



Please ask for Rachel Appleyard
Direct Line: 01246 34 5277
Email democratic.services@chesterfield.gov.uk

The Chair and Members of Standards
and Audit Committee

19 July 2022

Dear Councillor,

Please attend a meeting of the STANDARDS AND AUDIT COMMITTEE to be held on WEDNESDAY, 27 JULY 2022 at 2.00 pm in Committee Room 1, Town Hall, Rose Hill, Chesterfield, the agenda for which is set out below.

AGENDA

Part 1(Public Information)

1. Declarations of Members' and Officers' Interests relating to Items on the Agenda
2. Apologies for Absence
3. Minutes (Pages 3 - 8)
4. Standards and Audit Committee Annual Report 21/22 (Pages 9 - 18)
5. Internal Audit Consortium Annual Report 2021/22 (Pages 19 - 32)
6. Internal Audit Untapped Potential (Pages 33 - 94)
7. RIPA Annual Report and Inspection 2022 (Pages 95 - 132)
8. Standards and Audit Committee Work Programme 2022/23 (Pages 133 - 136)

9. Progress Report on the 2021/22 Internal Audit Plan (Pages 137 - 154)
10. Local Government Act 1972 - Exclusion of Public

To move "That under Section 100(A)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Act".

Part 2 (Non Public Information)

11. Progress Report on the 2021/22 Internal Audit Plan - Appendix 3 (Pages 155 - 162)

Yours sincerely,

A handwritten signature in black ink, appearing to be 'S. Smith', written in a cursive style.

Head of Regulatory Law and Monitoring Officer

STANDARDS AND AUDIT COMMITTEE

Wednesday, 20th April, 2022

Present:-

Councillor Rayner (Committee Member in the Chair)

Councillors T Murphy

Councillors

Snowdon

*Matters dealt with under the Delegation Scheme

45 APPOINTMENT OF A CHAIR

RESOLVED –

That, in the absence of the Chair and Vice-Chair, Councillor Rayner be the Chair for the meeting.

46 DECLARATIONS OF MEMBERS' AND OFFICERS' INTERESTS RELATING TO ITEMS ON THE AGENDA

No declarations of interest were received.

47 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Caulfield and Kellman.

48 MINUTES

RESOLVED –

That the Minutes of the meeting of the Standards and Audit Committee held on 16 February, 2022 be approved as a correct record and be signed by the Chair.

49 LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF PUBLIC

***RESOLVED –**

That under Section 100(a)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.

50 **UPDATE ON QPSC AND MARKETS INTERNAL AUDIT RECOMMENDATIONS**

The Service Director – Leisure, Sport and Cultural Wellbeing provided an update on the recommendations from recent audits on Markets and Queen’s Park Sports Centre income. The majority of the recommendations had now been completed. The outstanding recommendation from the Queen’s Park Sports Centre audit would be completed once the new leisure management system was in place and a review was underway to address the outstanding recommendation on the Markets audit.

***RESOLVED –**

1. That the update be noted.
2. That the target date for completing recommendation 4 of the Markets Income audit be shared with members of the Committee.

51 **PROGRESS UPDATE ON THE 2021/22 INTERNAL AUDIT PLAN**

The Internal Audit Consortium Manager presented a report summarising the internal audit reports issued during the period January 2022 to March 2022 in relation to the 2021/22 internal audit plan.

It was noted that five reports had been issued during this period which had been given the following levels of assurance:

- ‘Substantial assurance’ – three
- ‘Reasonable assurance’ – one
- ‘Limited assurance’ – one

A summary of these reports was provided in Appendix 1 of the officer’s report and the limited assurance report (Markets Income) was attached in full at Appendix 3 of the officer’s report. The Committee were informed that no fraud had been detected.

Members were also informed on the progress against the internal audit plan which was detailed in Appendix 2 of the officer's report.

***RESOLVED –**

That the report be noted.

52 LOCAL GOVERNMENT ACT 1972 - RE-ADMISSION OF THE PUBLIC

***RESOLVED –**

That the public be re-admitted to the meeting.

53 CHESTERFIELD BOROUGH COUNCIL INTERNAL AUDIT PLAN 2022/23

The Internal Audit Consortium Manager presented a report detailing the Internal Audit Plan for 2022/23.

The Public Sector Internal Audit Standards required that a periodic risk-based plan be prepared that would be sufficiently flexible to reflect the changing risks and priorities of the organisation. The development of the internal audit plan had taken into account the council's organisational objectives and priorities, local and national issues and risks, the requirement to produce an annual internal audit opinion, an update of the internal audit risk assessment exercise, the council's strategic risk register and comments from the corporate leadership team.

The internal audit plan, attached at Appendix 1 of the officer's report, detailed the areas where audits would take place during 2022/23 and the number of days allocated to each area. The report noted that the number of contingency days had been increased to allow for the coverage of any unforeseen or emerging risks. In addition, a number of reserve areas had been added to the end of the list; if the contingency days were not required, these would be utilised on the reserve areas. The Internal Audit Consortium Manager advised that they were struggling to recruit to the vacant Senior Auditor post which may impact on the ability to complete the plan.

***RESOLVED –**

1. That the Internal Audit Plan for 2022/23 be approved.

2. That it be noted that the plan is provisional and may need adjusting and prioritising in the light of any emerging risks or staff shortages.

54 **REVIEW OF THE CODE OF CORPORATE GOVERNANCE AND THE 2021/22 ANNUAL GOVERNANCE STATEMENT**

The Internal Audit Consortium Manager presented a report on the review of compliance with the Code of Corporate Governance requirements during 2021/22 and the Annual Governance Statement for 2021/22.

The report noted that local authorities are recommended to adopt and regularly review a Code of Corporate Governance which details the system by which the Council controls and directs its functions and how it relates to its local community. The outcomes from the review, as detailed in Appendix 1 of the officer's report, demonstrated that there had been substantial compliance with the Code during 2021/22.

The Annual Governance Statement, as detailed in Appendix 2 of the officer's report, was derived from a detailed review of the assurances by senior officers and from the work undertaken and risks identified by internal audit. The review indicated that many of the Council's processes and procedures were compliant with good practice; however there were some governance issues and future challenges which were detailed within the Statement, including the continuing impact of Covid-19 on the Council's governance arrangements.

***RESOLVED –**

1. That the Annual Governance Statement be approved and be signed by the Leader and Chief Executive.
2. That a review of the Code of Corporate Governance be undertaken in 12 months' time.
3. That progress on the significant issues and future challenges identified in the Annual Governance Statement be monitored by the Corporate Leadership Team.

55 **DELEGATION SCHEME AND CONSTITUTION**

The Monitoring Officer presented a report seeking approval to make changes the Constitution. The Constitution is a key document, required by law, which sets out the principal powers, duties and procedures of the Council. Full Council considers the main changes and other changes are delegated to Standards and Audit Committee. Any consequential amendments and general updates are the responsibility of the Monitoring Officer.

The changes were outlined in Appendix 1 of the officer's report and related to the terms for the disposal of land and animal licensing functions in Part 3 – Delegation Scheme.

***RESOLVED**

That the changes to the Constitution, as detailed in Appendix 1 of the officer's report, be approved.

56 **STANDARDS AND AUDIT COMMITTEE WORK PROGRAMME**
2022/23

The work programme for the Standards and Audit Committee for 2022/23 was considered.

***RESOLVED –**

That the work programme be noted.

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For publication

Annual Report of the Standards and Audit Committee

Meeting:	Standards and Audit Committee Council
Date:	27 th July 2022 12 th October 2022
Cabinet portfolio:	Governance
Directorate:	Finance
For publication	

1.0 Purpose of the report

- 1.1 To set out the work of the Standards and Audit Committee for 2021/22 in an annual report in line with best practice.

2.0 Recommendations

- 2.1 That the Standards and Audit Committee consider the attached Standards and Audit Committee Annual Report and refer to Council for approval.
- 2.2 That Council approve the Annual Report of the Standards and Audit Committee.

3.0 Reason for recommendations

- 3.1 To ensure that the Standards and Audit Committee are following good practice guidelines in line with CIPFA's guidance note "Audit Committees – Practical Guidance for Local Authorities" in terms of performance and effectiveness.

4.0 Report details

- 4.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) in their guidance note "Audit Committees – Practical Guidance for Local Authorities", recommend that an Audit Committee should produce an annual report on their activity. The production of an Annual Report helps to assess how the Committee is performing and raises the profile of the Committee.
- 4.2 The Annual Report in Appendix 1 summarises the work of the Standards and Audit Committee for the financial year 2021/22.

5.0 Alternative options

- 5.1 The report is for information.

6.0 Implications for consideration – Financial and Value for Money

6.1 The work of the Standards and Audit Committee helps to ensure that processes and controls are operating effectively thereby contributing to ensuring that value for money is obtained.

7.0 Implications for consideration – Legal

7.1 None

8.0 Implications for consideration – Human Resources

8.1 None

9.0 Implications for consideration – Council Plan

9.1 The Standards and Audit Committee play a critical role in ensuring that the Council's governance, control and risk management arrangements are appropriate. Appropriate governance, control and risk management arrangements help to ensure that the council's resources and priorities are focused on achieving the objectives within the council plan.

10.0 Implications for consideration – Climate Change

10.1 Whilst there are not considered to be any direct climate change impacts in relation to this report, sound internal control, governance and risk management arrangements will support the achievement of the Council's objectives.

11.0 Implications for consideration – Equality and Diversity

11.1 None

12.0 Implications for consideration – Risk Management

12.1 The production of this report provides assurance to Council that the Standards and Audit Committee are fulfilling their terms of reference which reduces the risk of a failure of governance, control and risk management arrangements.

Decision information

Key decision number	<i>N/A</i>
Wards affected	None

Document information

Report author	
Jenny Williams Head of the Internal Audit Consortium Finance	
Background documents	
These are unpublished works which have been relied on to a material extent when the report was prepared.	
None	
Appendices to the report	
Appendix 1	Annual Report of the Standards and Audit Committee 2021/2022

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CHESTERFIELD
BOROUGH COUNCIL

STANDARDS AND AUDIT COMMITTEE

ANNUAL

REPORT

2021/22

Standards and Audit Committee

Chesterfield Borough Council

Annual Report 2021/22

1. Background

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) in their guidance note "Audit Committees – Practical Guidance for Local Authorities", recommend that an Audit Committee should produce an annual report on their activity.
- 1.2 The Standards and Audit Committee produce an annual report as a means of assessing how the Committee is performing and raising the profile of the work of the Committee across the Council.
- 1.3 Audit Committees are widely recognised as a core component of effective governance, their key role is to independently oversee and assess the internal control environment, comprising governance, risk management and control and advise the Council on the adequacy and effectiveness of these arrangements. At Chesterfield Borough Council the statutory duty to promote and maintain high standards of conduct by members is also overseen by the Committee.
- 1.4 The Committee is responsible for: –
 - Promoting and maintaining high standards of conduct
 - Good governance
 - Internal Audit
 - External Audit
 - Risk Management
 - Treasury Management
 - The control environment
 - Anti-fraud and anti- corruption arrangements
 - Carrying out hearings into alleged misconduct by councillors

Details of the responsibilities of the Committee are set out in the Council's Constitution (Part 2, Article 9).

- 1.5 The Committee meets on a regular basis. Chaired by Councillor Mark Rayner for most of 2021/22 with Councillor Kate Caulfield taking over as Chair in February 2022. The Committee is advised by the Service Director - Finance, Theresa Channell, the Head of

the Internal Audit Consortium, Jenny Williams, and the Monitoring Officer, Gerard Rogers.

2. Membership and Meetings

- 2.1 The Standards and Audit Committee is composed of eight members, 6 councillors and 2 parish representative members (appointed by Brimington Parish Council and Staveley Town Council respectively). During 2021/22 these members were: -
Councillor Caulfield (Chair)
Councillor Kellman (Vice-Chair)
Councillor Rayner
Councillor Brady
Councillor Murphy
Councillor Snowdon
Councillor Brittain / Cawthorne (Brimington Parish Council)
Councillor Wilson (Staveley Town Council)
- 2.2 The meetings are also attended by the Council's external auditor Mazars.
- 2.3 During the 2020/21 financial year the Standards and Audit Committee met on 6 occasions.

3. Standards and Audit Committee Business

- 3.1 During the year the Committee conducted the following business:
-

Internal Audit

- Received the annual internal audit report for 2020/21
- Approved the internal audit plan for 2021/22
- Received internal audit updates of progress against the audit plan for 2021/22
- Monitored the implementation of internal audit recommendations
- Received and approved the Internal Audit Charter
- Considered the report in respect of the external review of Internal Audit

- Monitored the progress internal audit are making on the implementation of recommendations arising from their external review.

External Audit

- Received the external auditors Audit Strategy Memorandum 2020/21
- Received external audit progress reports
- Considered a report in relation to the future procurement of the external auditors

Statement of Accounts

- Approved the 2020/21 statement of accounts

Treasury Management

- Considered the treasury management 2020/21 annual report and monitoring report 2021/22
- Approved the 2022/23 Treasury Management Strategy

Risk Management

- Considered the Risk Management Strategy for 2021/22 and reviewed the strategic risk register.

Good Governance

- Reviewed and approved the Code of Corporate Governance and Annual Governance Statement for 2020/21
- Produced the 2021/22 Annual Report of the Standards and Audit Committee for Council
- Undertook a self -assessment of the Standards and Audit Committee against the CIPFA model.
- Considered the Local Government and Social Care Ombudsman Annual Review Letter 2020/21
- Discussed the results of the CIPFA Fraud and Corruption Survey 2020
- Approved Constitution updates
- Discussed the end of remote meetings that had been in place as a result of COVID-19
- Received an update in respect of progress made by the newly formed procurement team

- Reviewed and approved an updated anti-fraud, Bribery and Corruption Strategy

Standards of Conduct

- Considered an annual report on the Standards of Conduct

4. The Committee's Main Achievements / Outcomes

The Standards and Audit Committee aims to add value through its activity and this year its most significant achievements have been to: -

- Ensure that the momentum to improve controls and processes in relation to procurement continues.
- Ensure that for the Limited Assurance internal audit reports issued in the year that Officers are taking action to remedy the issues identified.
- Ensure that the 2020/21 Annual Governance Statement is a true and transparent reflection of the Council's governance, risk and control arrangements.
- Reviewed and commented on the Council's strategic risk register to ensure that it is still current and accurately reflects the key risks faced by the Council.

5 Conclusion

- 5.1 The Committee has continued to make a positive contribution to the Council's overall governance risk, and control arrangements.
- 5.2 The Committee will continue to support the Council in the year ahead by supporting the work of internal and external audit, the Service Director -Finance and the Monitoring Officer.

Councillor Kate Caulfield (Chair)
Chesterfield Borough Council Standards and Audit Committee

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Internal Audit Consortium Annual Report 2021/22

Meeting:	Standards and Audit Committee
Date:	27 th July 2022
Cabinet portfolio:	Governance
Directorate:	Finance
For publication	

1.0 Purpose of the report

1.1 The purpose of this report is to: -

- Present a summary of the internal audit work undertaken during 2021/22 from which the opinion on governance, risk and internal control is derived.
- Provide an opinion on the overall adequacy and effectiveness of the Council's governance, risk and control arrangements including any qualifications to that opinion.
- Draw attention to any issues that need to be considered for inclusion in the Annual Governance Statement.
- Compare work undertaken with that which was planned and summarise performance.
- Comment on compliance with the Public Sector Internal Audit Standards (PSIAS) and Code of Ethics.
- Comment on the results of the internal quality assurance programme.
- Confirm the organisational independence of internal audit
- Review the performance of the Internal Audit Consortium against the current Internal Audit Charter.

2.0 Recommendation

2.1 That the Internal Audit Consortium Annual Report for 2021/22 be accepted.

3.0 Reasons for recommendation

3.1 To present to Members the annual report for the Internal Audit Consortium in respect of Chesterfield Borough Council for 2021/22.

3.2 To ensure compliance with the Public Sector Internal Audit Standards.

- 3.3 To provide an annual opinion on the overall adequacy and effectiveness of the Council’s governance, risk and control arrangements including any qualifications to that opinion.

4 Report details

BACKGROUND

- 4.1 The Public Sector Internal Audit Standards require that the Head of the Internal Audit Consortium delivers an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
- 4.2 COVID- 19 along with staff vacancies and the training requirements of new staff has impacted on the extent of completion of the 2021/22 internal audit plan. However, enough of the internal audit plan (along with reliance on other assurances) has been completed to be able to give an unlimited audit opinion in respect of the 2021/22 financial year.

