

## Rother District Council

Report to	-	Audit and Standards Committee
Date	-	18 May 2020
Report of the	-	Executive Director
Subject	-	Internal Audit Report to 31 December 2019

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

- 1) the Internal Audit report to 31 December 2019 (including the Audit Manager's draft overall assessment of the Council's internal control systems and draft opinion on the control environment) be noted; and
  - 2) the revised Internal Audit Charter shown in Appendix D 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. The Council's Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards. It is a requirement of these Standards that Internal Audit report to the Audit and Standards Committee on audit matters and any emerging issues not only in relation to audit but also to risk management and corporate governance.
3. The Audit Manager makes a provisional assessment of the Council's control environment prior to the end of each financial year so that his comments may be included in the Annual Governance Statement. Seeing as this opinion is based solely on the first ten months of the financial year 2019/20, only a draft assessment and opinion (shown elsewhere in this report) can be given at this stage. The Audit Manager will therefore review these statements again at the end of the financial year to check that nothing has changed and will confirm his final opinion on 2019/20 at the June 2020 meeting.

### Current Position

4. Internal Audit is still on target to complete all of the Governance Audits by 31 March 2020 as well as most of the other planned work for 2019/20. However, as indicated at the last report, a few audits will have to be postponed until 2020/21 due to various reasons beyond the team's control.

### Summary of Activity to 31 December 2019

5. Five audit reports were issued in the quarter. All provided good or substantial assurance on the overall governance arrangements and no areas of significant concern were found.

## Implementation of Audit Recommendations

6. Each quarter, Members are updated on the progress made on implementing the audit recommendations reported at previous meetings. Appendix B shows a summary of the current position.
7. From this it can be seen that good progress continues to be made on the current year recommendations. Progress is slower on the recommendations made in previous years but most have shown some movement since the last report. All eleven of the oldest recommendations have now been brought to the attention of the Executive Director who will be monitoring progress.

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

8. 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 Assistant Director Resources (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 in this agenda.
9. The following area has been identified for inclusion in the Annual Governance Statement because the internal control environment is not satisfactory:

- **Property Investment** – The first audit review of this subject has only recently been completed. As with any new initiative, the Council's approach will take time to develop. It is therefore no surprise that the report highlighted a number of areas where control needs to be strengthened and/or transparency improved. Recommendations for improvement included enhancements to the processes for property evaluation, scrutiny and due diligence.

Note – As this audit was only issued on 4 February 2020, the executive summary is yet to be reported to this Committee. This will be supplied at the next meeting along with the executive summaries for all other audits issued in the fourth quarter of 2019/20.

- **U4BW ERP System Administration** – Concerns have previously been expressed about the adequacy of resources to administer the new U4BW ERP system. However, since last year the amount of dedicated resource has further reduced. There is an offsite support contract, emergency support from the Council's partner authority and other members of the Finance team provide minimal cover whilst a new resource is recruited. It is however considered a risk in having no system administration support on site available for this major system and follow up on outstanding system issues is minimal. The Council is looking to employ a Deputy System Administrator to address this but it will take time to gain Council specific expertise to effectively administer the system.
10. Other issues that may impact on the Council include:
    - **U4BW ERP Implementation Project** – This project was originally due to complete in April 2018, but it is still ongoing. The Finance and Payroll

modules have been operational since April and July 2018 respectively, but the implementation of the Human Resources and Self Service modules continues to be delayed primarily due to problems with system functionality. It is now hoped that these issues will be overcome in order to go live in April 2020 but if this is not achievable, the Council may have to consider an alternative way forward.

