b> – The Council complies with Government reporting requirements and is paying the correct rating contribution.	<b>M</b>

**Level of Assurance**

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements.

The main issues found relate to:

- **Valuation and Liability** – Action needs to be taken to ensure that Building Control completion lists (containing information about new and modified dwellings) are more promptly received and acted upon.
- **System Reconciliation** – Further action is required to improve how standing order payments are accounted for so as to enable all income to be more promptly reconciled to the main accounting system.

**Executive Summary**

Overall, the control objectives are considered to have largely been met but we have made one low risk recommendation to management to further enhance the governance arrangements. This report also highlights some medium risk issues but these have already been addressed by

the recommendations made at the Council Tax audit and are not repeated here since they are common to both systems. All such matters were still however taken into account when arriving at the overall assurance rating for this report.

Internal Audit Service  
January 2017

**BENEFITS AUDIT****ROTHER DISTRICT COUNCIL**

Service Manager: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Chris Watchman

Overall Level of Assurance **SUBSTANTIAL****Purpose & Objectives**

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

**Control Objectives**

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

<b>New Applications and Changes of Circumstances</b> – All applications are promptly and properly processed.	<b>P</b>
<b>Benefit Assessment</b> – Benefits are properly due and are calculated correctly.	<b>P</b>
<b>Payment</b> – Rent allowances are promptly paid to those for whom they are intended.	<b>M</b>
<b>Overpayments</b> – Overpayment of benefit, including those arising from fraud and abuse, are either prevented or identified and promptly followed up. Refunds and write-offs are properly authorised.	<b>P</b>
<b>Reconciliation</b> – Benefit payments are correctly applied and regularly reconciled to the main accounting system.	<b>M</b>
<b>System Administration</b> – The computer system is kept up-to-date, access to benefit records, system parameters and creditor masterfile records are suitably restricted, and adequate segregation of duties is maintained.	<b>M</b>

**Level of Assurance**

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements.

The main issues found all relate to the current backlog of work. This is already being addressed through the use of an external provider to process some of the caseload and the appointment of three new members of staff. However, the audit highlights the need to improve the arrangements for monitoring performance when work is undertaken by third parties.

It is also noted that the Council is once again at risk of losing some (or all) of the subsidy on local authority/administrative delay error overpayments owing to aforementioned processing delays. Management is aware of the situation and will be taking steps to reduce any potential loss.

**Executive Summary**

Overall, the control objectives are considered to have largely been met but we have made two medium risk recommendations to management to further enhance the governance arrangements and improve value for money.

Internal Audit Service, January 2017

**M3 COMPUTER SYSTEM AUDIT****ROTHER DISTRICT COUNCIL**

Service Manager: Richard Parker-Harding

Officer(s) Responsible for Implementing Recommendations: Catherine Beaumont and Clare Fletcher

Overall Level of Assurance: **SUBSTANTIAL**

**Introduction**

The Northgate M3 Public Protection (PP) system has been in use at Rother District Council ever since the Environmental Health Services shared service with Wealden District Council was first established in December 2012. However, up to two years ago, the system was used exclusively for Wealden casework, with all Rother cases recorded on the legacy Uniform system. Following a procurement exercise in 2014, it was decided to replace the Uniform system and migrate all Rother work to the M3 system. The Council also took the opportunity to reconfigure the M3 system prior to the changeover to improve workflow. The newly expanded M3 system came into operation in April 2015 and all shared service staff now use it.

The M3 system is primarily used by Environmental Services & Licensing but it is also regularly used by officers in Housing Needs (Finance & Welfare) and Private Sector Housing (Community & Economy).

**Purpose & Objectives**

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the M3 system based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

**Control Objectives**

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

<b>Input Controls</b> – All transactions are authorised, complete, accurate, timely and input once only.	<b>P</b>
<b>Processing Controls</b> – An appropriate level of control is maintained during processing to ensure completeness and accuracy of data.	<b>M</b>
<b>Output Controls</b> – Controls ensure the accuracy, completeness, confidentiality and timeliness of output reports and interfaces.	<b>P</b>
<b>Computer Security</b> – Arrangements exist for creating backup copies of data and programs, storing and retaining them securely, and recovering the system in the event of failure.	<b>M</b>
<b>Change Control</b> – Program changes are authorised and actioned in a controlled environment.	<b>P</b>

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**Level of Assurance**

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements. However, the audit still highlights the need for improved control in several areas, notably:

- **System Administration** – The System Supervisor is currently the only person with enough knowledge to fully administer the M3 system. It would therefore be advisable from a business continuity perspective for the Council to train up other trusted officers to ensure that it can provide more robust system administration cover in her absence.
- **Reconciliation to Main Accounting System** – It is currently very difficult to agree the income recorded on the M3 system to the Agresso financial system. This is partly due to the fact that cross-referencing between the two systems is poor. Management need to liaise with Finance and the Transformation Team to improve the cross-referencing of these payments.
- **Testing Records** – Although testing is performed prior to applying major reconfiguration changes, system upgrades and software fixes, no records are currently kept to demonstrate its adequacy. In future, a record should be kept of all cases tested and management should review this before giving authority for the changes to go ahead.
- **System Upgrade** – Plans to implement ASSURE (the new web-based version of the M3 system) have been delayed for many months because some fundamental problems have been found with the new system and the software provider is yet to provide a solution. It is important that this situation is resolved as soon as possible since other improvements to the M3 system are also dependent on the completion of this project.

**Executive Summary**

Overall, the control objectives are considered to have largely been met but we have made four medium and two low risk recommendations to management to further enhance the governance arrangements and provide for greater efficiency.

Internal Audit Service  
February 2017

**MAIN ACCOUNTING AUDIT****ROTHER DISTRICT COUNCIL**

Service Manager: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Catherine Jobling and Ilona Hollands

Overall Level of Assurance: **GOOD****Purpose & Objectives**

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

**Control Objectives**

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

<b>Integrity of Accounts</b> – The main accounting system is maintained in accordance with legislation, international accounting and financial reporting standards and provides accurate data for the production/publication of the final accounts and financial statements	<b>M</b>
<b>Journals</b> – All journal entries are complete, accurate and properly authorised.	<b>M</b>
<b>Feeder Systems</b> – All input from other systems is complete and correctly recorded and suspense accounts are regularly reviewed and cleared.	<b>M</b>
<b>Budget</b> – The budget is set, correctly loaded on the system and controlled, all in accordance with Financial Procedure Rules.	<b>M</b>

**Level of Assurance**

Based on the findings from the audit we have determined that good assurance can be given on the governance arrangements.

The only issue found related to the need for closer monitoring of suspense account 99993 (Receipts to be Re-allocated), in conjunction with the Income Protection Manager, to ensure that the account balance is significantly reduced before the end of the financial year.

**Executive Summary**

Overall, the control objectives are considered to have largely been met but we have made one low risk recommendation to management to further enhance the governance arrangements.

Internal Audit Service  
February 2017

**DEBTORS AUDIT****ROTHER DISTRICT COUNCIL**

Service Manager: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Mark Deane, Lois Knight, Tony Lockey, Wendy Swain and Chris Watchman

Overall Level of Assurance: **SUBSTANTIAL**

**Purpose & Objectives**

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

**Control Objectives**

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

<b>Raising of Debtor Invoices</b> – Debtor invoices are promptly and correctly raised in accordance with Financial Procedure Rules/Council policy.	<b>M</b>
<b>Collection, Debt Recovery and Refunds</b> – Procedures for the recovery of unpaid debts are documented and implemented. Direct debit income is collected on time. Refunds and write-offs are properly authorised.	<b>P</b>
<b>Reconciliations and Provisions</b> – The Council's accounts are updated to record all payments received.	<b>P</b>
<b>Suspense Account</b> – Unallocated payments are posted to a suspense account and promptly investigated and cleared.	<b>P</b>
<b>Monitoring of Arrears</b> – Debt collection performance is monitored.	<b>P</b>

**Level of Assurance**

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements. A number of minor control issues were however identified and recommendations were made for improvement in the following areas:

- Monitoring of credit notes
- Review of long term payment plans
- Monitoring of recovery action taken on debts referred to Legal Services
- Reconciliation of debtor income

The need for closer monitoring of suspense account 99993 (Receipts to be Re-allocated) is also an issue but this has already been raised at the recent Main Accounting audit and it is understood that many of the items in this account have now been identified and cleared. Progress will be reviewed again at the forthcoming Cash and Banking audit.

Finally, there is also some scope for improving the way departments monitor their unpaid debts but changes are currently being made to the budget monitoring arrangements which should help to address this.



**Executive Summary**

Overall, the control objectives are considered to have largely been met but we have made five low risk recommendations to management to further enhance the governance arrangements.

Internal Audit Service  
February 2017

**ICT GOVERNANCE AUDIT****ROTHER DISTRICT COUNCIL**

Service Manager: Kim Hodgson

Officer(s) Responsible for Implementing Recommendations: Graham McCallum and Andy Tunstall

Overall Level of Assurance: **SUBSTANTIAL****Purpose & Objectives**

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

**Control Objectives**

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

<b>Access Control</b> – ICT access security arrangements are adequate.	<b>P</b>
<b>Security of Data</b> – Data is held securely and can be recovered in the event of a disaster.	<b>P</b>
<b>Change Control</b> – Software updates and change controls are properly managed.	<b>P</b>

**Level of Assurance**

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements.