SUMMARY OF WORK UNDERTAKEN

- 4.3 Appendix 1 details the audit reports issued in respect of audits included in the 2021/22 internal audit plan. The appendix shows for each report the overall assurance level provided on the reliability of the internal controls and the assurance level given at the last audit. The report opinions can be summarised as follows:

Assurance Level	2020/21 Number	2021/22 %	2021/22 Number	2021/22 %
Substantial	8	40	10	53
Reasonable	12	60	5	26
Limited	0	0	4	21
Inadequate	0	0	0	0
Total	20	100	19	100

- 4.4 A definition of the above assurance levels is shown at the bottom of Appendix 1.
- 4.5 No fraud was identified.
- 4.6 The following table summarises the performance indicators for the Internal Audit Consortium as detailed in the Internal Audit Service Plan:

Description	2021/22		2022/23
	Plan	Actual	Plan
Cost per Audit Day	£306	£288	£310
Percentage of Plan Completed (CBC)	75%	81%	75%

Sickness Absence (Average Days per Employee)	8.0 (Corporate Trigger)	1.2	8.0
Customer Satisfaction Score (CBC)	85%	97%	85%
To issue internal audit reports within 10 days of the close out meeting	90%	100%	90%
Quarterly reporting to Standards and Audit Committee	100%	100%	100%

OPINION ON THE ADEQUACY AND EFFECTIVENESS OF GOVERNANCE, RISK AND CONTROL ARRANGEMENTS

- 4.7 The Head of the Internal Audit Consortium is responsible for the delivery of an annual audit opinion that can be used by the council to inform its governance system. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 4.8 In my opinion reasonable assurance can be provided on the overall adequacy and effectiveness of the council's framework for governance, risk management and control for the year ended 2021/22. Sufficient work has been completed and assurances ascertained to be able to provide an unlimited opinion on the systems of governance, risk management and control in place. This year 4 audits have been issued with limited assurance however managers have reacted promptly to improve the controls in place.
- 4.9 Assurance can never be absolute. In this context "reasonable assurance" means that arrangements are in place to manage key risks and to meet good governance principles, but there are some areas where improvements are required.
- 4.10 As well as internal audit work assurance has also been gained from previous years' work, the work of the risk management group, PSN compliance, external audit and compliance with the Code of Corporate Governance.
- 4.11 Overall, 79% of the areas audited received Substantial or Reasonable Assurance demonstrating that there are effective systems of governance, risk management and control in place.
- 4.12 Performance management procedures are in place to ensure that the Corporate Leadership Team receive regular reports in relation to outstanding audit recommendations in order that appropriate action can be taken.
- 4.13 The Standards and Audit Committee receive a 6-monthly report in relation to outstanding audit recommendations. Where a limited or inadequate assurance audit report is issued, managers are required to attend the Standards and

Audit Committee to discuss progress and to provide assurance that recommendations are being implemented in a timely fashion.

4.14 Members should also be aware of the high- risk areas that are highlighted within the Council's 2021/22 Annual Governance Statement: -

- Financial Sustainability
- Workforce capacity and Capability
- Health & Safety
- Procurement
- Asset Management
- Project and programme management / decision making / governance processes.
- COVID-19 / Recovery / impact on the community

ISSUES FOR INCLUSION IN THE ANNUAL GOVERNANCE STATEMENT

4.15 The internal control issues arising from audits completed in the year and outstanding internal audit recommendations have been considered during the preparation of the Annual Governance Statement. Significant issues and challenges raised in the Annual Governance Statement because of internal audit work are in relation to procurement, project management, health & safety and asset management, further work is needed to make improvement in these areas.

COMPARISON OF PLANNED WORK TO ACTUAL WORK UNDERTAKEN

4.16 The Internal Audit Plan for 2021/22 was approved by the Standards and Audit Committee on the 21st of April 2021. The majority of audits have been completed with the remaining audits being scheduled into the 2022/23 Internal Audit Plan. Appendix 2 details the audits completed and those deferred.

COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS / CODE OF ETHICS AND OTHER QUALITY ASSURANCE RESULTS

4.17 Quality control procedures have been established within the Internal Audit Consortium and these are documented in the Quality and Assurance Improvement Programme at Appendix 3. These procedures are designed to ensure compliance with the PSIAS and Code of Ethics.

ORGANISATIONAL INDEPENDENCE

4.18 It can be confirmed that the internal audit activity is organisationally independent. Internal audit reports directly to the Service Manager - Finance but has a direct and unrestricted access to the Corporate Leadership Team and the Standards and Audit Committee.

REVIEW OF PERFORMANCE OF THE INTERNAL AUDIT CONSORTIUM AGAINST THE CURRENT INTERNAL AUDIT CHARTER

4.19 The Audit Charter was last reported to and approved by the Audit and Standards Committee in September 2021.

4.20 Based on the information provided in this report on the completion of the 2021/22 internal audit plan, it is considered that the requirements of the Charter were met during the year.

5 Alternative options

5.1 Not applicable.

6 Implications for consideration – Financial and value for money

6.1 Internal audit reviews help to ensure that processes and controls are operating effectively thereby contributing to ensuring that value for money is obtained.

7 Implications for consideration – Legal

7.1 The core work of internal audit is derived from the statutory responsibility under the Accounts and Audit Regulations 2015 which requires the Council to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking in to account public sector internal auditing standards or guidance”.

8 Implications for consideration – Human Resources

8.1 None

9 Implications for consideration – Council Plan

9.1 Audit reviews help to ensure that the council’s resources and priorities are focused on achieving the objectives within the council plan and that there are appropriate governance, risk and control arrangements in place.

10 Implications for consideration – Climate Change

10.1 Whilst there are not considered to be any direct climate change impacts in relation to this report, sound internal control, governance and risk management arrangements will support the achievement of the Council’s objectives.

11 Implications for consideration – Equality and Diversity

11.1 None

12 Implications for consideration – Risk Management

- 12.1 Regular audit reviews help to ensure that risk is managed appropriately. Internal audit makes recommendations to reduce the level of risk and improve the control environment.

Decision information

Key decision number	<i>N/A</i>
Wards affected	All

Document information

Report author	
Jenny Williams Head of the Internal Audit Consortium Finance	
Background documents	
These are unpublished works which have been relied on to a material extent when the report was prepared.	
None	
Appendices to the report	
Appendix 1	Internal Audit Reports Issued 2021/22
Appendix 2	Comparison of planned work to work completed 2021/22
Appendix 3	Quality and Assurance Improvement Programme

Appendix 1

Chesterfield Borough Council – Internal Audit Reports Issued 2021/2022

Ref	Report Title	Overall Opinion/ Assurance	
		2021/22	Previous Audit
1	Crematorium	Substantial	Reasonable
2	Bank Reconciliation	Substantial	Substantial
3	National Non Domestic Rates	Reasonable	Substantial
4	Insurance	Reasonable	Reasonable
5	Members ICT Equipment	Substantial	N/A
6	Property Safety Inspections	Reasonable	Reasonable
7	Payroll Services	Reasonable	Reasonable
8	Staveley Town Deal	Substantial	N/A
9	Queens Park Sports Cafe Income	Substantial	Reasonable
10	Housing Benefit / Council Tax Support	Substantial	Substantial
11	Queens Park Sports Centre Income	Limited	Reasonable
12	Accounts Receivable	Substantial	Substantial
13	Healthy Living Centre	Substantial	Substantial
14	Markets Income	Limited	Reasonable
15	Business Continuity through COVID	Substantial	N/A
16	Corporate Targets	Reasonable	Limited
17	Planning Fee Income	Limited	Good
18	Non- Housing Property Repairs	Limited	Limited
19	Treasury Management	Substantial	Substantial

Internal Audit Assurance Level Definitions

Assurance Level	Definition
Substantial Assurance	There is a sound system of controls in place, designed to achieve the system objectives. Controls are being consistently applied and risks well managed.
Reasonable Assurance	The majority of controls are in place and operating effectively, although some control improvements are required. The system should achieve its objectives. Risks are generally well managed.
Limited Assurance	Certain important controls are either not in place or not operating effectively. There is a risk that the system may not achieve its objectives. Some key risks were not well managed.
Inadequate Assurance	There are fundamental control weaknesses, leaving the system/service open to material errors or abuse and exposes the Council to significant risk. There is little assurance of achieving the desired objectives.

Comparison of Planned Work to Work Completed 2021/22

Complete
Deferred

	Main Financial Systems	Priority	Audit Days 2021/22
	Main Accounting & the Medium- Term Financial Plan	M	12
	HRA Business Plan	M,	5
	Business Grants	H	15
	Creditor Payments (Accounts Payable)	M	25
	Debtors (Accounts Receivable)	H	15
	Housing / Council Tax Benefits	M	21
	Housing Rents	M	20
	Housing Repairs – Revenue (Voids)	H	20
	National Non- Domestic Rates	H	20
	Treasury Management	M	15
	Payroll / Arvato /Kier return	H	25+5
			198
	Total		
	Other Operational Audits		
	Brimington Parish Council	N/A	5
	Contract Final Accounts	M	5
	Crematorium	M	12
	Gas Servicing / Property Compliance	H	15
	Healthy Living Centre	M	15
	Markets Income	M	12
	Planning Fees	M	12
	Refuse Collection – Domestic	M	10
	Queens Park Sports Centre	M	20
	EMU Warmer grants	M	5
	Total		111
	Computer and IT Related		
	ICT Transformation Programme	H	12
	Members p.c's / I pads	M	10
	New system Review / upgrades	M	10
	Total		32
	Cross Cutting Issues		
	Business Continuity Planning	H	15
	Corporate Governance and Annual Governance Statement	N/A	20

Corporate Targets	M	12
Financial Advice / Working Groups/Transformation Projects	N/A	25
Property Repairs (Non housing)	H	12
Projects / Project management e.g. econ Dev,	M	20
Risk Management	M	5
Total		109
Fraud and Corruption		
National Fraud Initiative	N/A	5
Total		5
Apprenticeships / Training	N/A	30
Contingency/Special Investigations/Emerging risks	N/A	50
Update Test Schedules	N/A	10
Audit Committee / Client Officer Liaison	N/A	15
Planned Total Days 2021/22		560

Reserve Areas

Council Tax
 Cash and Bank
 Property Rents
 Insurance
 Bank Reconciliation
 Health & Safety
 Inventory / disposal of old equipment
 Housing acquisitions
 Housing capital
 Homelessness
 Decoration vouchers

Internal Audit Consortium

Quality Assurance and Improvement Programme (QAIP)



Introduction

The Public Sector Internal Audit Standards require that the Head of Internal Audit develops and maintains an improvement programme that covers all aspects of the internal audit activity.

A quality assurance and improvement programme (QAIP) is designed to enable an evaluation of the internal audit activity's conformance with the Public Sector Internal Audit Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The quality assurance and improvement programme must include both internal and external assessments.

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity.
- Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

This QAIP covers: -

- 1) Internal Assessments
- 2) External Assessments
- 3) Staff qualifications / experience
- 4) Training
- 5) Other elements

1) Internal Assessments

Internal assessments consist of the following: -

- An annual assessment against the Public Sector Internal Audit Standards by the Head of the Internal Audit Consortium. This was undertaken in May 2022 and the review confirmed that there were no significant areas of non-compliance.
- Reviews of working papers – All audit working papers are reviewed by the Head of Internal Audit or a Senior Auditor to ensure that they meet required standards and support the findings of the review. These reviews are documented.
- Review of audit reports – The Head of Internal Audit reviews all reports for quality and consistency before they are formally issued.

- Key performance indicators – these are reported to each Audit Committee in the annual report.
- Customer feedback – Customer satisfaction surveys are issued with every report and the results monitored. Based on the customer satisfaction survey forms returned (13 for CBC), the average score was 97% for customer satisfaction during 2021/22 (2020/21 result 95.5%).

2) External Assessments

An external review of internal audit took place in May 2021 the results of which concluded “Current services are assessed to “generally conform” with the PSIAS and compare favourably with peers, there are no areas where the service does not comply with the Standards”.

The results of the external assessment were fully reported to each Audit Committee and to the Joint Board.

An action plan was developed from the points arising in the 2021 external review and has been used to further drive improvement.

3) Audit Staff qualifications / experience

The table below summarises the qualifications and experience of the Internal Audit Consortium staff.

<u>Post</u>	<u>Qualification</u>	<u>Experience</u>
Head of Internal Audit	CIPFA	25 years
Senior Auditor	Vacant post	
Senior Auditor	AAT and IIA	30 plus years
Senior Auditor	AAT	30 plus years
Auditor	AAT / studying for IIA	7 years
Auditor	Vacant Post	
Auditor	AAT	9 months
Auditor	-	2 years
Auditor	AAT	30 plus years
Auditor	-	14 years

Training Undertaken in 2021/22

Training records are maintained to monitor both professional and ad hoc training received by staff.

Training is delivered via webinars, team meetings, professional journals etc. All staff undertake CPD.

During 2021/22 training was received by various staff in the following areas: -

- Ethics and culture
- Emergency and response plans
- Creating an anti- fraud culture
- Lean auditing
- Effective audit reporting
- Project Management
- Carbon literacy
- Introduction to internal audit
- Risk based internal audit
- Understanding the impact of the pandemic on local government finances
- Mental health awareness
- CIPFA Summer School – various current topics
- Delivering and stress testing the HRA Business Plan
- Conflicts of interest
- Post pandemic fraud landscape
- CIPFA Good Governance 2022 update
- Safeguarding

One member of staff is undertaking an apprenticeship that will lead to the Institute of Internal Auditors qualification.

Other Elements

- A spreadsheet is populated by members of the audit team with ideas for improvement. The ideas are discussed at team meetings and actions agreed accordingly.
- Performance Development Reviews – All staff have a full and mid- year performance review. These reviews set and monitor the achievement of objectives and identify any training requirements.
- 1:1's – All staff have 1:1 meetings with their manager at least monthly.
- The Internal Audit Manual is a comprehensive record of audit procedures and requirements and is updated at least every 2 years.
- Declarations of Business Interest – Staff are required to complete a declaration of business interests form on an annual basis and cannot undertake audits where there is a potential conflict of interest.
- Team meetings – Monthly team meetings are held which discuss points of practice, audit findings, information sharing and include elements of training and brainstorming.

For publication

CIPFA Publication – Internal Audit Untapped Potential

Meeting:	Standards and Audit Committee
Date:	27 th July 2022
Cabinet portfolio:	Governance
Directorate:	Finance
For publication	

1.0 Purpose of the report

1.1 The purpose of this report is to make Members aware of a recent CIPFA publication – Internal Audit Untapped Potential.

2.0 Recommendation

2.1 That the report be noted.

3.0 Reason for recommendation

3.1 To ensure that Members are aware of the role, impact and future potential of internal audit as identified by the CIPFA survey.

4.0 Report details

4.1 CIPFA have recently conducted a survey in respect of internal audit and the results of that survey are reflected in their publication Internal Audit Untapped Potential (Appendix 1).

4.2 The publication promotes the importance of internal audit and the benefit that it can bring to the organisation in terms of managing risks and improving the governance and control framework.

4.3 This report is valuable as it highlights for Members and Officers what makes an effective internal audit service, what the current impact of internal audit is and how internal audit can become more effective.

4.4 The publication covers the following areas: -

1. Identifying the impact of internal audit
2. How internal audit is making an impact
3. The potential for internal audit
4. What is holding internal audit back

Some of the main points arising from the survey are: -

- That since 2008 the perception of internal audit has improved.
- The role of internal audit varies greatly between organisations.
- That internal audit provides a range of services in addition to assurance such as providing advice and sharing best practice.
- The independence of internal audit is critical – internal audit can attend steering or project groups as a critical friend but should not have a decision-making role
- Capacity is highlighted as a key issue for many internal audit services.
- Internal audit need to be able to provide assurance on emerging issues whilst still providing a core assurance on business as usual activities.
- That recruiting and retaining the right skills is a challenge.

4.5 The research highlights the top 6 areas that should be covered by internal audit for the most impact in coming years: -

1. Cybersecurity
2. Digitisation and the greater use of data within the organisation
3. Environmental sustainability / climate change
4. Financial viability
5. Culture and ethics
6. Supporting improved risk maturity

4.6 It is pleasing to note that all of these areas are covered within CBC's internal audit plan although we will continue to develop our work in these areas. The research recognises that internal audit is unlikely to have the significant technical knowledge in respect of cyber security but can provide assurance in terms of the Council's strategic approach.