- **Risk Management** – Whilst risk is regularly considered by Senior Management this process is not always documented. Consequently, the corporate risk register, which should include all of the major risks facing the Council, is not being regularly updated and actively monitored at present. Furthermore, following the departure of the Service Manager who was previously responsible for maintaining the Risk Management Policy and Framework, it is currently unclear who has been assigned this role. There is therefore a need for greater corporate oversight of risk management activity.
- **Major Projects** – The Council will be undertaking a number of high profile projects over the next few years with the aim of delivering housing and regeneration to the district. Most of which are being project managed by the Special Projects team in the Acquisitions, Transformation and Regeneration Service. Some projects will need to be managed by officers within the relevant departments (in addition to their normal day jobs) and not all of these may have project management experience. There could be substantial financial and reputational risks if the Council fails to successfully deliver these projects.
- **Staff Morale** – A number of internal and external factors are having a negative impact on staff morale. Voluntary redundancies are also likely to place additional pressure on remaining staff as the work previously undertaken by their departing colleagues is shared out amongst them. Whilst it is accepted that there is no easy solution to this problem in the current financial climate, it is mentioned here as low morale increases the risk of staff turnover and this could result in the loss of knowledge and experience which the Council relies upon moving forward.

### Draft Opinion on the Control Environment

11. 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.

12. Limited/minimal assurance 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.

13. In forming an overall opinion, Internal Audit findings need to be set in context and viewed corporately. The summary of the 2019/20 audit reports completed as at 12 February 2020 (Appendix C) shows that two audit reports (14.3%) have received a “limited” assurance rating so far this financial year but only one of the 61 control objectives examined during the period had not been “met” at least in part.
14. 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.
15. Work on the remaining 2019/20 audits was still on going at the time of writing this report and the Audit Manager will confirm the final position at the next meeting in June 2020.
16. Taking all of the factors highlighted here and the quarterly reports into account, the draft Internal Audit assessment of the Council’s framework of governance, risk management and control is that it is adequate and effective.

### **Internal Audit Charter**

17. 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 May 2017 and now needs to be updated. A revised Internal Audit Charter is therefore provided in Appendix D for Members’ consideration and approval.

Malcolm Johnston  
Executive Director

### **Risk Assessment Statement**

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

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**ROTHER DISTRICT COUNCIL**
**HOUSING ALLOCATIONS AUDIT**

Head of Service: Joe Powell

Officer(s) Responsible for Implementing Recommendations: Helen Gilhespy

Overall Level of Assurance: **SUBSTANTIAL****Purpose and 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**).

Full and effective use is made of all nomination rights.	<b>P</b>
The allocation of housing is fair and transparent.	<b>M</b>

**Level of Assurance**

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

The main issues found are as follows:

- There is no definitive list of the properties where the Council has nomination rights. Although there is no statutory obligation for the Council to maintain such a list, it would be advisable to compile one, so that:
  - (a) the Council can confidently quote the number of properties with nomination rights within the district; and
  - (b) the Housing team can investigate if it suspects that the Council is not receiving all the of the nomination rights it is entitled to.
- The records kept of new developments need to be improved to ensure that full nomination rights are received.

The process for allocating the housing that is made available (including the prioritisation of housing need and the bidding process) was found to be operating satisfactorily.

### **Executive Summary**

Overall, the control objectives are considered to have only been partially met. We have made two medium risk recommendations to management to enhance the governance arrangements.

Internal Audit Service  
November 2019

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

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Chris Watchman and Wendy Swain

Overall Level of Assurance: **GOOD****Purpose and 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>Billing Arrangements</b> – Debtor invoices are promptly and correctly raised for all sums owed to the Council.	<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>M</b>
<b>Suspense Account</b> – Unallocated payments are posted to a suspense account and promptly investigated and cleared.	<b>M</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 good assurance can be given on the governance arrangements as no significant issues were identified. The monitoring of debts by management is the only area flagged in the report where improvements could be made.

**Executive Summary**

Overall, the control objectives are considered to have been met and it was only necessary to make one low risk recommendation to management to further enhance the governance arrangements.