The main issues found relate to the need to:

- Strengthen control over the process for the setup and induction of third party users who are granted access to the Rother network.
- Ensure that full external support for the Agresso financial system is promptly reinstated. NB - This point is being followed up by the Service Manager (Finance & Welfare).
- Review and restrict network administrator access where it is no longer required.

Recommendations to address or improve a few other minor issues were also made at the audit.

**Executive Summary**

Overall, the control objectives are considered to have largely been met but we have made three medium and four low risk recommendations to management to further enhance the governance arrangements.

Internal Audit Service  
March 2017

**CASH AND BANKING AUDIT****ROTHER DISTRICT COUNCIL**

Service Manager: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Tony Lockey

Overall Level of Assurance: **SUBSTANTIAL****Purpose & Objectives**

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

**Control Objectives**

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

<b>Collection Procedures</b> – Secure arrangements exist for the collection and recording of cash.	<b>M</b>
<b>Receipt of Income</b> – All collections and direct to bank credits are promptly, completely and accurately brought to account.	<b>P</b>
<b>Banking of Income</b> – All collections are promptly banked.	<b>M</b>
<b>Reconciliation of Income</b> – All collections are promptly and accurately posted to the customers' accounts.	<b>M</b>
<b>Bank Reconciliation</b> – Arrangements are in place for the routine monthly reconciliation of the bank account to the accounting records.	<b>M</b>
<b>Bank Contract</b> – An approved written contract is held between the Council and its bankers and the operation of all bank accounts held is tightly controlled.	<b>M</b>

**Level of Assurance**

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements.

The only issue found relates to the need to ensure that all reports showing cancelled/ void transactions, and transfers between accounts, are subject to supervisory review.

**Executive Summary**

Overall, the control objectives are considered to have largely been met but we have made one medium risk recommendation to management to further enhance the governance arrangements.

Internal Audit Service  
March 2017

**CREDITORS AUDIT****ROTHER DISTRICT COUNCIL**

Service Manager: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Catherine Jobling and James Cornford-Hutchings

Overall Level of Assurance: **SUBSTANTIAL****Purpose & Objectives**

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

**Control Objectives**

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

<b>Placing Orders and Authorising Payment</b> – Orders for goods and services are properly raised, authorised and confirmed in accordance with the Financial Procedure Rules.	<b>M</b>
<b>Invoice Processing</b> – Legitimate invoices are promptly paid once the goods or services have been received. Payments are made to the correct supplier for the correct amount.	<b>P</b>
<b>Payment</b> – All payments are properly authorised and run totals agreed.	<b>M</b>
<b>Cheque Control</b> – All cheque usage is controlled and recorded.	<b>M</b>
<b>Urgent Payments</b> – All urgent payments are properly authorised, recorded and strictly controlled.	<b>M</b>
<b>System Reconciliation</b> – All payments are properly recorded and reconciled to the main accounting system.	<b>M</b>

**Level of Assurance**

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements.

An issue was found with the checking of the Supplier Masterfile Changes report during the period June to August 2016 and October 2016. However, this was due to staff shortages in the Finance department at that time and proper supervisory checks have since been reinstated.

Recommendations to address minor control issues in a few other areas were also made at the audit but most of these have already been resolved.

**Executive Summary**

Overall, the control objectives are considered to have largely been met but we have made one medium and four low risk recommendations to management to further enhance the governance arrangements.

Internal Audit Service  
March 2017

**PAYROLL AUDIT****ROTHER DISTRICT COUNCIL**

Service Managers: Robin Vennard and John Collins

Officer(s) Responsible for Implementing Recommendations: John Collins, Maria Benford and Kirsty Goldsmith

Overall Level of Assurance: **SUBSTANTIAL**

**Purpose & Objectives**

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

**Control Objectives**

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

<b>Payroll Procedures</b> – The payroll procedures operate in accordance with Financial Procedure Rules.	<b>M</b>
<b>Authority for Payment</b> – Pay and related costs are only incurred in respect of staff employed in authorised posts. All payments to new employees are calculated correctly and employees leaving the Council are promptly removed from the live payroll and their final salary payment correctly calculated.	<b>P</b>
<b>Pay Awards and Other Salary Increases</b> – Basic pay is correctly calculated in accordance with local agreements and all subsequent grading changes/increments are formally costed and approved.	<b>M</b>
<b>Other Amendments to Pay</b> – All other variations to pay must be authorised, complete, accurate and not previously processed.	<b>P</b>
<b>Deductions</b> – Statutory deductions are correctly applied, accounted for and paid over to relevant body in accordance with legislation and government / superannuation scheme requirements.	<b>M</b>
<b>Payment</b> – All salaries payments are prepared and issued appropriately.	<b>M</b>
<b>System Reconciliation and Security of Data</b> – The monthly salary bill is agreed and independently reconciled to the main accounting system. All records and documents are protected against loss or unauthorised access.	<b>M</b>

**Level of Assurance**

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements.