4.7 The conclusions of the publication are that things need to change: -

1. Successful organisations need to have robust and effective management and governance, including an understanding of assurance. Improving this understanding will enable the most effective use of internal audit.
2. Internal audit is often not allowed to unleash its full potential. The importance of its contribution must be fully understood and appreciated by clients – management and audit committees. Internal audit managers must become greater advocates in promoting the function within organisations.
3. Internal audit must be kept independent to achieve its maximum impact in an organisation. Auditors frequently take on additional roles, which may compromise their independence. They must have a sole focus and a direct

reporting line to the leadership team as required by the Public Sector Internal Audit Standards.

4. Discussion on public sector policy issues, be they social care, financial resilience or technological change, should acknowledge the importance of assurance and highlight internal audit's contribution. This would help raise the expectations of internal audit's clients.

5.0 Alternative options

- 5.1 Not Applicable

6.0 Implications for consideration – Financial and value for money

- 6.1 The publication demonstrates that internal audit is an important resource that can add value to the Council's governance, risk and control arrangements.

7.0 Implications for consideration – Legal

- 7.1 N/A

8.0 Implications for consideration – Human resources

- 8.1 N/A

9.0 Implications for consideration – Council plan

- 9.1 Utilising internal audit to its full potential will mean that the service is better contributing towards the achievement of the council plan.

10.0 Implications for consideration – Climate change

- 10.1 Whilst there are not considered to be any direct climate change impacts in relation to this report, sound internal control, governance and risk management arrangements will support the achievement of the Council's objectives.

11.0 Implications for consideration – Equality and diversity

- 11.1 N/A

12.0 Implications for consideration – Risk management

- 12.1 Unless the full potential of internal audit is appreciated and utilised then there is a risk that the service is not reaching its full potential.

Decision information

Key decision number	<i>N/A</i>
Wards affected	All

Document information

Report author	
Jenny Williams Head of the Internal Audit Consortium Finance	
Background documents	
These are unpublished works which have been relied on to a material extent when the report was prepared.	
<i>This must be made available to the public for up to 4 years.</i>	
Appendices to the report	
Appendix 1	CIPFA Publication – Internal Audit Untapped Potential

Internal audit: untapped potential

May 2022

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Acknowledgements

We would like to thank Khalid Hamid for his helpful comments and support and Jonathan Gordon for his expertise on the research survey. Milan Palmer, Sarah Delaurey, Mark Davey and Ursula Dale also provided essential support on the project.

We would also like to thank Liz Sandwith at the Chartered Institute of Internal Auditors for her comments and support on both the survey and report.

The input of all those who shared the survey link, responded to the survey or attended a focus group has been invaluable. In addition, we are grateful to the individuals we spoke to during the research.

The views expressed in this report are those of the authors unless otherwise stated and the responsibility for any errors or omissions lies with them.

Report authors

Diana Melville, CIPFA
Rachel Bowden, CIPFA

Making it count

CIPFA is committed to changing lives for the better.

As a global leader in public financial management and governance, our aim is to make a difference to the world we live in. Our work enables people to prosper, protects the vulnerable and helps sustain the environment for future generations.

As a professional institute, we support our members and students to act with integrity and deliver excellence in public financial management throughout their careers.

By setting standards and advising public bodies and governments, we help ensure the money and resources used on behalf of citizens are raised and spent fairly, transparently, efficiently and are free from fraud and corruption.

Our thought leadership puts us at the heart of the policy debate, while our education and training offerings and range of advisory services support our members, students and other public finance professionals, helping them add value to their teams and the organisations for which they work.

CIPFA is a global body, operating at local, national and international level. Wherever we find ourselves and whoever we are supporting, our goal is to always make it count.

Foreword

CIPFA advocates best practice in assurance, governance, management and financial control across the public services. As such, we think it's time to put public service organisations' internal audit capabilities in the spotlight.

We know internal audit has the potential to help organisations achieve their goals, but this potential is not currently realised. In a technologically advancing world and with tackling climate change high up on the agenda, it's time to address this. This report, and the research that has been conducted to create it, explores the changing landscape of internal audit in the public services and how vital it is for an organisation in terms of its future success.

As the pandemic has shown us, managing emerging risks and responding to ongoing geopolitical and technological change remain top priorities for organisations. This means that internal audit must respond too, and the profession must continually evolve to remain effective and efficient.

To keep pace with these changes, we have identified several aspects of internal audit that require attention, including resourcing, the need for specialisms, reporting lines within organisations, and investment in training to attract long-term expertise into the profession. The public services also need to keep pace with their expectations of internal audit, ensuring they make full use of its expertise.

Our intention with this report is to open a dialogue across public service organisations, the internal audit profession, audit committees, as well as those considering a career in internal audit. Internal audit is an important part of the solution for effective management of the public services, and we hope to facilitate change that will see greater independence of internal audit, sustainability of recruitment into the role and an increased understanding of assurance.

Allowing internal audit to achieve its full potential benefits organisations, the public services overall and the public finance professionals of the future. We hope this report gives the internal audit profession the confidence to champion the critical work it does.



Rob Whiteman CBE
CIPFA CEO

Executive summary



We need to talk about internal audit – talk about it more and talk about it in the right way.

This report is titled *Internal audit: untapped potential* because CIPFA believes that internal audit has a vital role to play in supporting public service organisations to achieve their goals.

CIPFA has conducted UK-wide research, sending an open survey to those in the public services, including those in the internal audit profession, management clients and audit committee members. The survey received a strong response with 831 submissions. The outcome of the research concludes that where internal audit is operating effectively, it is already providing this support, but there are pockets where internal audit is unable to do this. This report will examine how internal audit is currently making an impact, identify where it can do more and what is holding it back. Better internal audit means better public services.

As with all organisations, the public services must respond and adapt to global trends and areas of risks. The COVID-19 pandemic put the public services on the front line of the UK's response, requiring them to be agile and redirect resources accordingly to meet new challenges. Advances in technology present new opportunities for service redesign but also challenges around complexity and security. Many parts of the public services are people focused, and rising needs and demographic changes result in challenges across health and social care. The impact of climate change on services and carbon reduction initiatives are core parts of the public sector agenda.

At the same time, the public services have experienced a sustained period of financial pressure, resulting in reductions to core functions, loss of expertise and difficulties maintaining demand-led services within allocated budgets. Long-term financial planning is challenging, and many public bodies have explored new structures to deliver services or generate income.

Demonstrating stewardship of public funds, building and maintaining public trust and confidence in decision making and delivering a sustainable future for taxpayers and service users are fundamental expectations of all those working within the public services.

Where does this leave internal audit? What contribution can internal audit make to this complex web of expectations, obligations, ambitions and challenges?

When internal audit provides support, it does so in a unique way. It provides independent assurance. Achieving this requires a resource base of trained internal auditors supported by modern approaches and professional standards. It needs both capacity and capability. Internal audit also needs to work in conjunction with an organisation's governance, risk, control and assurance frameworks. A professional team of internal auditors will not have the desired impact in an organisation that doesn't understand its assurance requirements or have good governance arrangements. Assurance requirements are constantly evolving, and internal audit must keep up with the pace of change to stay relevant. Concerns that organisations face such as climate change and increased cyber security and financial risks are areas where internal audit can have a great impact.

Currently, the role of internal audit varies greatly between organisations. There is a need for consistency, quality and adherence to professional practice to ensure that an organisation has access to the assurance requirements it needs as opposed to just those that are available. Internal audit must also develop the capacity and ability to be sustainable. To achieve this, organisations must ensure the provision of internal audit expertise. The sections on recruitment, retention and training in this report explore this further.

Our conclusion is that things need to change.

1

Successful organisations need to have robust and effective management and governance, including an understanding of assurance.

Improving this understanding will enable the most effective use of internal audit.

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3

Internal audit must be kept independent to achieve its maximum impact in an organisation. Auditors frequently take on additional roles, which may compromise their independence.

They must have a sole focus and a direct reporting line to the leadership team as required by the Public Sector Internal Audit Standards (PSIAS).

2

Internal audit is often not allowed to unleash its full potential. The importance of its contribution must be fully understood and appreciated by clients – management and audit committees.

Internal audit managers must become greater advocates in promoting the function within organisations.

4

Discussions on public sector policy issues, be they social care, financial resilience or technological change, should acknowledge the importance of assurance and highlight internal audit's contribution.

This would help raise the expectations of internal audit's clients.

Internal audit is not the only solution to supporting effective public services, but it is part of the solution.

Where do we go from here?

This report makes several recommendations. Some are directed at the internal audit teams working within and for the public services. Others are directed at the client organisations, both management and audit committees. There are areas of planned work that CIPFA will be taking forward, some in collaboration with the Chartered Institute of Internal Auditors (CIIA) and the Internal Audit Standards Advisory Board (IASAB).

Continuing support for internal audit

CIPFA and the CIIA are keen to keep supporting high-quality internal audit within the public services. The institutes are exploring ways that they can collaborate more to continue the work set out in this report. Working together and with IASAB, they will support internal auditors to meet the PSIAS.

Both institutes have identified specific areas where they can collaborate. These include raising the profile of the internal audit profession in the public services, improving internal audit's status and cultivating a greater understanding between internal audit clients and audit committees. They will also examine issues raised in the report around professional standards, such as the head of internal audit's annual opinion and the quality assurance and improvement programme, to identify where guidance or support could improve practice.

Both institutes are mindful of the challenges that internal audit teams experience in the recruitment and retention of staff. Therefore, they will undertake some research on options for career paths and routes into internal audit to encourage long-term, sustainable recruitment into the role.

Identifying the impact of internal audit



Internal audit is vital because it focuses on the areas that are important for organisations and therefore supports their success.

Internal auditors help management, boards and their audit committees understand how well risks are managed, and the effectiveness of the governance and control framework in place – key things senior stakeholders need to know to be effective in discharging their own role. Strong internal audit functions will be more prepared to support the public services of the future, and to support organisations going through change.

In this research, we have focused on making an impact: internal audit that is not only effective in what it can offer but achieves influence with key decision makers for the benefit of organisational objectives.

There is no 'formula' for assessing or quantifying the impact of internal audit, as many of the indicators of an effective internal audit service are, to some extent, subjective.

Indicators of effective internal audit

- 1 Good engagement with senior management and the audit committee, while maintaining independence and objectivity.
- 2 Internal audit plans clearly aligned to the topics that are most important for the success of the organisation.
- 3 Timely and meaningful assurance, communicated in a way that is understood by stakeholders.
- 4 The ability to challenge constructively and to help management find solutions.
- 5 The ability to respond to emerging risks or issues and changing priorities for the organisation.

Additionally, internal auditors must be able to demonstrate their conformance with internal auditing standards, including the PSIAS, which are mandated for the UK public sector, and which are based on global internal auditing standards.

However effective and impactful internal audit teams may be, our research shows they are enhanced when operating in an organisation that understands assurance and the role of internal audit and engages with internal audit to obtain the maximum benefit from the function.

Our research concludes that the impact of internal audit is determined by interlinking factors in both the internal audit team and in the organisation. We have developed a model to highlight this.

Impact

The impact of internal audit can be defined as its ability to support the organisation in achieving its strategic objectives and priorities. This will be through an appropriate mix of assurance, consulting activity and advice. The impact of internal audit will vary across organisations based on assurance needs, organisational culture and capacity for continual improvement.

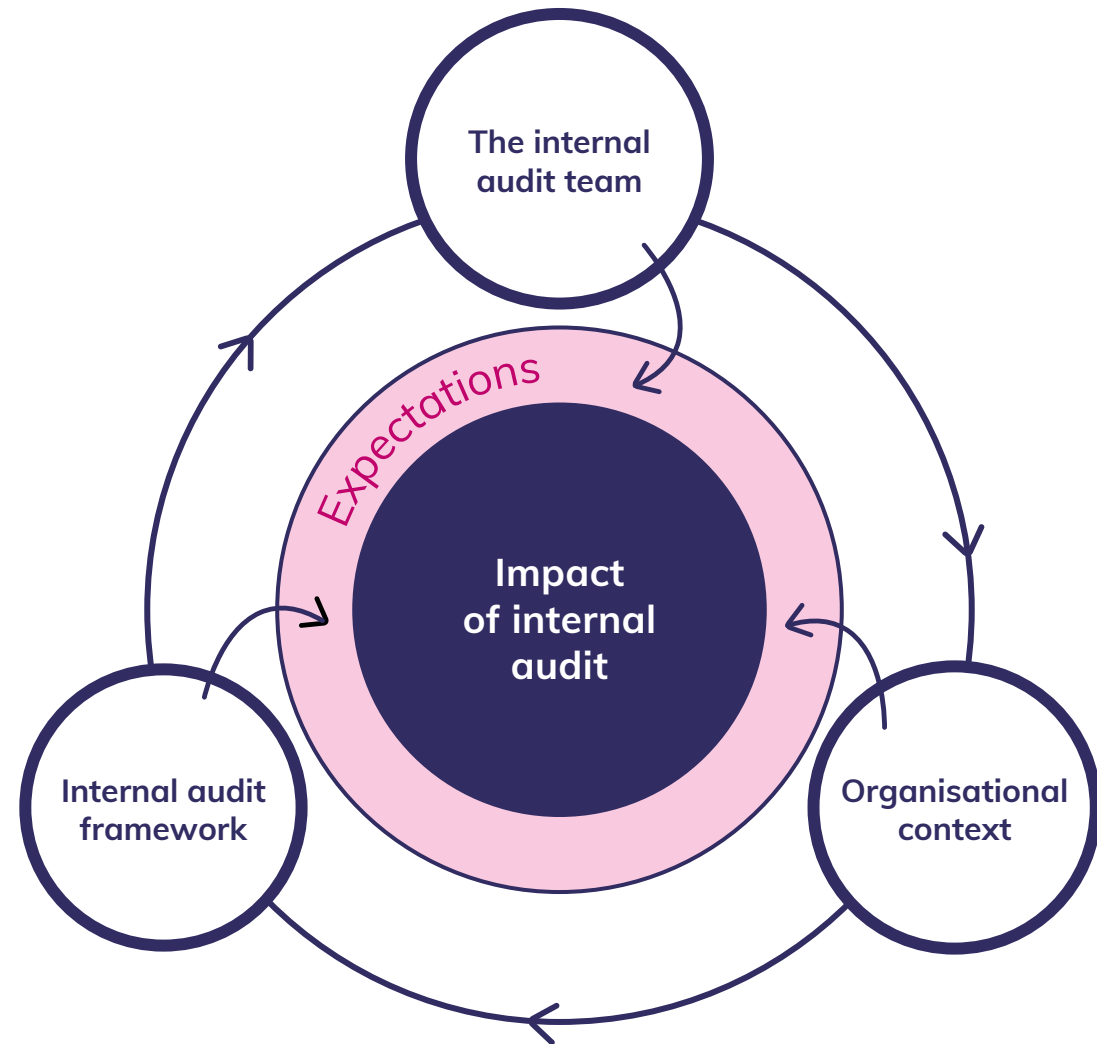
The impact of internal audit is dependent on the quality of the internal audit team, the framework and the organisation in which internal audit operates. Each of these will shape expectations of what internal audit can and should deliver. The individual components of internal audit impact are discussed in Appendix A.

Our findings and recommendations

Many of the findings from our research are interwoven. We cannot consider the impact of internal audit teams without considering, for example, the environment in which they work, the stakeholders and clients they serve, and the skills and resources needed to provide that service.

Our research included an extensive survey of internal auditors and their clients, including audit committee members, from across the public services. This was supported by focus groups and a literature review. The next section of the report will identify the evidence from our research that shows how internal audit is currently making an impact. We will then consider the future potential for internal audit. What can it do more of and where can it be more effective?

Finally, we will consider the factors that currently hold some internal audit teams back.