Internal Audit Service  
November 2019

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**ROTHER DISTRICT COUNCIL**
**COMMUNITY INFRASTRUCTURE LEVY (CIL) AUDIT**

Head of Service: Tim Hickling

Officer(s) Responsible for Implementing Recommendations: Christine Hyszka

Overall Level of Assurance: **SUBSTANTIAL****Purpose and 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>CIL Scheme</b> – The Charging Schedule implemented at the Council has been scrutinised by an independent examiner and approved by Members, and full details of the CIL Scheme published on the Council's website.	<b>M</b>
<b>Calculation of Liability</b> – The levy is calculated in accordance with the approved Charging Schedule and by applying the relevant formulae based on internal area and agreed indices.	<b>M</b>
<b>Exemptions and Relief</b> – Compulsory and non-compulsory provisions for exemption or relief from the levy have been granted in accordance with the regulations.	<b>M</b>
<b>Collection</b> – Liability to CIL is established and the liable person promptly billed once development has commenced. Any overpayments are correctly refunded.	<b>M</b>
<b>Enforcement</b> – Appropriate enforcement action is taken against responsible persons who fail to adhere to the CIL regulations.	<b>P</b>
<b>Use of CIL Funds</b> – CIL receipts are spent in accordance with regulations and payments are authorised before the funds are released.	<b>M</b>
<b>Reporting Arrangements</b> – The CIL received, spent, transferred and retained is reported and placed on the Council's website.	<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.



No major problems were found but the report missed out on a 'good' assurance rating due to a few minor oversights and administrative delays observed which can be attributed to current staff resourcing issues. This situation has been compounded by the recent departure of the designated CIL Officer. However, it is understood that a new CIL/S106 Officer will be appointed in the near future and it is hoped that this will go some way to addressing the issue.

### **Executive Summary**

Overall, the control objectives are considered to have largely been met and it was only necessary to make two low risk recommendations to management to further enhance the governance arrangements.

Internal Audit Service  
December 2019

### **CIL Review**

Since undertaking the audit work it has been noted that a report to Cabinet in December 2019 has recommended a review of the bidding process for CIL funds following changes in the regulations and a review of internal processes. A CIL Steering group will determine the way forward by December 2020. Bidding for CIL monies has therefore been paused until this time.

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

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Jamie Wilson

Overall Level of Assurance: **SUBSTANTIAL****Purpose and 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>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.

It should be noted that this assurance rating has been awarded despite current resourcing and workload issues within the Revenues and Benefits team due to the prolonged absence or loss of several key members of staff. To date, this has not resulted in any significant control issues as Management are well aware of the situation and are coping as best they can. However, there is always a risk that this position may change in the future if the current difficulties continue or get worse.

Notwithstanding the above matter, the only real issue identified at the audit was around the operation and monitoring of property inspections. Following on from a recommendation made at last year's audit, Management are currently looking to address this issue through the use of technology. In the meantime, a

recommendation is made to improve the recording of all new builds to ensure that inspections are not overlooked.

**Executive Summary**

Overall, the control objectives are considered to have largely been met and it was only necessary to make one medium risk recommendation to Management to further enhance the governance arrangements.

Internal Audit Service  
December 2019

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

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Tony Baden

Overall Level of Assurance: **GOOD****Purpose and 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>Completeness of Records</b> – All transactions are promptly recorded in the General Ledger and bank reconciliations are regularly carried out to ensure that they are correct.	<b>M</b>
<b>Journals</b> – All journal entries are complete, accurate and properly authorised.	<b>M</b>
<b>Budgetary Control</b> – All expenditure and income is closely monitored and controlled.	<b>M</b>
<b>Year End Provisions</b> – Adequate provisions are made for outstanding liabilities and income due in the final accounts.	<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 as no significant issues were found.

**Executive Summary**

Overall, the control objectives are considered to have been met and it was only necessary to make one low risk recommendation to management to further enhance the governance arrangements.