The main issues found relate to:

- *Leaver Forms* – These forms should be completed by management whenever a member of staff resigns to ensure that their ID card and any equipment held by them is correctly returned, and any sums owed to the Council are repaid. However, it was found that leaver forms are not always completed, meaning that some items could potentially be overlooked.
- *Mileage and Subsistence Claims* – (1) Some managers are still approving backdated mileage claims beyond the three month period allowed for in the staff Conditions of

Service. (2) Given that a number of Council employees now regularly work from home or across multiple offices, it is important that each employee's designated place of work is recorded to make sure that all mileage claims are legitimate and are in accordance with HMRC rules.

**Executive Summary**

Overall, the control objectives are considered to have largely been met but we have made three medium and one low risk recommendations to management to further enhance the governance arrangements.

Internal Audit Service  
March 2017

## Audits Completed in 2016/17 and Overall Performance against the Audit Plan

Audit	Control Objectives (Number)	Control Objectives Met	Control Objectives Met In Part	Control Objectives Not Met	Assurance Rating
Audits Brought Forward from 2015/16 – Planned 1, Completed 1 (100%)					
M3 Computer System	5	2	3	0	Substantial
Governance Audits – Planned 10, Completed 10 (100%)					
Benefits	6	3	3	0	Substantial
Cash and Banking	6	5	1	0	Substantial
Council Tax	5	2	3	0	Substantial
Creditors	6	5	1	0	Substantial
Debtors	5	1	4	0	Substantial
ICT Governance	3	0	3	0	Substantial
Main Accounting	4	4	0	0	Good
NNDR	6	4	2	0	Substantial
Payroll	7	5	2	0	Substantial
Treasury Management	4	2	2	0	Substantial
High/Medium Risk Audits - Planned 13, Completed 11 (84.6%)					
Cemeteries	1	1	0	0	Good
Community Infrastructure Levy & S.106	9	6	2	1	Limited
Corporate Plan	2	2	0	0	Good
Income Tax	5	3	2	0	Substantial
Insurance	3	2	1	0	Substantial
Joint Waste Contract – Central Admin	4	3	1	0	Substantial
Land Charges	4	2	2	0	Substantial
Licensing	3	1	2	0	Substantial
Pest Control Income	1	1	0	0	Good
Procurement Procedure Rules	1	0	1	0	Substantial
Totals: 21 Audit Reports (22)	90	54	35	1	
	100%	60.0%	38.9%	1.1%	
Good/Substantial Assurance	20 (20)		95.2% (90.9%)		
Limited/Minimal Assurance	1 (2)		4.8% (9.1%)		
Other Work Completed (No Report Required) – Planned 4, Completed 4 (100%)					
Agresso Upgrade/Replacement *			Consultancy Work		
Community Infrastructure Levy*			Consultancy Work		
DIP and Workflow System - Procurement			Consultancy Work		
ePIMS Property Database – Data Quality Checks			Consultancy Work		
Audits Not Completed at Year End – Total 3					
Election Payments			Work In Progress (94% Complete)		
Frontier HR 21 Self Service Computer System			System never introduced		
Internet and Email Controls			Work In Progress (87% Complete)		
Total Work Planned 2016/17					
Total Work Completed 2016/17		27 (30)		Percentage of Plan Completed 2016/17	
Total Work Completed 2016/17 <i>Excluding audits brought forward</i>		25.8 (26.5)		95.6% (88.3%)	

\* Replaced other consultancy work

(Previous year's performance italicised and in brackets)

## Summary of Progress on Recommendations Made up to 31 December 2016

### Audit Recommendations 2012/13 to 2015/16

Previous quarter's performance shown in brackets

	Issued	Implemented		Work-In-Progress		Not Started	
High	23	21	(21)	2	(2)	0	(0)
Medium	214	213	(213)	1	(0)	0	(1)
Low	156	155	(155)	1	(1)	0	(0)
<b>Total</b>	<b>393</b>	<b>389</b>	<b>(389)</b>	<b>4</b>	<b>(3)</b>	<b>0</b>	<b>(1)</b>
		<b>99.0%</b>	<b>(99.0 %)</b>	<b>1.0%</b>	<b>(0.8%)</b>	<b>0.0%</b>	<b>(0.2%)</b>

Breakdown of outstanding audit recommendations for 2012/13 to 2015/16 by Service Manager:

#### Brenda Mason (Community and Economy)

- Asset Management – issued 28/09/12 (1 High)