CIPFA's findings:

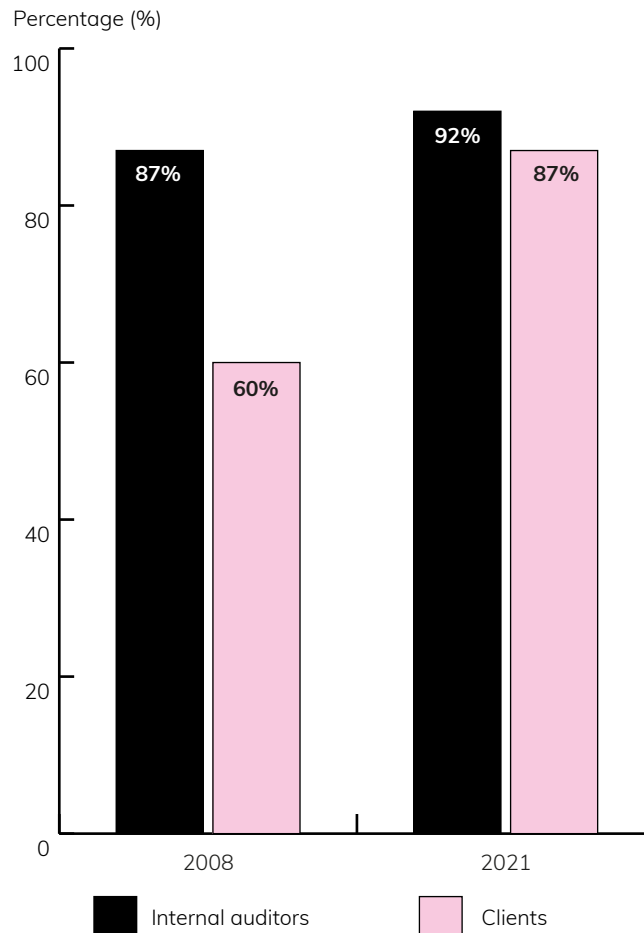
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How internal audit is making an impact

Internal audit's contribution has improved

In 2008¹ CIPFA identified an expectation and perception gap between local government internal auditors and their clients. Our new research identifies significant progress on closing this gap. This is most notable in terms of the contribution that internal audit makes in supporting the management of the organisation. The 2021 survey feedback is more positive than CIPFA's 2008 survey; a positive view of internal audit's contribution from clients increased significantly from 60% to 87%.

In the 2021 responses concerning the contribution of internal auditing, audit committee members are more positive than management (92% agreed, compared with 84% of management). Similarly, heads of internal audit are upbeat about this, with 96% agreeing that internal audit makes a positive contribution, reducing to 89% across other members of the internal audit team.



Respondents agreeing or strongly agreeing with the statement: the contribution internal audit makes supports the management of the organisation.

Making an impact on governance arrangements

Worcestershire Children First is a wholly owned company of Worcestershire County Council. Following high-profile governance failures in other LATCs, WCF identified that it would be good practice to review its arrangements.

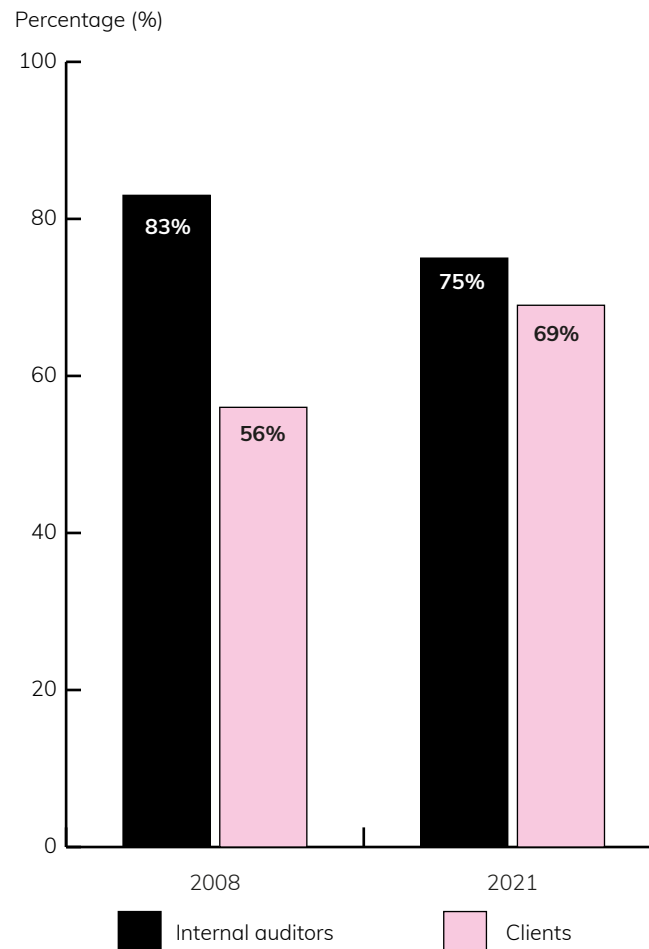
The Director of Resources undertook a review of the company's governance arrangements, as well as the council's shareholding and commissioning arrangements. Internal audit reviewed the outcome of the self-assessment, which provided independent assurance and added value to share good practice across the council. Internal audit had to challenge themselves and work differently with a self-assessment model, and in doing this, they were able to add value to the review and the outcome. They helped to embed understanding about governance and roles across both organisations. The review was used as a board refreshers training session and used with the leader and senior cabinet members.

¹ Perceptions of audit quality: a survey analysis (CIPFA, 2009).

One of the reasons for the improved contribution, and perception of the contribution, of internal audit may be better communication between internal auditors and their clients.

In 2008, just 56% of clients agreed that internal audit communicated effectively; in 2021, this has increased to 69% of clients. For internal auditors, there was a decline in their positive view of their communications, but this was primarily noted among audit team members rather than heads of internal audit. This could reflect the wider experience of communications among heads of audit.

Effective communication is a core skill required at every stage of the audit process, from explaining the rationale for conducting an audit to exploring options for control improvements with clients. To have impact, internal auditors need to ensure that the communication is consistently of a high standard and meeting client expectations. The improvement in client perceptions is very welcome, but auditors will need to continue to focus on effective communications.

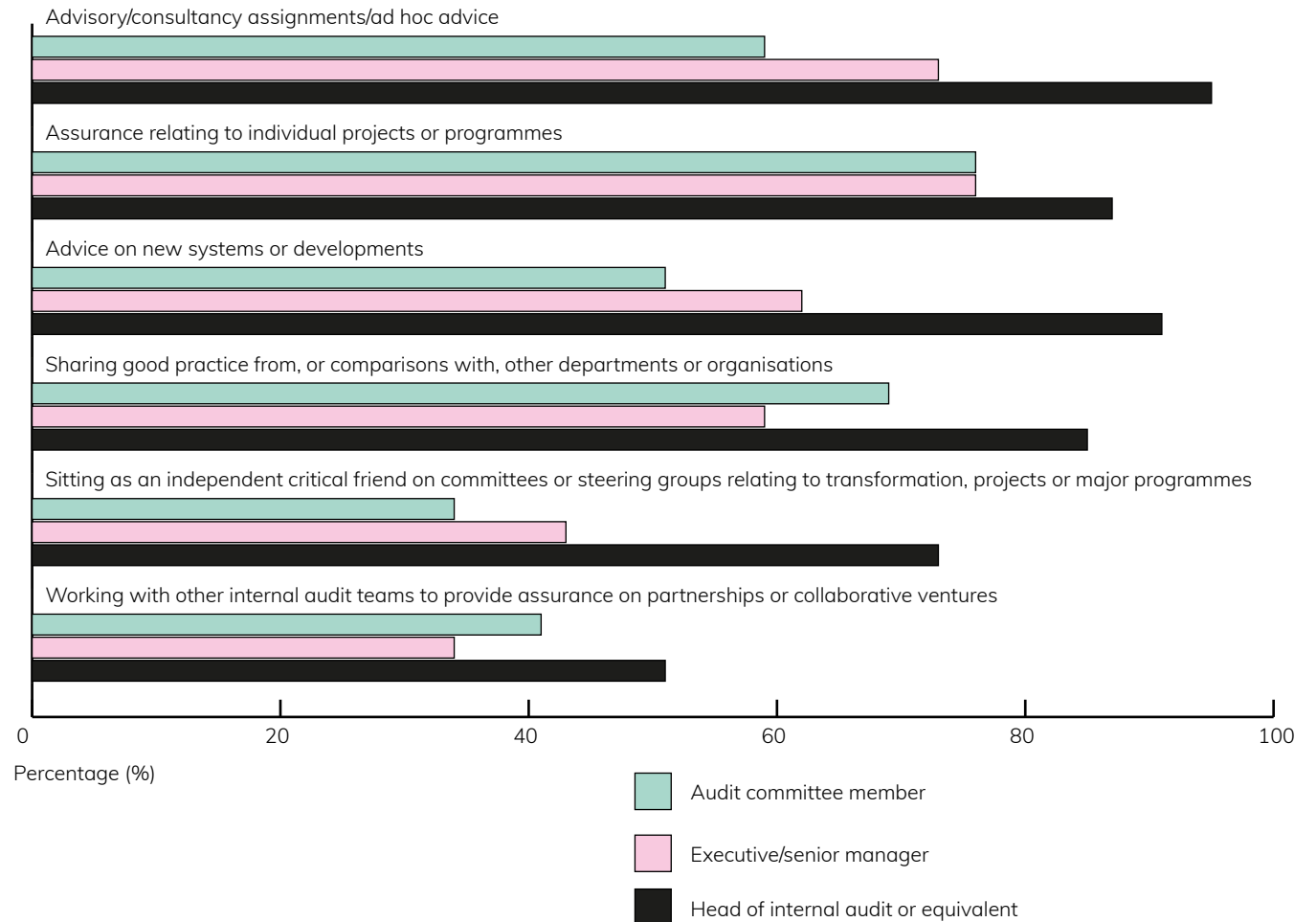


Respondents agreeing or strongly agreeing with the statement: internal audit builds and maintains effective communication at all levels within the organisation.

The services provided by internal audit vary

Internal auditors make an impact through a range of approaches. Our survey identified that while most internal audit teams were already offering broad coverage, their clients did not always recognise this.

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The view of what internal audit currently delivers, split by role.

The disparity is most marked in relation to the role of internal audit sitting on project or steering groups and in advice provided on new systems or developments. Heads of audit will have a full understanding of their team's activities, while clients perhaps only recognise those where they have had direct interaction. There is also a difference in perception between management and audit committees, perhaps reflecting that not all advisory work is reported to the audit committee in detail.

Recommendations:

- *Part of the role of the head of internal audit should be to advocate for and explain the role of internal audit. This could usefully include explaining the nature of internal audit consultancy or advisory work and draw out the benefits of internal audit interventions. Engagement and communication with senior stakeholders are core skills for effective heads of internal audit.*

Internal audit should provide the audit committee with an overview of all work it undertakes to ensure that there is visibility of any advisory activity. This does not necessitate a detailed report to the committee on all advisory work.

Showcasing internal audit: how the pandemic created opportunities

Another opportunity to have an impact is to ensure that internal audit is responsive to change and clients' needs. The pandemic provided considerable challenges for public sector bodies. Survey respondents were asked how the impact of internal audit has changed due to the COVID-19 response. Views were similar across respondent groups and sectors, with a mild positive response. Forty-two percent of respondents said that internal audit colleagues attended COVID-19 response meetings with management.

A number of participants reflected that the quick response by their internal audit function to provide agile and targeted assurance and advice had been an opportunity to showcase the ability of internal audit and had helped raise the profile of the team and how it is able to support the organisation. This may have helped individual relationships with senior managers and departments rather than bringing about an overall change in perception of impact.

The potential for internal audit

[Redacted text block]

[Redacted text block]

[Redacted text block]



Our research explored different ways to improve the impact of internal audit within organisations. When considering these opportunities, it is essential to consider them from both the perspective of a client as well as an internal auditor.

Expectations and understanding

There is a range of expectations of internal audit from management and audit committees, as well as a difference in the perception of what internal audit delivers for the organisation.

Examples shared through discussion groups ranged from internal audit teams that provide fundamental assurance on core financial controls but little coverage of strategic topics, through to internal audit teams that have flexible plans clearly aligned to strategic goals and that can provide advice or swift assurance in response to emerging issues.

This variation was reflected not only in the discussion of internal audit plans and proposed activity, but also in the expectations of senior management and audit committees.

Some clients recognised they received a basic assurance plan around core systems and did not want additional coverage. Others already received a broader plan linked to strategic priorities or encouraged the internal audit plan to move towards this.

CIPFA believes that higher expectations by management and audit committees will provide both a challenge and support for internal audit. Higher expectations would ultimately be beneficial for the profession in the public services. This means there is a need for organisations to focus on what assurance or advice is needed rather than what assurance internal audit is currently able to deliver.

CIPFA has established expectations of internal audit through the CIPFA statement on the role of the head of internal audit.

The head of internal audit in a public service organisation plays a critical role in delivering the organisation's strategic objectives by:

- objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control
- championing best practice in governance and commenting on responses to emerging risks and proposed developments.

While heads of internal audit might have these expectations, clients and audit committees also need to share them if internal audit is to have greater opportunity for impact.

Stable, supportive leadership has a huge role to play in getting the best out of internal audit, setting the culture of accountability and improvement.

Assistant Director, Metropolitan Council

Planned developments

CIPFA will consider how its forthcoming publication on assurance frameworks can build on its statement on the role of the head of internal audit to aid the understanding of assurance needs among leadership teams. CIPFA would like to see a culture of engaging with assurance and raised expectations for the internal audit profession in the public services.

Present and forthcoming actions:

The global IIA is currently undertaking a refresh of the International Professional Practices Framework on which the PSIAS are based. Once the new international framework is known, the IASAB, along with the relevant internal audit standard setters for the public services in the UK, will review the PSIAS and update accordingly. This may also be an opportunity, with a simplified framework, to raise the profile of internal auditing standards, and the role that management and the audit committee play in creating a culture of engaged assurance, to create an environment in which internal audit can make a greater impact.

More strategic coverage

A key factor of the impact of internal auditing is the nature of the areas in which internal audit invests its time and focus. We were interested in topics where internal audit should be focusing and also the nature of activities that internal audit should include in its work.

We asked survey respondents to identify three themes that internal audit should focus on in the coming three years that would have the greatest impact on an organisation. Cybersecurity was the top priority area identified by all groups of respondents. Second was digitisation and the use of data. Technology and the impact of digitisation is not a new priority. In 2008, internal auditors ranked information technology as their second most important priority area for future internal audit coverage; at that time, clients saw this as a lower priority.

The top six areas that should be covered to achieve impactful internal audit in the coming three years, as identified by our research, are as follows.

- Cybersecurity
- Digitisation and the greater use of data within the organisation
- Environmental sustainability/climate change
- Financial viability
- Culture and ethics
- Supporting improved risk maturity.

There were some differences in the views of internal auditors and clients. Internal auditors thought cybersecurity, culture and climate change were a higher priority compared with clients. Management thought internal audit's role in helping to improve risk maturity was more of a priority compared with audit committee members or internal auditors. Of these six topics, management were least interested in audit coverage around culture and ethics and were less interested in assurance linked to financial viability than internal auditors and audit committees.

Some internal audit teams are already providing assurance on these areas, although not necessarily in as much depth or with as much coverage that heads of internal audit or their clients would like to see in future.

Balancing the need for deep specialisms

Heads of internal audit recognised that both cybersecurity and climate change would be areas of increased focus for internal audit, but that they would not be able to develop deep specialisms.

Topics such as cybersecurity will require significant technical knowledge, and often, this will be unrealistic for in-house teams that do not have access to additional skills through a co-sourced arrangement to provide assurance on some aspects of cyber risks. Internal audit should still be able to provide assurance over the strategic approach of the organisation, however.

As public sector organisations work towards zero carbon strategies, many may have made carbon reduction commitments but have yet to finalise detailed plans to achieve this target. There is an opportunity for internal audit to play the role of critical friend in terms of how other plans, priorities and goals may impact, support or contradict climate priorities and targets.

To enable internal audit to have impact in these areas, audits should be carefully scoped and other assurances available considered. For example, in relation to cybersecurity, there will be some areas of risk and control that internal audit can consider in all audit work (such as access controls and data governance). A useful role of internal audit may be to recognise a wider range of existing assurance and specialist input, some of which may not be visible to the audit committee, and to help develop a map of assurance needs and priorities and how such assurance can be obtained.

Developing a golden thread through controls, assurance and internal audit

Across central government, the Government Internal Audit Agency (GIAA) and HM Treasury have been working with finance and risk colleagues to clarify the control framework that underpins the responsibilities of accounting officers. The team is also considering how assurance can be provided on the elements of the control framework. A third stage will shape how internal audit plans and reports its work. As well as supporting a better understanding of controls and assurance, the project should help internal auditors deliver internal audit opinions that can be compared across government.

This example shows how internal audit can have an impact in improving internal control and assurance arrangements, as well as helping internal audit opinions to be more meaningful for their clients.