Internal Audit Service  
December 2019

## Summary of Progress on Recommendations Made up to 30 September 2019

### Audit Recommendations 2017/18 and 2018/19

Previous quarter's performance shown in brackets (totals amended to correct for items recorded in wrong columns)

Risk	Issued		Implemented		Work-in-Progress		Not Started	
High	5		5	(5)	0	(0)	0	(0)
Medium	77		70	(68)	6	(8)	1	(1)
Low	58		54	(54)	4	(3)	0	(1)
<b>Total</b>	<b>140</b>		<b>129</b>	<b>(127)</b>	<b>10</b>	<b>(11)</b>	<b>1</b>	<b>(2)</b>
			<b>92.1%</b>	<b>(90.7%)</b>	<b>7.2%</b>	<b>(7.9%)</b>	<b>0.7%</b>	<b>(1.4%)</b>

Breakdown of outstanding audit recommendations for 2017/18 and 2018/19 by Head of Service:

#### Robin Vennard (Resources)

- Data Protection – issued 22/09/17 (1 Medium, 1 Low)
- ICT Governance (2017/18 Review) – issued 06/04/18 (1 Low)
- Procurement – issued 05/10/18 (2 Medium)
- Council Tax – issued 04/01/19 (1 Medium, 1 Low)
- ICT Network Security – issued 16/01/19 (1 Low)
- Creditors – issued 12/03/19 (1 Medium)
- ICT Governance (2018/19 Review) – issued 12/04/19 (1 Medium)
- Payroll – issued 18/04/19 (1 Medium)

### Audit Recommendations 2018/19 (up to 30 September 2019)

Previous quarter's performance shown in brackets (totals amended to correct for one item wrongly shown as implemented)

	Issued		Implemented		Work-in-Progress		Not Started	
High	0	0	0	(0)	0	(0)	0	(0)
Medium	10	(5)	8	(4)	2	(0)	0	(1)
Low	6	(2)	5	(2)	0	(0)	1	(0)
<b>Total</b>	<b>16</b>	<b>(7)</b>	<b>13</b>	<b>(6)</b>	<b>2</b>	<b>(0)</b>	<b>1</b>	<b>(1)</b>
			<b>81.2%</b>	<b>(85.7%)</b>	<b>12.5%</b>	<b>(0%)</b>	<b>6.3%</b>	<b>(14.3%)</b>

## 2019/20 Audit Reports Completed as at 12 February 2020

Audit	Control Objectives (Number)	Control Objectives Met	Control Objectives Met In Part	Control Objectives Not Met	Assurance Rating
<b>Audits Brought Forward from 2018/19</b>					
Software Licensing	3	1	2	0	Substantial
<b>Governance Audits</b>					
Benefits	6	6	0	0	Good
Business Rates	5	4	1	0	Substantial
Council Tax	4	3	1	0	Substantial
Debtors	4	3	1	0	Good
Main Accounting	4	4	0	0	Good
<b>High/Medium Risk Audits</b>					
Car Park Income	5	3	1	1	Limited
Community Grants	5	4	1	0	Substantial
Community Infrastructure Levy	7	6	1	0	Substantial
Disabled Facilities Grants	3	2	1	0	Substantial
HMO Licensing	5	4	1	0	Substantial
Housing Allocations	2	1	1	0	Substantial
Joint Waste Contract – Central Admin (Old Contract)	3	3	0	0	Good
Property Investment	5	1	4	0	Limited
<b>Total: 14 Audit Reports</b>	<b>61</b>	<b>45</b>	<b>15</b>	<b>1</b>	
	100%	73.8%	24.6%	1.6%	
Good/Substantial Assurance	12 ( <i>10</i> )		85.7% ( <i>71.4%</i> )		
Limited/Minimal Assurance	2 ( <i>4</i> )		14.3% ( <i>28.6%</i> )		

Previous year's performance italicised and in brackets.



## 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~~2017.
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. The Standards also state the Mission of Internal Audit and the Core Principles for the Professional Practice of Internal Auditing.

67. ~~It is a mandatory requirement that~~ Internal Audit ~~must comply~~ complies fully with all of these ~~standards,~~ elements ~~of which and they are~~ also ~~form part of~~ included in this Charter.
78. 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.
89. In addition to the Standards, the Internal Audit Service is also governed by the Council’s Financial Procedure Rules.

### Mission of Internal Audit

910. 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

4011. 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.

4412. The Internal Audit Service strives to meet these requirements (and the Mission of Internal Audit) through compliance with the Standards.

### Code of Ethics

4213. 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

~~43~~14. 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.

~~44~~15. 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”~~.