#### John Collins (Corporate and Human Resources)

- Data Protection – issued 09/07/13 (1 High)

#### Robin Vennard (Finance and Welfare)

- Procurement – issued 07/08/15 (1 Medium)
- Credit Management (Debt Recovery) – issued 22/09/15 (1 Low)

### Audit Recommendations 2016/17 (up to 31 December 2016)

Previous quarter's performance shown in brackets

	Issued		Implemented		Work-In-Progress		Not Started	
High	1	(0)	1	(0)	0	(0)	0	(0)
Medium	27	(11)	21	(9)	4	(0)	2	(2)
Low	16	(12)	16	(12)	0	(0)	0	(0)
<b>Total</b>	<b>44</b>	<b>(23)</b>	<b>38</b>	<b>(21)</b>	<b>4</b>	<b>(0)</b>	<b>2</b>	<b>(2)</b>
			<b>86.4%</b>	<b>(91.3%)</b>	<b>9.1%</b>	<b>(0.0%)</b>	<b>4.5%</b>	<b>(8.7%)</b>



## COMMUNITY INFRASTRUCTURE LEVY AND SECTION 106

### Introduction

At its meeting on 27 March 2017 Members requested an update regarding the management of Section 106 Agreements and the Community Infrastructure Levy (CIL) (Minute AU16/31 refers). This report sets out the progress to date.

### COMMUNITY INFRASTRUCTURE LEVY (CIL)

#### CIL Indexation

**Audit Finding:** Clarification needs to be sought from the Department for Communities and Local Government (DCLG) on how CIL indexation should be applied (since the index the Council is required to use is initially calculated based on forecast figures and is subject to regular change).

**Progress Made:** The BCIS All-in tender price index is included in the formulae for calculating CIL. The DCLG advice recommends applying the most recent finalised figure for the Tender Price Index published by BCIS before the previous 1 November. This advice has been heeded and is applied to all CIL calculations.

#### Measurement of Floor Area

**Audit Finding:** A proforma needs to be introduced to standardise and improve the way Planning Officers communicate the floor area on which CIL should be charged. This will not only help the Planning Business Support Team to ensure that the correct measurements are used but will also provide them with confirmation that the floor area has been checked and agreed.

**Progress Made:** The CIL liability for a development is calculated on the internal floor area. Where the proposal includes the demolition of an existing building/part of a building which has been occupied for its lawful use for a period of six months of the 36 previous months the existing internal floor area of the building/part of the building can be offset against the CIL liability.

On the issue of the planning permission the case officer provides a proforma to Planning Business Support which confirms the internal floor area on which CIL should be charged and also confirms whether the existing building has been in lawful use up to the time planning permission is issued.

#### CIL Liability for Developments Approved on Appeal

**Audit Finding:** A system needs to be set up so that planning applications approved on appeal by the Planning Inspector are passed to a Planning Officer to calculate the floor area on which CIL should be charged.

**Progress made:** Applications which are the subject of an Appeal remain the responsibility of the case officer until determined by the Planning Inspectorate. If an application which would be liable to CIL is subsequently approved the case officer will issue the proforma to Planning Business Support as above.

## SECTION 106 AGREEMENTS

### Record Keeping and Reconciliation

**Audit Finding:** Both Planning and Finance need to record all Section 106 obligations with a financial contribution and periodically reconcile these records to each other.

**Progress Made:**

1. On completion of a Section 106 and the issuing of the planning decision notice, all details of the Section 106 obligations are currently recorded in the Planning Ocella system. A monthly summary of all cases where financial contributions are involved is already circulated to relevant Planning, Housing, Legal and Parks officers with Finance officers now to be included. This process forewarns all relevant officers of new obligations (NB Obligations however do not come into force until a planning permission is implemented which can be several years beyond the agreement date.)
2. A regular quarterly meeting now takes place between Finance and Planning officers to monitor on-going Section 106 obligations. This group will be enlarged to include legal and other relevant officers, as required, to monitor specific obligations as these arise.

### Calculation of the Developers' Financial Contribution

**Audit Finding:** Planning Officers need to check for any uplift clauses in the Section 106 agreement before billing developers for their financial contribution in case the amount payable is index linked. One instance was identified at the audit where the uplift had not been applied resulting in a £2,400 underpayment. (Action is now being taken to collect this money.)

**Progress Made:** Instructions to planning case officers have been prepared in respect of monitoring the progress of Section 106 obligations and when monies are due to ensure that the amounts payable are index-linked. This will prevent any further under-payments and later unnecessary work to re-coup monies.