Auditing financial risks

Traditionally, internal audit has provided assurance over financial systems and processes such as payments, income collection and payroll. In many organisations, such systems operate well, and the risks associated with them are well managed. Is there still a role for internal audit to provide assurance over financial risks? To what extent can internal audit provide assurance over the big financial risks associated with policy and strategy as well as the more traditional assurance over internal financial control systems? Our survey shows that financial viability is an area of priority for future internal audit coverage.

Examples of such risks are financial resilience, medium-term financial strategies and decisions around commercial strategies. Typically, the planning and decision making on such strategies will take place at a senior level within the organisation, and they can be complex and technical. This can mean they are difficult for internal audit to approach. However, their strategic importance to the organisation is such that they come with big financial risks. They are also areas the audit committee should be seeking independent assurance on.

Neither the audit committee nor internal audit will be seeking to influence the financial policies themselves, but they will want to feel confident that the strategy is sound, supported by robust data and incorporates risk management measures. They should therefore audit the arrangements and assumptions underpinning those decisions, plans and strategies.

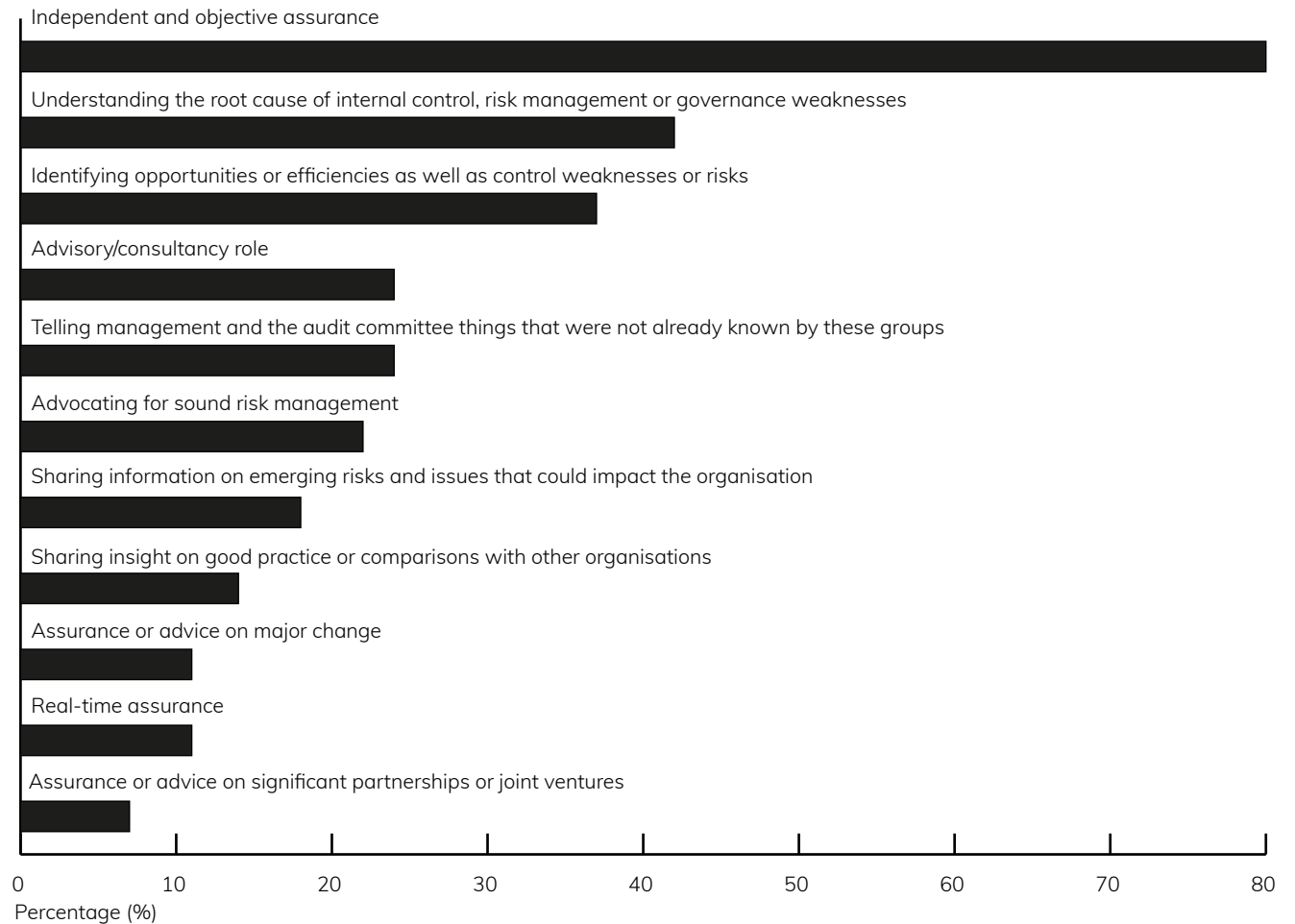
This area provides an opportunity for internal audit to have an impact in an area clearly linked to the achievement of organisational objectives. To be most effective in this area, auditors will need to have a good understanding of the financial framework in which their organisation operates. In public bodies, particularly local government, this can be complex, involving government grants, local taxation, rental income, investment income, fees and charges and its own capital management. The auditor will also need to understand how macro trends will impact on the organisation; for example, demographics, inflation, interest rates, national and local economic growth and technological innovation may all be relevant. Changes to government policy can also impact directly on public bodies' plans, so their internal auditors need to keep up to date with the wider policy agenda.

Going beyond assurance

Internal auditors provide a range of services as well as assurance

We have not asked internal auditors or their clients to provide an overview of their current internal audit plan and its priorities but did ask for feedback on the internal audit approach, engagement and particular tools or activities.

The responses to a question on how internal audit currently contributes to an organisation reflect a somewhat traditional view of internal audit activity. Unsurprisingly, independent and objective assurance is the highest-ranking response. Other activities that would perhaps be expected in a high-functioning internal audit team such as providing advice, helping to understand the root cause of weaknesses and audit coverage relating to major change receive a much lower ranking and may reflect that internal audit could have more of an impact in delivering its core role and current assurance plans.

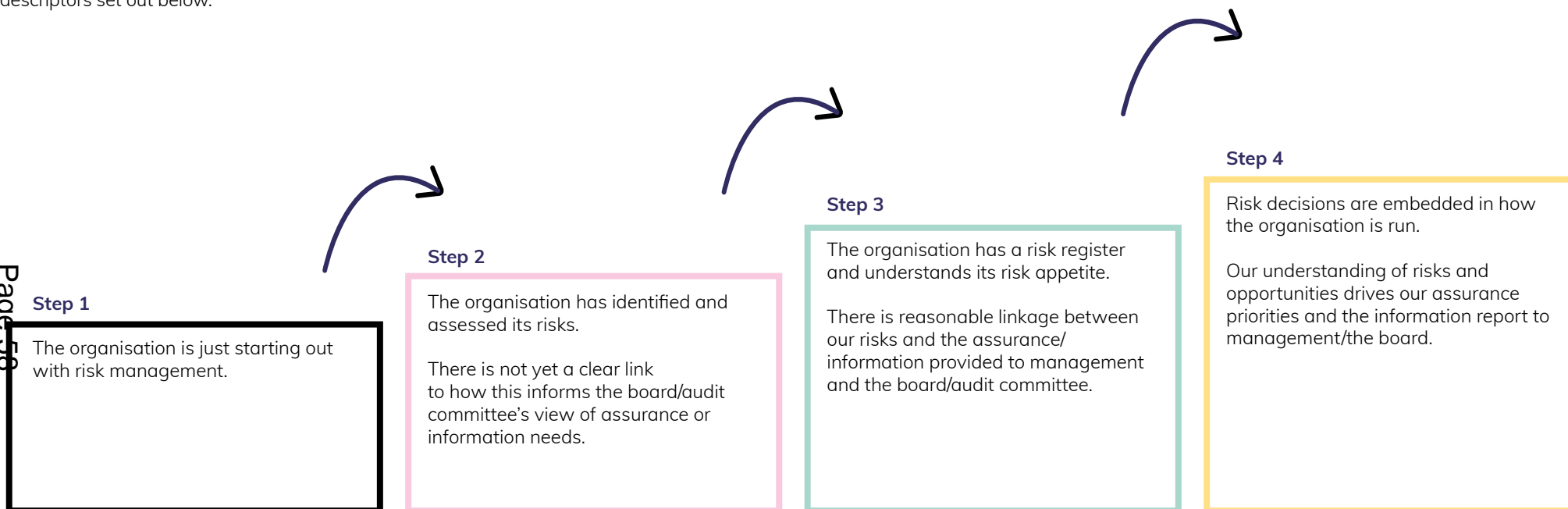


Respondents' views on how internal audit currently contributes to the organisation.

Supporting improved risk maturity

There are several different models of risk maturity available. We set out a simple, four-scale descriptive framework and asked respondents to share their view of their organisation's current risk maturity, with maturity increasing from left to right on the descriptors set out below.

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We can see a difference between the views of heads of internal audit, management and audit committees. Overall, management and audit committee members considered that their risk management arrangements were more mature than the view of internal auditors.

The results from both auditors and clients indicate that there is scope to improve arrangements for managing risk in public sector bodies. Thirty-one percent of respondents believe that the impact of internal audit would be enhanced if there was greater support to help the organisation understand risk and its risk maturity – areas where there is scope for internal audit to bring its advisory role to bear.

Recommendation:

Leadership teams and audit committees should strengthen their risk management arrangements. Internal audit’s annual opinion on risk management should provide clarity over aspects for improvement and identify opportunities for support.

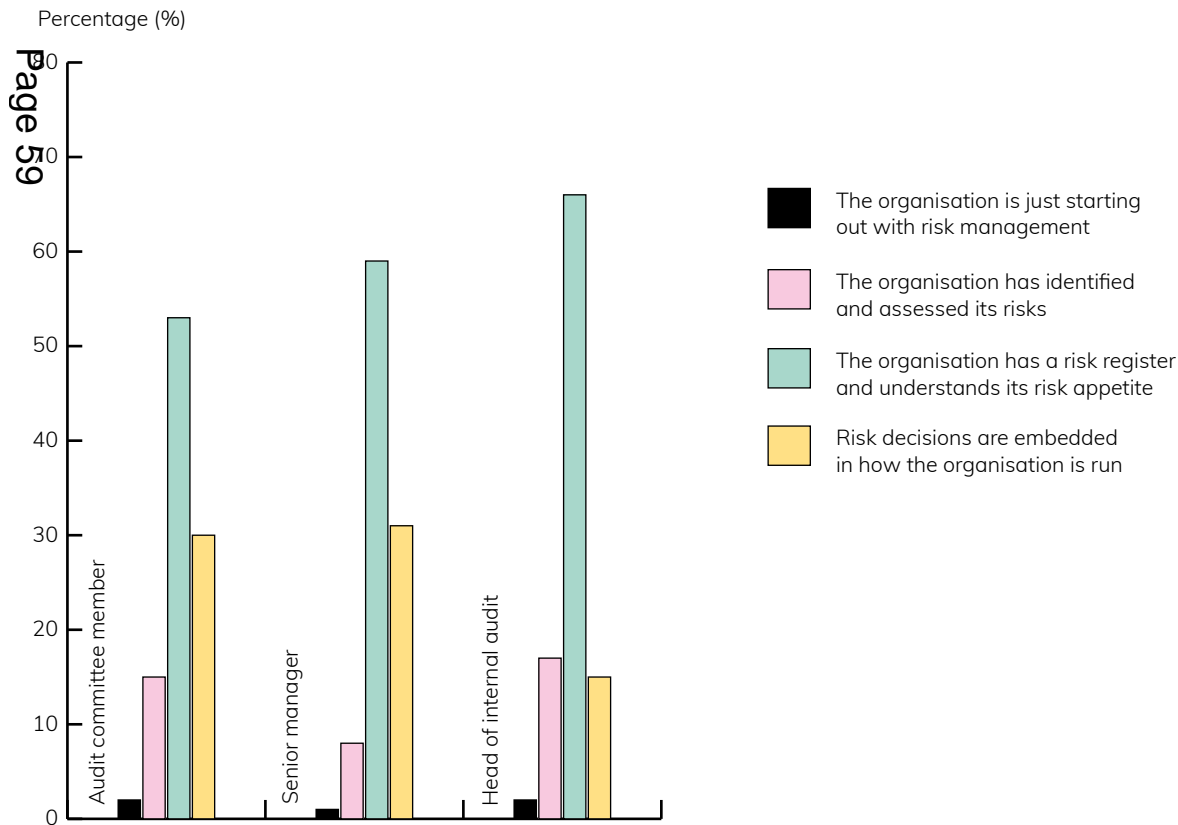
Sharing best practice

On the theme of value, clients’ perceptions of quality were influenced by the ability of internal audit to share ideas and good practice across departments or from other organisations. Such insight was found to be useful and added value to the internal audit process.

Fourteen percent of respondents said that internal audit currently contributes to the organisation’s success and delivery of strategic priorities by sharing good practice and/or comparisons with other organisations. A further 19% of respondents identified this as a future priority for internal audit.

Our internal audit service is able to provide comparisons and informal insights from other blue light organisations. This helps the audit committee gauge its response, particularly regarding systemic issues.

Jonathan Swan, Chair of the Joint Audit Committee for the Essex Police, Fire and Crime Commissioner and Essex Police



Respondents’ views on risk maturity (by role).

Data analysis

The impact of internal audit comes not only from the nature of topics on which it focuses, but also the tools used. Many internal audit teams are using some form of data analytics, including spreadsheets, specialist analytical tools such as ACL and IDEA, and data visualisation tools such as Power BI and Tableau.

Where data analytics are not already being used by the internal audit function, 68% of internal auditors and 40% of clients think that adding analytics to the audit toolkit would be beneficial.

Respondents were aware that internal auditors are seeking to use analytics and to upskill team members, but also reflected barriers such as multiple legacy systems and challenges to accessing the organisation's data.

Page 60
During 2021, we recruited at trainee level and had a tremendous response in the number of applicants. One of the lessons learnt from the recruitment process is the number of potential recruits with significant data analytics experience.

In subsequent processes, this will be an area that we specifically highlight in the job adverts to further increase the talents required for the service moving forward.

Jonathan Idle, Head of Internal Audit, Kent County Council

The consulting role of internal audit

The definition of internal auditing recognises that internal audit has both an assurance and consulting role.

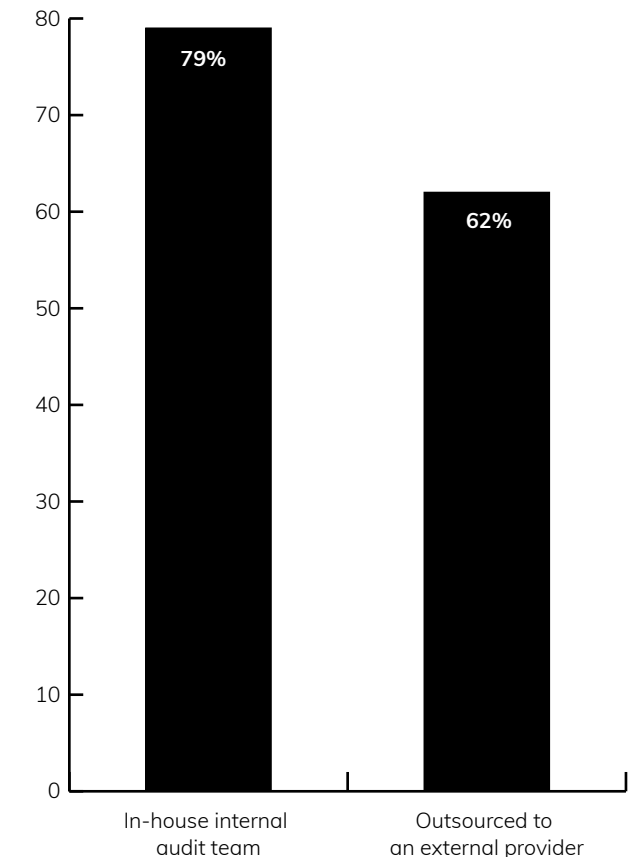
Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management,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

International Standards for the Professional Practice of Internal Auditing/PSIAS

Eighty-six percent of respondents stated that internal audit delivered advisory or consulting work or provided ad hoc advice to the organisation. Notably, stakeholders appear less aware of this, with just 59% of audit committee respondents confirming this role compared with 73% of management and 95% of heads of internal audit. However, only 24% of respondents saw the advisory role as a current priority in terms of best describing how internal audit contributes to the success of the organisation.