~~45~~16. “Senior Management” comprises the members of the Strategic Management Team.

## Scope and Objectives of the Internal Audit Service

~~46~~17. 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.

~~47~~18. 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.

~~48~~19. The main objectives of the 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;
- support the Monitoring Officer in the discharge of his/her responsibilities for maintaining high standards of governance, conduct and ethical behaviour;
- 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; and
- investigate allegations of fraud or irregularity, identify fraud as a consequence of its ~~reviews~~work, and ~~to~~ act as a visible deterrent to potential wrongdoers.

## Rights of Access

~~49~~20. The rights of access for the Internal Auditor ~~or~~ Service 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.”*

**2021.** Regulation 5 (3) also goes on to state that the definition of “documents and records” includes information recorded in an electronic form.

**2122.** 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 (provided this right of access is specified in their contract) required~~; and
- have direct access to the Executive Directors, Section 151 Officer, Monitoring Officer, Heads of 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

**2223.** Internal Audit's main areas of work relate to the following key areas:

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

#### Assurance Work

**2223.1** 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.

**2223.2** 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

2223.3 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 Counter Fraud Work

2223.4 ~~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 Framework.

2223.5 The Internal Audit Service also has a role in fraud prevention, detection and investigation ~~and~~. Its Auditors are required to consider the possibility of fraud in all systems they review, and work with Management to make sure that the correct controls are in place to reduce the likelihood of fraud occurring. The fact that absolutely any Council activity can be subject to Internal Audit review also acts as a deterrent to potential fraudsters.

23.6 Other counter fraud activities carried out by the Internal Audit Service include:

- assists in the development and maintenance of ~~an the~~ Anti-Fraud and Corruption Strategy and Fraud Response Plan Framework;
- coordinating the National Fraud Initiative data matching exercises and assisting with the analysis of the results;
- the investigation of any areas of potential fraud or error identified through routine audit work or brought to its attention by Management. The Audit Manager will ~~also~~ investigate any allegations of fraud or corruption involving staff, Members or contractors;
- reviewing and acting upon whistleblowing referrals; and
- the proactive gathering of intelligence on areas of potential fraud; examining individual cases for evidence of error or wrongdoing; and liaising with the relevant departments to stop or recover losses where fraud is suspected.

## Audit Strategy and Work Plan

~~23~~24 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 Heads of 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 an 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~~25. 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~~26. The Internal Audit Service at Rother District Council is provided by an in-house team.

## Appendix D

- ~~2627~~. 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.”*
- ~~2728~~. 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.~~
- ~~2829~~. 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.
- ~~2930~~. All Internal Audit staff are trained in order to be able to perform each element of their assignments with due professional care.
- ~~3031~~. 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

- ~~3132~~. The main determinant of the effectiveness of Internal Audit is that it is (and 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.
- ~~3233~~. The Internal Audit Service is an independent unit within the Corporate Core and the Audit Manager reports directly to the Executive Directors ~~of Resources.~~

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

- ~~3334~~. 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.”*
- ~~3435~~. 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.

36. Where the Audit Manager has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be put in place to limit impairments to independence and objectivity. The Audit Manager must also highlight any potential or perceived impairment to the Board. The Board should then approve and periodically review any safeguards put in place to limit impairments to independence and objectivity. Safeguards may include delegating the audit of any such activity to an appropriate independent “deputy” or commissioning an independent third party (such as another local authority or a contractor) who will then report directly to those charged with governance.

~~3537.~~ 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.

~~3638.~~ 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.

~~3839.~~ 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-must 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

~~3940.~~ 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

~~4041.~~ 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.



## Appendix D

~~4142~~. 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	Internal Audit Plan for forthcoming financial year
March	Annual Review of the Effectiveness of Internal Audit
June	Annual Report on Internal Audit Activity
September	Quarterly Report on Internal Audit Activity Q1
December	Quarterly Report on Internal Audit Activity Q2

~~4243~~. 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

~~CMIIA – Chartered Member of the Institute of Internal Auditors~~

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~~March 2023

Gary Angell  
Audit Manager

~~May 2017~~February 2020