### Overage

**Audit Finding:** A number of Section 106 planning obligations now include overage clauses (e.g. where the developer is obliged to pay the Council a share of any profit made from the sale of new properties (above a pre-determined threshold) in lieu of affordable housing). Concerns were raised regarding how the terms of these clauses are arrived at, and issues found with the way the developers' obligations are calculated and verified.

**Progress made:**

1. Discussions have commenced with legal officers with a view to reviewing the format of 'overage clauses' in respect of affordable housing contributions in any future Section 106 obligations, where this mechanism will apply. The assessment will look at best practice elsewhere and consider the most appropriate formats of the legal obligations, both to require sufficient information from developers on values at the post-development stage

and to provide for their assessments to be then verified by the District Valuation Service (DVS) at the developer's cost.

2. The use of the DVS will both increase the robustness of the process and reduce the onus of work in-house. However, procedures to improve inter-service liaison are also being established for those cases where overage clauses are to be enforced. This will be led by the planning case officer for the application and also involve relevant housing, legal and finance officers.

Tim Hickling  
Service Manager  
Strategy & Planning

June 2017

## INTERNAL AUDIT CHARTER



### Introduction

1. This Charter defines the purpose, authority and principal responsibilities of the Internal Audit Service.

### Definition of Internal Audit

2. The definition of Internal Audit specified by the Chartered Institute of Internal Auditors (IIA) and adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA) reads as follows:

*“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

### Requirement for Internal Audit

3. There is a statutory requirement for Rother District Council to provide an Internal Audit Service. This is stated in Regulation 5 (1) of the Accounts and Audit Regulations 2015 which requires that *“a relevant authority must undertake an effective Internal Audit to evaluate the effectiveness of risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”*.

### Standards

4. The standards for the work of Internal Audit are laid down in the Public Sector Internal Audit Standards (hereafter referred to as “the Standards”). These standards, which also relate to CIPFA and their professional requirements, were last updated in April 2016.
5. The Standards are based on the mandatory elements of the IIA International Professional Practices Framework (IPPF) as follows:
  - Definition of Internal Auditing;
  - Code of Ethics; and
  - International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).
6. Internal Audit must comply fully with these standards, elements of which also form part of this Charter.

7. The Standards set out the responsibility for the “Chief Audit Executive” to ensure compliance. There is no requirement within the Standards to adopt this job title and this role is fulfilled by the Audit Manager.
8. In addition to the Standards, the Internal Audit Service is also governed by the Council’s Financial Procedure Rules.

### **Mission of Internal Audit**

9. The Standards include the following mission statement:

*“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”*

### **Core Principles for the Professional Practice of Internal Auditing**

10. The Standards state that all the following Core Principles should be present and operating effectively for an Internal Audit function to be considered effective:
  - Demonstrates integrity.
  - Demonstrates competence and due professional care.
  - Is objective and free from undue influence (independent).
  - Aligns with the strategies, objectives, and risks of the organisation.
  - Is appropriately positioned and adequately resourced.
  - Demonstrates quality and continuous improvement.
  - Communicates effectively.
  - Provides risk-based assurance.
  - Is insightful, proactive, and future-focused.
  - Promotes organisational improvement.
11. The Internal Audit Service strives to meet these requirements (and the Mission of Internal Audit) through compliance with the Standards.

### **Code of Ethics**

12. All Internal Auditors must conform to the Code of Ethics set out in the Standards. The Code of Ethics requires that Internal Auditors carry out their duties with integrity and objectivity, to protect the confidentiality of all information acquired in the course of their work, and for them to only engage in services they are competent to perform.

### **Definition of the Board and Senior Management**

13. Under the Standards, this Charter is required to define the “Board” and “Senior Management”. Both the Board and Senior Management have specific and complementary roles and responsibilities set out within the Standards. With the exception of matters relating to employment (see below), the “Board” is the Audit and Standards Committee.
14. The Audit Manager is not a statutory post within the definition of the Local Government Act 1972. The Head of Paid Service and Senior Management are therefore responsible for the appointment and remuneration of the Audit Manager where the service is provided in-house and would constitute “the Board”.

15. “Senior Management” comprises the members of the Strategic Management Team.

### **Scope and Objectives of the Internal Audit Service**

16. The Audit Manager is required to manage the provision of a complete Internal Audit Service to the authority which will include systems, probity, computer and contract audits.
17. There are no limitations on the scope of activities of the Internal Audit Service. This allows for unrestricted coverage of all the authority’s activities, including both financial and non-financial systems of internal control.
18. The main objectives of Internal Audit Service are to:
- independently review and appraise the effectiveness of the Council’s risk management, control and governance processes.
  - recommend improvements in control, performance and productivity in achieving corporate objectives.
  - contribute to and support the objectives of the Section 151 Officer by promoting the need for sound financial systems.
  - advise on risk, control and governance issues in respect of new activities, major system changes and other areas of concern, and to facilitate good practice in managing risks.
  - work in partnership with the External Auditors.
  - identify fraud as a consequence of its reviews and to act as a visible deterrent to potential wrongdoers.