When responses about advisory work are compared by the internal audit resourcing model, more respondents with in-house internal audit agreed that their internal audit service provided advisory assignments or advice on new developments. The response regarding in-house teams using co-sourced arrangements reflected a similar response to in-house teams that did not use co-sourcing.

Percentage (%)



Respondents who stated that internal audit provided advisory work or advice on new systems and developments.

Our roundtable discussions with a range of internal auditors and stakeholders reflected a varied understanding of the advisory role of internal audit. Some stakeholders – audit committee members in particular – voiced their concern that internal audit undertaking consulting work can impair its independence and objectivity when it needs to later provide assurance in that same area.

Internal audit consulting input may not always be a standalone assignment; for many internal audit teams, a core element of their advisory role is to attend project or steering groups to act as a critical friend. It is key that internal auditors should not have a decision-making role at any such meeting; however, being present enables internal audit to be aware of progress and make decisions to determine how it can best respond to support the organisation (including planning, real-time assurance or being able to ask questions to check that decisions made are well thought through). Internal audit will also seek to ensure good governance, with risk management and control built into any new development, control framework or scheme.

I have found that sitting on various programme and change boards has helped the organisation better understand how internal audit can support programmes. We are now invited in by programme teams rather than having to assert our right to provide assurance or advice.

A recent example is the new case management system. The programme board asked for internal audit input during the development phase. We are able to provide challenge on how the new system meets the needs of the organisation, whether previous audit findings have been addressed, and test the proposed control framework early enough to make a difference.

Paula Mills, Head of Governance and Assurance, Basildon Borough Council

What is holding
internal audit
back?

The challenges set out in the following pages are faced by many public sector organisations. That is not to say that these are faced by all, or that internal audit teams, senior management or audit committees are not seeking solutions or taking action. There are also variations across different parts of the public sector and differing views between internal auditors and their clients.

The obstacles noted will be interdependent for some organisations; it is likely that internal audit functions with a low profile will also be less likely to argue the need for more resource or enhanced training. Similarly, an organisation that is not yet risk mature may be less likely to seek assurance on strategic priorities.

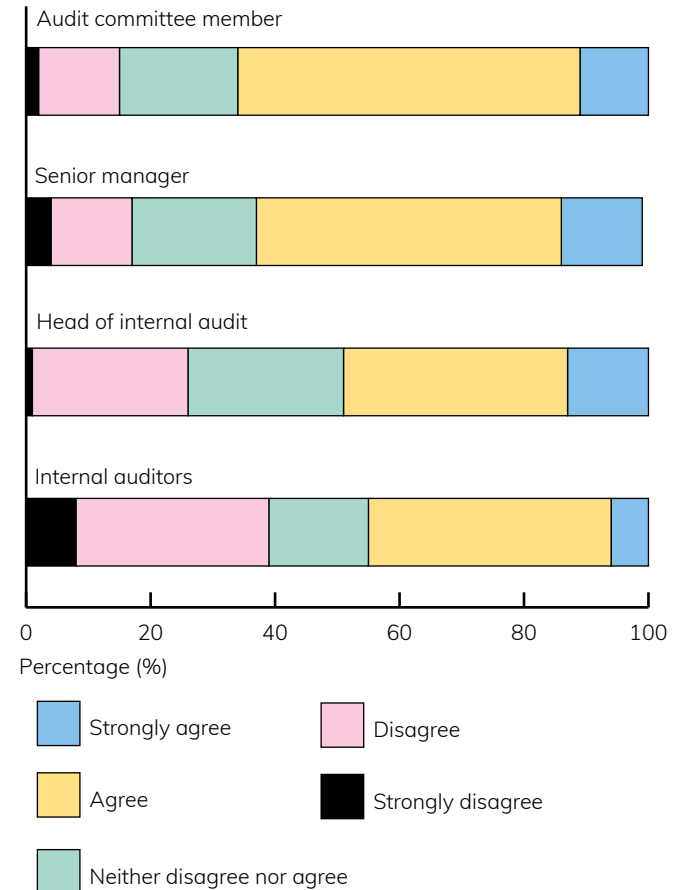
Resourcing

Capacity of internal audit

The level of internal audit resourcing is often a difficult one. How much assurance is sufficient? What other assurances exist? What skills and experience are needed to deliver the required assurance? Internal audit functions, alongside those in other departments, have seen headcount reductions over the past decade.

In our 2021 survey, CIPFA asked clients and internal auditors for their views on internal audit resourcing. When asked specifically about the resource capacity of internal audit, there is a difference in views between groups of respondents, with clients more positive than internal auditors on the current capacity of the internal audit service to provide the service the organisation requires.

Forty-three percent of internal auditors said that increasing the capacity of internal audit was a priority for improving its impact and effectiveness. Less than 30% of clients agreed this was a priority. However, a related question (see right) on whether internal audit has the resource capacity to provide the service the organisation requires indicated a higher percentage of clients recognising capacity constraints



Internal audit has the resources (capacity) to provide the service the organisation requires. View based on role of respondent.

Balancing resource

Resourcing was a topic of discussion at our roundtable events, with several heads of internal audit noting that there can be a difference between the levels of assurance an organisation requires (client appetite for assurance) and the levels of assurance an organisation needs. Many commented on the need for more resources in comments within their survey responses, together with the challenges in ensuring there are sufficiently experienced auditors to complete more complex work as well as provide coaching and support to trainees. A change in the skills and experience of the internal audit team was also seen as a route to being able to provide real-time assurance and to innovate, with some respondents welcoming trainees but noting a reduced ability to address strategic issues when a team is reliant on new entrants.

In its 2019 report on local authority governance, the National Audit Office (NAO) identified that there was a decrease of 24.2% in real-term spending on corporate support services by local authorities from 2010/11 to 2017/18. Internal audit has faced similar levels of budget reduction, and the trend has continued. Other parts of the public services have also faced resource pressures.

The capacity of internal audit functions in local government has decreased significantly at a time when the challenges and risks facing the sector have increased massively.

Local government survey respondent

Skills, experience and internal audit approaches

It may be that for many organisations, the overall budget for internal audit – and therefore the quantum of audit days – is in the gift of the leadership team, but how that budget is used and the skills available to deliver the internal audit plan are the responsibility of the head of internal audit or internal audit provider.

Views on skills and experience are notably more positive than views on resource capacity across all groups of respondents.



Internal audit has the skills and experience to provide the service the organisation requires. View based on role of respondent.

We also asked respondents if any tools or approaches were not currently used by their internal audit function that would be beneficial. Use of analytics within the internal audit approach significantly outweighed other tools and approaches. As with other skills and experience, this will require investment in the internal audit team to develop analytical skills, provide the right tools and embed analytics into the internal audit approach.

In addition to greater integration of analytics, survey respondents identified the following approaches as being of benefit to their internal audit function.

Real-time assurance

- Sharing insight on good practice or comparisons with other organisations
- Assurance or advice on major change
- Identifying opportunities or efficiencies as well as control weaknesses or risks
- Sharing information on emerging risks and issues that could impact the organisation.

Internal auditors and their stakeholders recognise the fast pace of change, and that internal audit needs to keep ahead to best support the organisation. This results in the need for internal audit to:

- provide assurance on emerging issues and areas of change or transformation
- be equipped to play a constructive yet independent advisory role
- respond to the pace of change by providing real-time assurance
- understand and adopt new technologies
- maintain the ability to provide a core assurance on business-as-usual risks and operations.

This does not mean that internal auditors need to be experts in every topic, but that the wider team has appropriate analytical, critical thinking, communication and risk-based auditing skills to be able to approach those topics. The role of internal audit could also be to understand other assurance that's available and any potential gaps in assurance. This assists the head of internal audit in developing the internal audit plan, but also management and the audit committee when considering the quantum of assurance and any additional assurance required. For example, while cyber risk was an area that nearly two thirds of respondents identified as an area where assurance will be required, this does not mean that internal audit will have the in-depth subject matter expertise of cyber specialists.

From our research, CIPFA has concluded that internal auditors are agreeing plans for which they have the skills to deliver. Under internal auditing standards, internal auditors should not undertake work that the function does not have the skills or experience for. However, it is recognised that the assurance needs of organisations are changing and that internal audit must be able to respond to this. Internal audit needs to be ahead of the organisation to help it understand its risks and to plan focused assurance on emerging issues, transformation and strategic objectives, and therefore there is pressure on internal audit to progress, evolve and address new areas, as discussed later in this report.

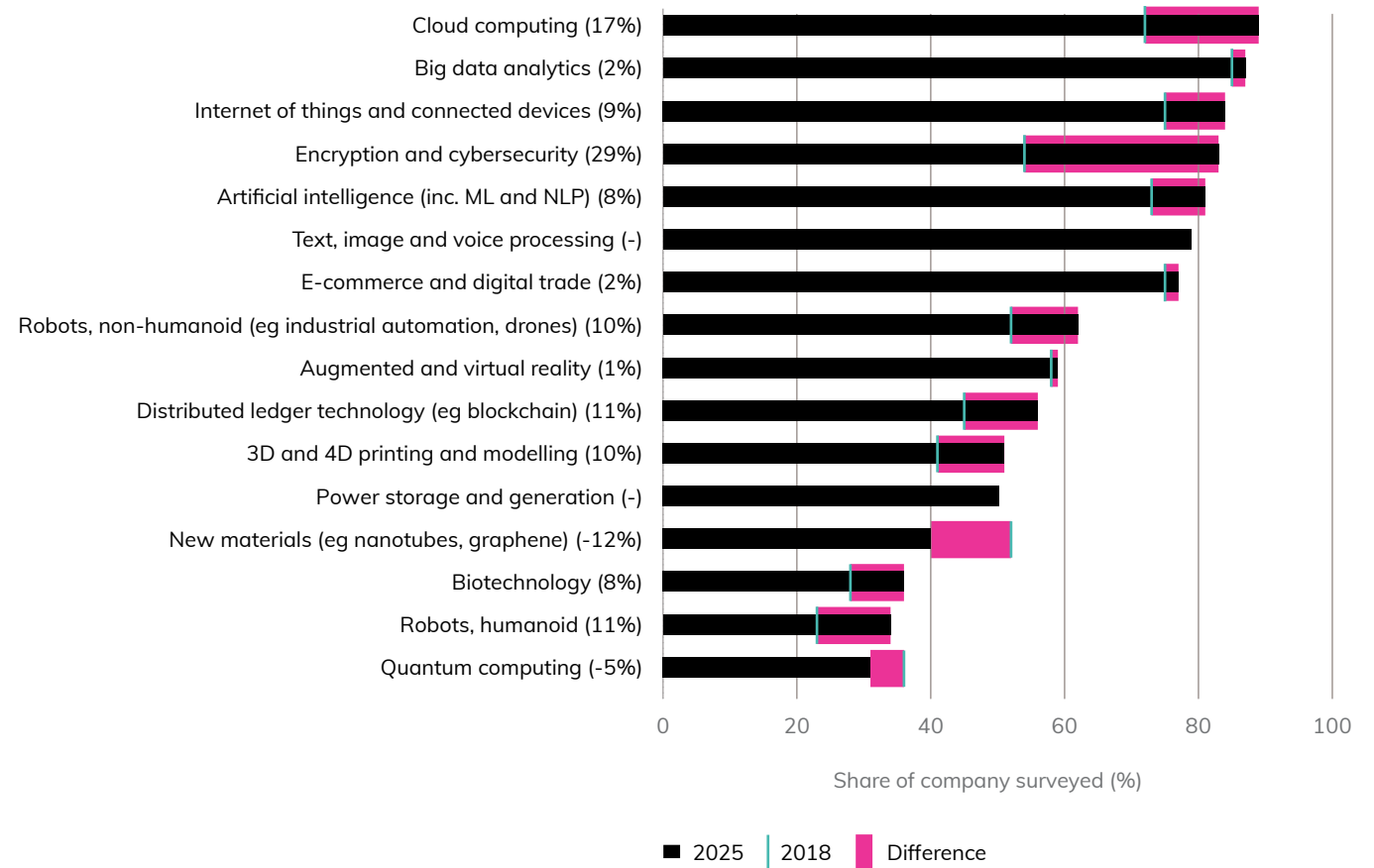
We need to be realistic about the skills we expect from internal audit. Our subject matter expertise is auditing; we cannot expect to be subject matter experts in every topic we audit. Internal audit teams need core skills that include risk-based internal auditing that can be applied to any topic, financial literacy, technological capability and data literacy.

Stan Farmer, Chief Auditor, The Open University

The wider economic view of skills and roles required

In its 2020 report on the future of jobs, the World Economic Forum (WEF) noted the technologies that companies thought were likely to be adopted by 2025, reflecting the need for internal auditors to keep pace with the use of data and digitisation in their organisations.

The same report notes that there is an expected demand for data analysts and data scientists, machine learning specialists and big data specialists. This reflects the suggestions for future coverage by internal audit as seen earlier in this report, indicating the ever-growing use of data and technology and the corresponding need for assurance providers to be able to work with data.



Technologies likely to be adopted by 2025 (by share of companies surveyed).

Source: [The Future of Jobs Report 2020](#) (World Economic Forum).

Attracting recruits to the profession in the public services

Another factor holding internal audit back is the challenge of recruitment and retaining the right skills within the internal audit function. While views on levels of resources and how those resources are used varied across respondents and those participating in roundtable discussions, one theme was common in discussions and interviews: the challenge of attracting and retaining quality internal auditors.

We need internal audit to be seen as a valuable career route for the benefit of the profession and the organisations in which we audit.

Glen Bissett, Senior Financial Auditor, Scottish Prison Service

Survey respondents shared insights into the challenges of recruiting to the internal audit function and the ability to match the nature of internal audit coverage with appropriate skills and resources. There was also feedback that some small internal audit teams are only able to deliver a basic assurance plan covering the bare minimum, which can impact the desirability of a role within that function, leading to challenges in recruiting or retaining the right staff.

Based on our research, CIPFA's view is that there are four key factors impairing internal audit's capacity and ability to recruit, retain or procure the required skills.

Key factors impacting internal audit's capacity and ability to procure and retain the required skills

1 Continuing development of the internal audit team

- Lack of funding to improve knowledge and skills, which can impair internal audit's ability to build skills in emerging areas such as analytics.
- Training budgets are often the first to be cut.
- Challenges in arranging secondments or guest auditors to augment the skill set of the existing internal audit team. Obstacles exist around the desirability of such opportunities or the capacity of other departments to release staff to internal audit.

2 Attracting people to the audit profession

- The need for more apprentices and school and university leavers to join the internal audit profession (and indeed the external audit profession).
- Consideration of how internal audit can be part of a wider career path, so that internal audit skills are seen as a beneficial experience for other roles and internal audit teams can benefit from specialist knowledge other than internal auditing.
- Training and qualifications for internal auditors need to reflect the skills that the auditors of tomorrow will require.
- Concerns that in some parts of the public sector, there may be a disparity between pay/grading for internal auditors compared with their peers in accountancy roles.

3 Culture

- Lack of recognition of the advisory or consulting capability of internal audit can impact the morale and retention rates in the internal audit team.
- Some internal audit teams are looking to strengthen skills in particular areas where the organisation is perceived to be weak (implying there was an expectation that upskilling internal audit teams would help compensate for lack of skills in the wider organisation).
- The need for management to address the findings from internal audit reports.
- The varied profile of internal audit within organisations. For some, this can impede internal audit's access to top management.
- Some organisations have a culture of tolerating internal audit rather than using and seeking internal audit and assurance.

4 Behaviours and soft skills

- Internal audit functions need the right behaviours and softer skills as well as technical competencies, including strategic thinking, and the ability to work proactively, flexibly and at pace.

Recent and forthcoming action:

CIPFA recently updated the syllabus for its Professional Accountancy Qualification, which contains greater content that will be relevant to internal auditors compared with previous iterations. The qualification is also available as a Level 7 apprenticeship.

Future plans:

- CIPFA and the CIIA have agreed to work together to raise the profile of the profession in the public sector.
- CIPFA and the CIIA will support the profession in the public services through encouraging different routes into the profession. The institutes will undertake research on career paths and routes into internal audit to help develop sustainable teams, including for guest auditors or professionals who join internal audit later in their career. This should also help raise the awareness of internal audit, its benefits and its purpose.

Recommendations:

- Organisations should ensure that the responsibilities of internal auditors are recognised – for example, the need to engage at a senior level and have access to commercial and sensitive information. This may warrant a review of role or pay/grading structure and should recognise the unique role of internal auditing rather than simply reflecting line management responsibilities and comparisons with accounting colleagues.
- To build sustainable career paths for internal auditors, heads of internal audit, senior management and audit committees should recognise opportunities for models such as secondments, guest auditors and rotational programmes to support internal audit's skills needs. Rotation of staff within the organisation could also help to build awareness of the benefits and the purpose of internal audit.
- Internal audit functions should develop not only a plan of the audit work they will undertake, but also a strategy for their function's development and how it will flex to meet the future needs of the organisation. This is likely to include the nature of the work, the tools and skills required to undertake it and resources. This should be agreed with top management and the audit committee and progress reported on as part of the quality and improvement programme of the function.
- Where an individual manages the internal audit team and delivers the responsibilities of the chief audit executive as set out in PSIAS, the responsibility of the head of internal audit should be recognised in terms of job title, ability to present to senior management committees and meetings, and access to the most senior personnel.

The majority of our training budget goes to support our trainees. Experienced internal auditors get very little targeted or personalised training or development.

Internal Audit Manager, the public sector

Selecting the right model of internal audit

Internal auditing standards apply to any internal audit service, regardless of the model employed, but do not mandate the model that should be used. There are several different models of internal audit service.

- In-house – the internal audit service is provided by a team of people who are employees of the organisation.

Outsourced – the internal audit service is provided by a team of people who are not employees of the organisation. This may be through a shared service, a formal commercial contract or another partnership arrangement.

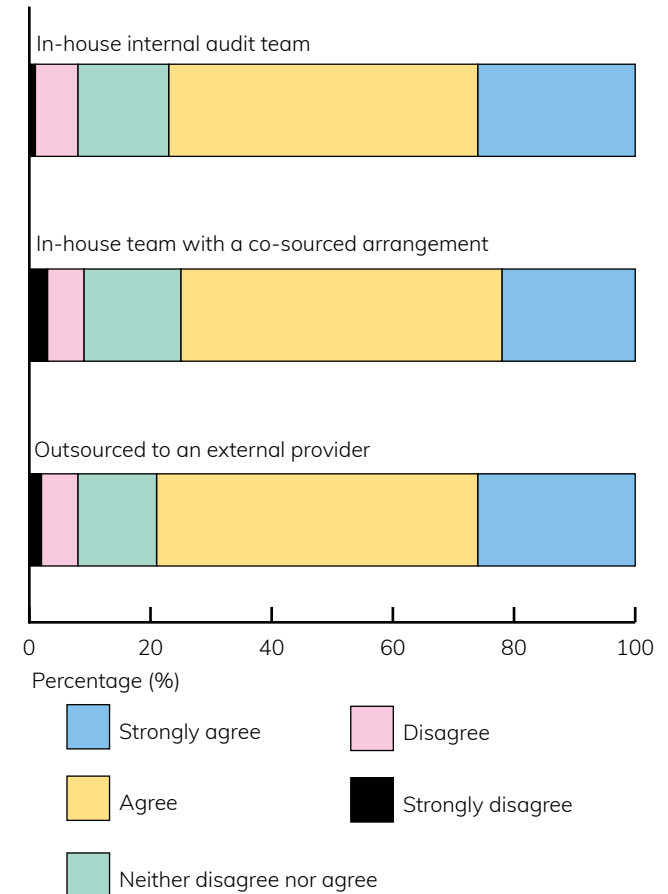
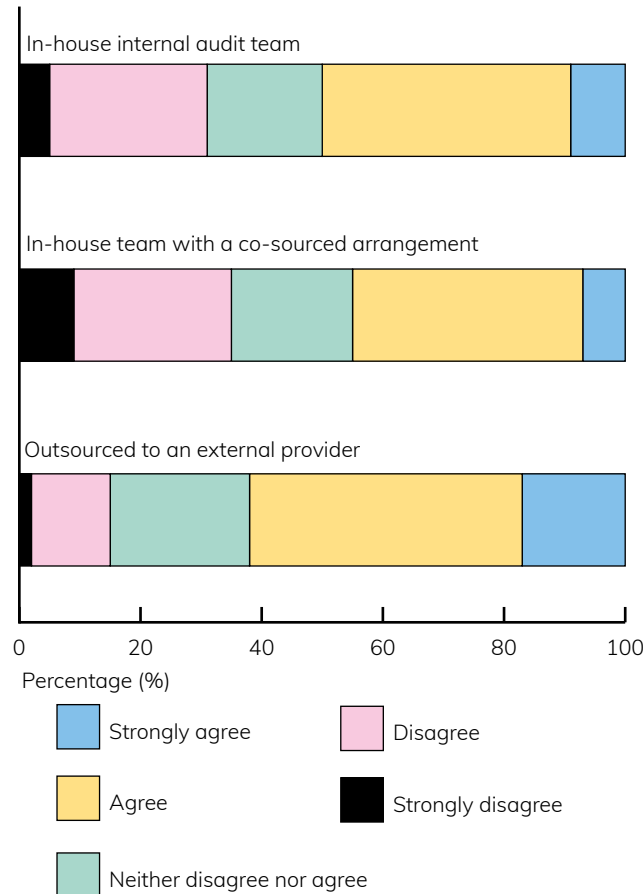
- Co-sourced – an in-house internal audit service that secures some of its resource from external parties. This may be on an ad hoc basis or a formal partnering contract or arrangement. This is often a model used by in-house teams to procure particular expertise or skills to augment the existing team.

Our survey did not demonstrate that one model has clear strengths or weaknesses above the others. There were, however, some individuals with strong preferences for a particular model of delivery.

Our survey respondents reported that outsourced services have greater capacity, but there was little difference in views on the skills and capability across different models. As noted earlier, survey responses reflected a greater perception of advisory work from in-house internal audit teams compared with outsourced services.

When comparing views on the available resources based on the model of internal audit, an outsourced service has stronger capacity. Given these responses come from individuals who provide such a service or have likely been involved in procuring that service, this may not be surprising,

given most tenders are based on a view on the overall quantum of resource to be delivered, and therefore, in effect, are an agreement on the level of assurance that the organisation will receive.



All models can be made to work, but the organisation must be mindful of what it needs to do to make its chosen model work. When selecting a model, the focus should be on what assurance is needed to facilitate informed prioritisation of coverage and the skills and quantum of assurance, not what assurance can be afforded in the allocated budget. Organisations that have a good understanding of their assurance requirements and priorities will be better placed to make an informed decision about the nature of internal audit required and the best way to deliver that.

Although there are three broad models – in-house, co-sourced and outsourced – some shared service and audit partnership models try to operate in a similar way to in-house teams, for example by basing a permanent team within an organisation, supplemented with flexibility and support.

This table below sets out broad advantages and disadvantages of in-house and outsourced models. The exact operational arrangement may, in practice, bridge both models.

Advantages	Disadvantages
In-house internal audit	
Better knowledge of the organisation and people within it.	Many internal audit teams are facing challenges in recruiting quality candidates with the skills required.
Easier to build effective working relationships with a constant presence.	The smaller the audit team, the more challenging it will be to have all the skills required within that team.
An effective internal audit department can be used as a secondment to support management development programmes.	The risk of long-tenured team members may lead to impaired objectivity and innovation.
Regular liaison with other internal assurance functions and management.	Small internal audit teams in particular may find it difficult to provide succession and promotion opportunities.
Some heads of internal audit have a role in the management team and are therefore present for discussions on emerging issues and determining how internal audit can best support the organisation as priorities change.	Unplanned absences can delay the internal audit plan and impact service delivery.
If the internal audit budget allows for consultancy/advice, this can be provided as part of a budgeted cost rather than an additional fee.	

Advantages	Disadvantages
Outsourced internal audit	
<p>Able to share good practice and lessons learned observed in other organisations.</p> <p>Able to provide benchmarking or comparative data from similar organisations.</p> <p>More options and flexibility to provide staff or subject matter expertise.</p> <p>A shared service model could allow for staff to be based predominantly with one client and therefore to build knowledge of the organisation.</p>	<p>Lack of clarity over responsibility and accountability for internal audit and assurance.</p> <p>There may be reluctance to provide formal assurance opinions on certain topics.</p> <p>The risk that management will not perceive their responsibility for maintaining an effective internal audit function.</p> <p>The organisation may not engage as effectively with an external provider.</p> <p>Lack of organisational knowledge, including of the culture of the organisation.</p> <p>A contract manager or key contact is still required to ensure effective liaison between the organisation and the internal audit provider.</p> <p>The risk of high staff rotation leading to lack of familiarity with the organisation.</p> <p>A focus on price rather than quality when contracting for an outsourced service may prohibit extensive input from senior staff or specialists.</p>

A co-sourced internal audit service is one with an in-house team that also has an arrangement to draw on resources from an external provider. In many ways, this helps the internal audit service reap the benefits from both the in-house and outsourced models; in particular, a co-sourced arrangement provides access to additional staff and subject matter expertise. Intelligent procurers of co-sourced services will also seek to ensure skills and knowledge transfer between the external and internal teams, and to obtain to share insights and experience from the co-sourced partner's wider client base.

Managing internal audit independence

Independence and objectivity are essential to effective internal audit. Some of the barriers discussed below may be factors of perception, which can then impair stakeholders' views on the quality of internal audit.

Roles beyond internal audit

Fifty percent of the heads of internal audit who responded to the survey have other responsibilities as well as leading the internal audit function. This figure rises to 60% in local government.

Of the additional responsibilities that heads of internal audit have, the most common were:

risk manager
head of counter fraud
governance.

There was also a range of additional roles for heads of internal audit who have a clear second-line function, such as business continuity, health and safety, insurance and data protection. Internal auditing standards provide guidance on how such additional roles should be managed and risks to independence and objectivity communicated.

It was surprising to find some heads of internal audit state they had responsibilities for operational areas such as procurement, council tax or debtors, meaning those heads of internal audit would have to find other approaches to providing assurance on those areas rather than providing the assurance themselves.

Chief audit executive roles beyond internal auditing

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

Interpretation:

The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organisational independence of the internal audit activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.

Extract from the International Standards for the Professional Practice of Internal Auditing and the PSIAS

Recommendation:

Organisations should minimise or avoid passing on additional roles to the head of internal audit. Where heads do have roles beyond internal auditing, there must be adequate safeguards in place to preserve independence in accordance with the standards. For example, a budget should be provided to fund the commissioning of internal audit assurance in those areas that come under the responsibility of the head.

One concern flagged by clients was that internal auditors may impair their independence by undertaking advisory or consulting work. The consulting role of internal audit is set out within PSIAS, as are a number of safeguards. The head of internal audit must take a balanced view on priorities that can be delivered with the available skills and resource, and for some internal audit teams, this may preclude significant amounts of advisory work. Undertaking advisory work can also mean that internal audit cannot provide formal assurance around that area. Internal auditing standards state that internal audit can provide assurance where it has previously provided consulting services, provided the nature of the consulting input does not impair objectivity and steps are taken to manage individual objectivity when assigning team members to the audit – something that will be easier to manage for larger internal audit functions.

However, many internal auditors undertake advisory work below the radar, such as sitting on project or steering groups as an observer or critical friend. There is a need for internal auditors to communicate more, not only about these activities but also the benefits they bring to the organisation.

A third factor was also present in concerns about internal audit independence and objectivity: the fact that some internal auditors have been in post for many years. In its Internal Audit Code of Practice, the CIIA recommends:

“Where the tenure of the chief internal auditor exceeds seven years, the audit committee should explicitly discuss annually the chair’s assessment of the chief internal auditor’s independence and objectivity”.

This does not mean that long-serving heads of internal audit lack independence or objectivity, but that the audit committee should have greater understanding of the risk of over-familiarity and actions to mitigate that risk. This code does not apply to the public sector but will be relevant to third sector and not-for-profit organisations aligned with the public services.

Internal audit reporting lines

When commenting on organisational independence, both global internal auditing standards and PSIAS state that the head of internal audit “must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities”. The standards go on to explain the nature of internal audit’s relationship and interactions with the board² (and/or audit committee). The PSIAS go further, setting out an explicit expectation about access to the chief executive and chair of the audit committee.

The chief audit executive³ must report functionally to the board. The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive and the chair of the audit committee.

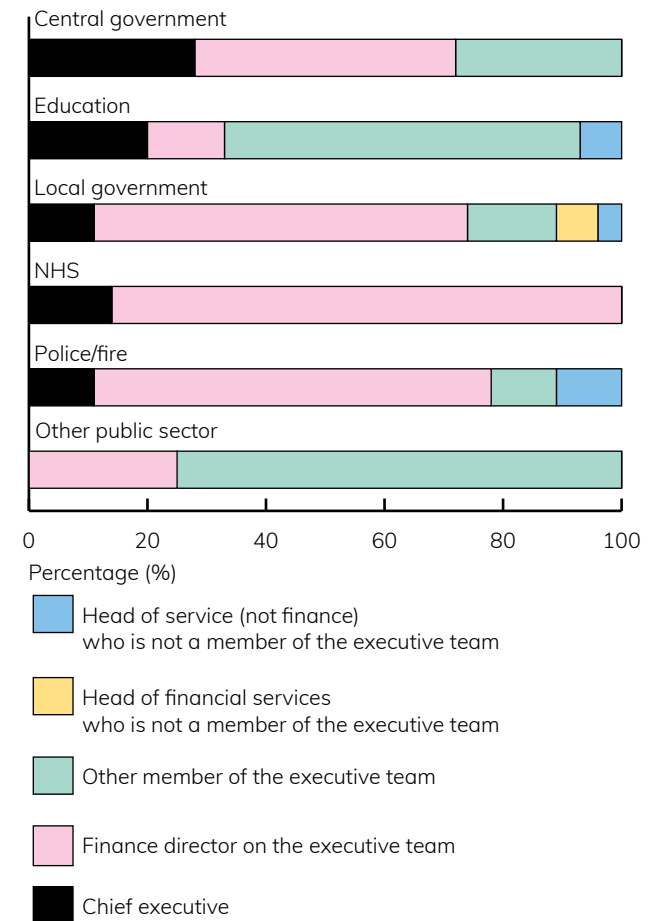
Public Sector Internal Audit Standards

We asked heads of internal audit about their functional and administrative reporting lines. It is recognised that many heads of internal audit in effect have two reporting lines: one within the management structure and one to the audit committee.

² Internal auditing standards recognise that for most organisations, this role will be discharged by the audit committee on behalf of the board.
³ Internal auditing standards use the phrase ‘chief audit executive’ for the person who leads the internal audit function. In many UK public sector organisations, this role will be known as the head of internal audit, chief internal auditor or similar.

Reporting lines within the management structure

The traditional internal audit reporting line to the chief financial officer remains a common model. As shown below, there are significant differences in typical internal audit reporting lines across sectors:



Analysis of reporting lines by sector.

We noted in roundtable discussions and survey responses that there remains a perception that internal audit in local government must report to the section 151 officer. As the NAO reiterated in its 2019 report on local authority governance, the legal responsibility for maintaining the system of internal control, including arrangements for the management of risk and an effective internal audit, lies with the elected council members, and therefore responsibility no longer rests solely with the section 151 officer. Comments were also made that for some local government and policing organisations, it was perceived that section 151 officers benefitted more from internal audit and that there should be clear emphasis on internal audit being for the wider organisation and not solely focused on financial control. This also reflects the various views we heard from management on their expectations from internal audit, ranging from an appetite for assurance on core systems only through to managers who were actively seeking greater engagement and focus on wider strategic risks and priorities.

Our analysis showed no apparent correlation between reporting lines and whether the internal audit service was provided in-house or through an outsourced provider.

... while the section 151 or similar legislative provisions require the authority to appoint a suitably qualified officer responsible for the proper administration of its affairs, responsibility for proper financial administration still rests ultimately with elected members. The local authority itself has a statutory responsibility for maintaining a system of internal control including the management of risk, an effective internal audit and preparing annual accounts.

Extract from CIPFA's Financial Management Code

CIPFA's guidance on the role of the head of internal audit says that heads of internal audit must report functionally to a member of the leadership team. In total, 9% of heads of internal audit told us that they do not have a reporting line into the chief executive or a member of the executive team. This could mean that the leadership team lacks understanding of the role of internal audit and the audit team lacks engagement with its principal client.

Reporting line to the audit committee

Eighty-six percent of heads of internal audit confirmed that they have a formal reporting line to the chair of the audit committee, meaning 14% do not have this formal reporting line. This could mean that the head of internal audit's ability to report independently to the audit committee is compromised.