### **Rights of Access**

19. The rights of access for the Internal Auditor are provided for by the Accounts and Audit Regulations 2015. Regulation 5 (2) states that:
- “Any officer or member of a relevant body must, if required to do so for the purposes of the Internal Audit:*
- (a) make available such documents and records; and*
- (b) supply such information and explanation as are considered necessary by those conducting the Internal Audit.”*
20. Regulation 5 (3) also goes on to state that the definition of “documents and records” includes information recorded in an electronic form.
21. There are consequently no limitations on Internal Audit's access to records. Internal Audit staff have the authority to:
- access Council premises at reasonable times;
  - access all assets, records, documents, correspondence and control systems;
  - receive any information and explanation considered necessary concerning any matter under consideration;
  - require any employee of the authority to account for cash, stores or any other authority asset under his/her control;

- access records belonging to third parties, such as contractors when required; and
- have direct access to the Executive Directors, Service Managers and any Member or body of Members considered appropriate and any other person charged with the governance of the authority.

## **Main Areas of Work**

22. Internal Audit's main areas of work relate to the following key areas:

- Assurance Work
- Consultancy Work
- Anti-Fraud and Corruption

### Assurance Work

22.1 The primary purpose of Internal Audit is to independently review and appraise the Council's key risk management, control and governance processes and to provide assurance on their effectiveness.

22.2 Internal Audit uses a risk-based approach to evaluate a broad range of activities including an annual review of the key financial systems (or Governance Audits). These reviews provide reasonable assurance that corporate objectives will be achieved, with particular reference to:

- the reliability and integrity of financial and operational information;
- the effectiveness and efficiency of operations and programmes;
- safeguarding of assets and interests from losses of all kinds, including those arising from fraud, irregularity and corruption;
- compliance with laws, regulations, policies, procedures and contracts;
- the economic and efficient use of resources (value for money); and
- effective monitoring systems and optimum use of performance management information.

### Consultancy Work

22.3 Internal Audit give advice on risk, control and governance issues in respect of new activities, major system changes and other areas of concern. This work can take any form, provided that the independence of the service is not compromised, but will typically include special reviews or assignments where requested by Management, which fall outside the approved work plan and for which a contingency is included in the Audit Plan. Any consultancy work known about in advance will however be itemised in the Audit Plan. There will be no significant variation in consultancy work without approval by the Board.

## Anti-Fraud and Corruption

- 22.4 Senior Management have clearly defined responsibilities for risk management, internal control and preventing fraud and corruption, which are set out in the authority's Financial Procedure Rules and the Anti-Fraud and Corruption Strategy.
- 22.5 The Internal Audit Service has a role in fraud prevention, detection and investigation and assists in the development and maintenance of an Anti-Fraud and Corruption Strategy and Fraud Response Plan. The Audit Manager also investigates any allegations of fraud or corruption involving staff, Members or contractors.

## **Audit Strategy and Work Plan**

23. In order for the Internal Audit Service to accomplish its objectives, the Audit Manager will:
- prepare a rolling 3-year risk-based Audit Plan in consultation with Senior Management and Service Managers for approval by the Board (note that the "Board" may approve, but not direct the plan). This Strategic Plan will be regarded as flexible, to allow for changing needs and priorities identified through the Corporate, Project and Service Risk Registers. It will be reviewed annually and reported to the Board each March;
  - prepare a detailed Annual Audit Plan setting out the work to be undertaken in any given financial year;
  - prepare the Internal Audit Budget and Resource Plan;
  - ensure a system of close supervision of audit work and maintain a review of audit files, adherence to standards and quality of audits;
  - formally report the results of audits and the recommendations made to Senior Management, other relevant managers and the Board. Where Management has accepted a level of risk that may be unacceptable to the Council and this is not resolved with Senior Management, the Audit Manager will report this to the Board;
  - follow up audit recommendations to make sure that corrective action is taken;
  - provide an annual audit opinion to those charged with governance based on an objective assessment of the framework of governance, risk management and control, sufficient to inform the Council's Annual Governance Statement; and
  - undertake annually a review of the effectiveness of Internal Audit and report the outcomes to Senior Management and the Board as part of the Quality Assurance and Improvement Programme (QAIP). At least once every 5 years, the Internal Audit Service will also commission an external assessment or peer review.

## **Resources**

24. The resources available to Internal Audit are finite; however it is through the audits undertaken annually that Internal Audit determines a level of confidence on the control environment within the authority. Such audits allow the Section 151 Officer to place reliance on the work undertaken and to gain assurance on the control environment from the independent review of the key financial systems. A set of Governance Audits has been established which will be undertaken within each financial year. This will be complemented by a regular review of those areas identified as high or medium risk. This will ensure that key work streams which are



considered business critical or of higher risk to the Council are reviewed on a timely basis. This process will largely determine the level of resources required.

## **Staffing**

25. The Internal Audit Service at Rother District Council is provided by an in-house team.
26. The Standards state that *“Internal Auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The Internal Audit activity collectively must possess or obtain the knowledge, skills and competencies.”*
27. The Audit Manager must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced. The Audit Manager is a Chartered Member of the Institute of Internal Auditors (CMIIA) and also has the IIA’s QIAL designation.
28. The job descriptions and recruitment processes provide for the appointment of individuals with an appropriate set of skills, competencies and qualifications to meet the standard, either individually or as a combined Internal Audit Service.
29. All Internal Audit staff are trained in order to be able to perform each element of their assignments with due professional care.
30. All Internal Audit staff are encouraged to enhance their knowledge, skills and other competencies through continuing professional development (CPD). Where staff are members of professional bodies, they must also comply with any CPD requirements of their membership.

## **Independence**

31. The main determinant of the effectiveness of Internal Audit is that it is seen to be independent in its planning and operation. To ensure this, Internal Audit will operate within a framework that allows:
  - unrestricted access to Senior Management;
  - reporting in its own name; and
  - segregation from line operations.
32. The Internal Audit Service is an independent unit within the Corporate Core and the Audit Manager reports direct to the Executive Director of Resources.

## **Non-Audit Duties and Avoidance of Conflicts of Interest**

33. Every effort is made to preserve objectivity by ensuring that all Internal Auditors are free from any conflicts of interest and the undertaking of non-audit duties is kept to a minimum. Internal Auditors are required within the Standards to refrain from participating *“in any activity or relationship which may impair or be presumed to impair their unbiased assessment.”*
34. A conflict of interest is a situation in which an Internal Auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests

can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the Auditor, the Internal Audit Service, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

35. Where Internal Audit staff are required to undertake non-audit duties, the Audit Manager will make it clear that those audit staff are not fulfilling those duties as Internal Auditors. The Audit Manager will ensure that within the service there remains sufficient impartiality to enable the actions and activities of those Internal Audit staff to be subject to audit by those independent from the activity.
36. Internal Auditors are not permitted to assess specific operations for which they were previously responsible for a period of at least 12 months.
37. Should the Audit Manager become engaged in non-audit or other professional duties, the audit of any such activity may be delegated to an appropriate independent "deputy" or commissioned from an independent third party such as another local authority or a contractor who will then report directly to those charged with governance.
38. If any member of the Internal Audit Service, or any individual or organisation engaged to act on its behalf considers that there is, or is perceived to be a conflict of interest, this must be declared to the Audit Manager, who will direct alternative and independent resources to the audit. If the Audit Manager finds himself in that position, he will declare this in writing to the Strategic Management Team and another independent person or body will be appointed to fulfil this role.

## **Management and Internal Audit**

39. It is the responsibility of Management to establish systems of internal control to ensure that activities are conducted in a secure and well-ordered manner. Internal Audit is one element of the control environment but its existence does not relieve Management of its responsibility for maintaining effective risk management, control and governance processes.

## **Relationships with Elected Members and Reporting**

40. The Audit Manager must establish and maintain good working relationships and channels of communication with Members. This should be achieved by regularly attending Audit and Standards Committee meetings and responding to any issues raised by Councillors, especially those who are members of the Audit and Standards Committee.
41. The Audit Manager will report periodically to Senior Management and the Board in accordance with the Standards. The programme of planned reports for a calendar year is shown below.

March	Quarterly Report on Internal Audit Activity Q3
March	Annual Review of the Effectiveness of Internal Audit
March	Internal Audit Plan for forthcoming financial year
June	Annual Report on Internal Audit Activity
September	Quarterly Report on Internal Audit Activity Q1
December	Quarterly Report on Internal Audit Activity Q2

42. Internal Audit aims to apply appropriate levels of transparency in reporting on work undertaken and recommendations for improvement. Reporting arrangements are designed to clearly show the standards and controls which services are measured against and the Auditor's opinion on whether these have been met as well as applicable conclusions, recommendations and action plans. Reports deliberately do not include operational detail which might contain personal or commercially sensitive data.

## **Glossary**

CCAB – Consultative Committee of Accountancy Bodies

QIAL – Qualification in Internal Audit Leadership

## **Review of This Charter**

This Charter will be reviewed and updated as necessary, and in any event, at least once every 3 years.

Date of next scheduled review: May 2020

Gary Angell  
Audit Manager  
May 2017