Recommendation:

As a minimum, the head of internal audit should report to a member of the executive team for administration purposes and also have a reporting line to the chair of the audit committee.

Audit committees

Low expectations by audit committees are another factor in holding back internal audit from fulfilling its potential. This is in part due to the weakness of some audit committees in some public bodies.

Role and oversight

The role of the audit committee is vital in setting the expectation within the governance structure for risk-based assurance on strategic priorities. It is also key, alongside senior management, in setting the expectations for internal audit's performance.

One third of respondents to our survey were ambivalent or negative about their audit committee providing robust oversight, although 95% of heads of internal audit said they felt the audit committee listened to them.

CIPFA's own research on audit committees in local government has identified that while committees are supportive of the work of internal audit, they are less effective in providing professional oversight and providing challenge.⁴ This was mirrored by some survey respondents who commented that management needs to be better at responding to internal audit recommendations and that the audit committee has a role to ensure action is taken.

Some audit committee chairs and heads of internal audit have regular meetings, and discussions between meetings, along with private sessions between the audit committee and head of internal audit before or after committee meetings.

⁴ CIPFA survey of audit committees in local authorities and police (2016).

However, this relationship is not in place for all. Some audit committee chairs have had to push for private meetings to be included in the committee's terms of reference.

Recommendation:

There should be regular private meetings between the audit committee and the head of internal audit with no management present. If such meetings are diarised, this avoids either party having to ask for such a meeting to be arranged before/after a planned committee meeting, which can create an expectation that significant issues need to be discussed. Such meetings should not prevent there being open and regular communication between the head of internal audit and audit committee chair throughout the year and between committee meetings.

Independent audit committee members

Another factor raised at roundtable discussions was the potential for political bias at local authority audit committees and the appointment of independent members to those committees.

In 2019, the NAO emphasised the benefit of independent audit committee members, in particular as chair of the committee. The 2020 [Redmond Review](#) noted that 56% of local authorities had no independent member on the audit committee. One of the recommendations from the Redmond Review was that the governance arrangements within local authorities be reviewed by local councils to consider appointing at least one suitably qualified, independent member to the audit committee.

It is noteworthy that several local government participants in our roundtable discussions commented on the audit committee being perceived as a low-status committee role in some authorities. Local government respondents were the least positive regarding the effectiveness of audit committees. While some committees in this sector are clearly high performing, others were described in survey responses as ineffective, with members who were not engaged or interested.

While Redmond's recommendation focused on encouraging the appointment of at least one co-opted independent member, there has been considerable activity since. A working group of the Local Audit Monitoring Board (a board commissioned by the Department for Levelling Up, Housing and Communities (DLUHC)) was set up to look at this recommendation, among others.

New guidance:

[CIPFA published strengthened guidance on audit committees in April 2022.](#)

The Position Statement emphasises the role that audit committees should have in the oversight of internal audit and ensuring accounts are prepared to a high standard, alongside broader changes including the appointment of independent members.

In Wales, there has been a requirement since 2011 to have at least one lay member on council audit committees. New legislation through the Local Government and Elections Wales Act 2021 means there should be one-third lay members and a lay member as chair.

Role of the audit committee with respect to internal audit planning

Through roundtable discussions, we noted different approaches to internal audit across different organisations. There were differing views on the role of the audit committee regarding the internal audit plan. This varied from audit committee members who considered it their role to determine what the internal audit plan should be, potentially reducing the independence of the head of internal audit in determining internal audit priorities, through to committees that agreed plans they were not fully happy with.

While the audit committee should approve the internal audit plan, the plan should ultimately be the work of the head of internal audit setting out their independent view of the assurance priorities for the organisation. The plan should be developed according to the strategic priorities and risks of the organisation, and by consulting key stakeholders such as management and the audit committee. While the audit committee will be asked to approve the plan and may request additional topics or challenge why certain areas are flagged as priorities, the plan should remain a reflection of the head of internal audit's view of the organisation's assurance needs. It should also reflect how internal audit can help address those assurance requirements.

The chief audit executive must report functionally to the board. The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

Public sector requirement from PSIAS

If we are looking for rigour and added value, we can't have peer reviews for our internal audit external quality assessment.

If organisations are not prepared to spend once every five years on this type of review, what does that say about how they view the importance of a quality internal audit service?

Vice Chair, of a London local authority audit committee

Assuring the audit committee on internal audit quality

The quality of internal audit must include conforming with relevant professional standards. Both the PSIAS and the International Standards include a requirement for an independent external assessment of internal audit to be undertaken at least once every five years.

Several roundtable participants had received a review or had been involved; others were aware of the requirement, but budgetary constraints prevented such an external assessment from being progressed. Several authorities, particularly in local government, have undertaken peer reviews as a route to an external assessment. Some participants were concerned that this does not add the value that a truly independent review would and may miss the opportunity to share new practices and ideas, as well as potentially being less rigorous.

Agreed action:

CIPFA and the CIIA will consider the operation of the quality assurance and improvement programme in the public services and consult with the Internal Audit Standards Advisory Board.

Lack of understanding of assurance – immature first and second lines

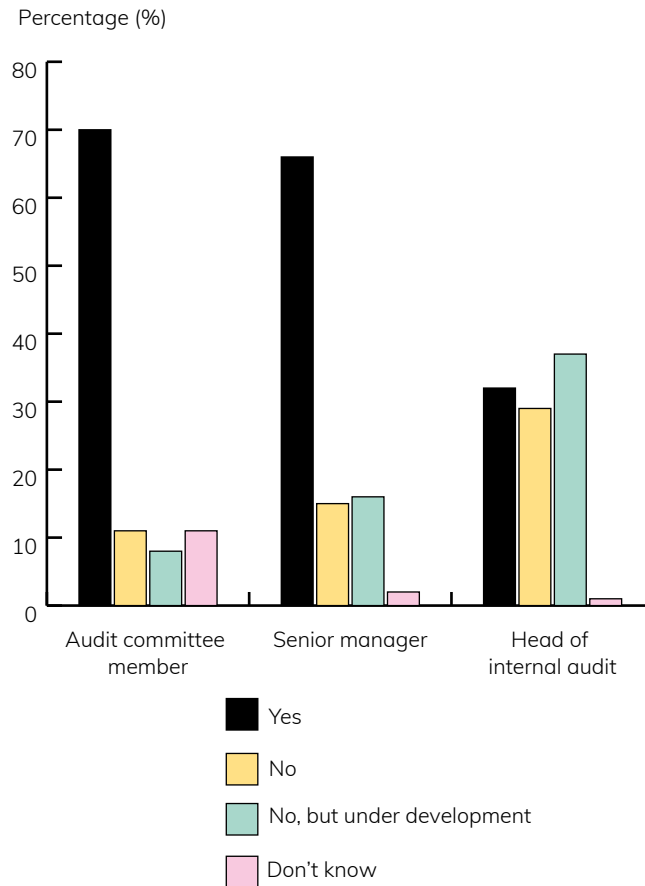
Internal audit will have the greatest impact in organisations that understand and embrace assurance. We look below at some of the organisational factors that can hold internal audit back.

A holistic view of assurance?

Assurance is a key element of the governance and risk management framework. It provides information and feedback to help management and the audit committee understand the effectiveness of the internal control framework and the robustness of risk management arrangements. The independence of assurance is also a key factor. Typically, organisations will have assurance activity within the first line (front-line activities and the role of management), the second line (functions such as risk management, compliance and health and safety), with internal audit as the most independent source of assurance referred to as the third line.

An assurance framework is a structured means of identifying and mapping the main sources of assurance in an organisation, and co-ordinating them to best effect.

Assurance frameworks, HM Treasury, 2012



Has the organisation identified how it obtains assurance across the full range of its activities (sometimes called an assurance framework or assurance map)? Responses by role.

CIPFA was keen to understand the wider culture of risk management and assurance within the public services, and therefore the context in which internal audit is provided. We asked respondents about the status of an assurance framework or similar mechanism within their organisation.

When asked if the organisation has identified how it obtains assurance across the full range of its activities, clients were significantly more positive than heads of internal audit. This may be for a number of reasons, including the understanding of what constitutes an effective assurance map, or that internal auditors may have higher expectations on the formality of such an exercise.

Of all respondents, only 48% confirmed that their organisation had identified how it obtains assurance across the full range of its activities. This is surprisingly low, given the concept of assurance maps or frameworks has been in use for over 20 years. The most positive responses came from NHS, police and fire respondents.

Sixty-four percent of respondents noted that internal auditors worked with risk colleagues to support assurance maps and identify and understand different sources of assurance.

There is a need for audit committees to have a key role in overseeing the assurance framework, with internal auditors being integral not only to delivering assurance, but in collecting information and assessing the robustness of other assurance activity to help the committee's understanding of the assurances available to the organisation. Through this approach, the audit committee acts as a sponsor alongside senior management and can help create a culture of seeking assurance, feedback and continual improvement to support risk management and decision making.

Internal auditors have a vested interest in an effective assurance framework and a robust three lines of assurance within the organisation. Twenty-five percent of respondents thought that internal audit could be more effective if other formal assurance activity in the organisation was developed (either first or second line).

Some heads of internal audit noted that where there is no second line of assurance, or where second line functions are weak, internal audit functions can end up filling that gap by providing compliance-focused assurance. This may mean less internal audit resource is available for risk-based assurance on strategic priorities.

Crucially, organisations that do not share a good understanding of their assurances across management, the audit committee and internal audit can be less confident that they have robust control arrangements in place. The lack of clarity means it is more difficult to make full and effective use of internal audit.

Working with other assurance providers

The survey considered internal audit teams' work with other assurance providers and the results showed less awareness of this area of activity among clients.

Sixty-eight percent of heads of internal audit are working with risk management colleagues to understand other assurances available to the organisation. Fifty-nine percent of clients said this was happening in their organisations.

For some organisations, there will be shared working, partnerships or joint ventures with third parties that could necessitate internal audit teams from different authorities working together. Forty-nine percent of heads of internal audit said they are working with internal audit teams from other organisations.

Recommendations:

- *Internal audit plans should set out what other assurances are available and any work internal audit has undertaken to consider the reliability/scope of those assurances. If internal audit has not undertaken any such assessment, this should also be noted. For example, the internal audit plan could include a different aspect of the second line each year to provide assurance on those functions.*
- *CIPFA will be publishing guidance on assurance frameworks in autumn 2022. While internal audit has an important part to play and significant insight to bring to the framework, the framework itself should be owned by the organisation, typically with sponsorship and oversight from the audit committee.*
- *Organisations should use CIPFA's guidance to review and improve their assurance arrangements.*

For audit committee members, an assurance map gives you a clear view of the assurance you need, and where and how that is provided. Where the second line is mature, internal audit can be freed up to focus on more strategic areas.

Clare Minchington, Chair of the Audit and Risk Assurance Committee, Government Internal Audit Agency

The impact of external audit disruption on organisations and internal audit

The assurance available to some public sector organisations has changed since the Audit Commission was abolished in 2015. The scope of input, quality and timeliness of external audit has changed. The external audit of local government and health bodies in England has experienced a period of disruption that goes beyond the impact of the COVID-19 pandemic. The problem has been most acute in local government, where audits are undertaken largely after those in health bodies are completed.

The root of the problem is the change to a market provider model, where firms compete for contracts. Although local audit clients have audit arrangements in place, firms have been unable to deliver in accordance with contract expectations. The reasons for this were examined in the [Redmond Review](#) in 2020.

Following the Redmond Review, the government is taking steps to improve the resilience of the public sector external audit market and address the report's recommendations. As of spring 2022, the local audit arrangements are still fragile and are likely to remain so for a while.

In some bodies, working relations between the external auditor and client have become strained because of these difficulties. While most bodies initially welcomed reduced audit fees, there has been frustration with delays and the reduced value that the audit process has offered. External auditors themselves report dissatisfaction with the arrangements, citing a lack of understanding of the audit process among audit committees, low fees and a lack of regard for audit findings.

Some internal auditors have reported that they have little contact with external auditors. The reduced reputation of external audit in the local government community and less interaction between the auditors also contributed to the difficulties faced by internal audit teams. Recent events, where the consequences of poor governance and poor financial management have been exposed, have created a greater understanding of the need to invest in and support internal audit alongside other aspects of corporate arrangements. The changes to the reporting on value for money introduced by the NAO from April 2020 onwards are helpful, as they create a narrative on the strength of local arrangements.

There are opportunities for internal audit to interact more with external auditors to share findings and conclusions. To make a real success of this opportunity, the local audit market needs to be more robust.

The quantum of internal audit resource and assurance

'How much assurance is enough?' is perhaps the million-dollar question, and one to which there is no simple answer. The amount of coverage varies from organisation to organisation and is informed by various factors such as the size and complexity of the organisation, appetite for assurance, and the remit of the internal audit function. This will, in turn, determine the volume and nature of internal audit work and its ability to have an impact.

Appetite for assurance

As already seen, many respondents felt that internal audit has sufficient resources to provide the service the organisation requires. Some roundtable participants challenged the perception of the quantum of assurance required and that organisations may need more assurance than they appreciate. Therefore, there may be a gap between the assurance the organisation has agreed and the level of assurance it needs to obtain sufficient feedback and comfort on key risks, priorities and systems.

The quantum of audit provided is perhaps the most challenging question for management and the head of internal audit, and it is not easy to set out a de minimis level that would work for two similar organisations, as there will be many factors that affect the risk profile and assurance needs of two organisations that, from the outside, seem similar.

Questions around this may therefore cover areas that are not always easily quantifiable.

- How much assurance do I need to provide to support the annual internal audit opinion? What areas of coverage should that include?
- Is there an imbalance between the assurance I believe is needed by the organisation and what we are able to provide?
- What change or transformation is occurring and where would assurance or advice from internal audit be useful? How do we maintain a balance between assurance on business as usual and areas of change and development?
- What other sources of assurance exist? Does the scope of these support the work of the audit committee and is that assurance robust and reliable?

One of the main factors in different levels of assurance is the wider organisation and the budget and resources available for internal audit, likely linked to attitude to assurance and previous impact of the internal audit function. From group discussions, it is possible that difficult conversations will be needed around priorities, coverage, resources and internal audit's ability to deliver a more strategic plan.

Smaller internal audit teams noted that networking and maintaining relationships with senior management is important, but more challenging when the size of the internal audit plan does not allow for internal audit to do more than a minimum assurance plan – an interdependency between resources, impact and engagement with the organisation.

Recommendation:

Internal audit plans should provide information on any areas not included within the plan and where the head of internal audit believes that assurance may be required. This should include an explanation of the rationale for non-inclusion, which can be used to inform discussions around prioritisation of the use of internal audit resources to facilitate a meaningful discussion with the audit committee.

Impact of the pandemic

The question of how much assurance is needed has been a particular focus during the pandemic. From March 2020, the amount of internal audit delivered was impacted in many organisations, with internal auditors often redeployed to support the first line elsewhere in the organisation. For some local government and NHS organisations, this meant halting the internal audit plan for April to summer 2020, with further redeployments and delays during infection surges in winter 2020/21 and 2021/22.

Thirty-six percent of respondents said that their internal audit plan had been suspended for a period of time. Fifty-four percent noted that at least some of the internal audit team was redeployed to other roles. Eighty-five percent of internal audit plans were flexed to respond to emerging risks and priorities relating to the pandemic. One of the challenges of such disruption is the impact on the ability to provide an annual internal audit opinion. Guidance was provided by the IASAB, CIPFA, GIAA and HFMA for internal auditors across different parts of the public sector. During the pandemic, many heads of internal audit had to decide what work must continue as a bare minimum to be able to give an annual internal audit opinion.

During the pandemic, internal audit team members were redeployed in both 2020/21 and 2021/22 to support the trust where additional resource was needed. While internal audit resource was reduced, we pivoted the work of remaining team members to provide quick-response advisory reviews on emerging issues such as the setup of a Nightingale Hospital. Even when the team returned to internal audit, delivery of the plan was challenging due to pressures on frontline personnel and management.

While I determined how much assurance I needed to support my annual opinion during the pandemic, these were exceptional times. As a profession, we must acknowledge that the reduced quantity of assurance is not sustainable to routinely support an opinion in the longer term.

Mike Townsend, Head of Internal Audit, Barts Assurance

It was also noted that working remotely has reduced internal audit's ability (as with many teams) to have quick, informal chats with colleagues across the organisation, which help maintain effective working relationships. Others noted that greater pressure on management in response to the pandemic meant that in some areas there was less willingness to engage with internal audit.

Challenges in delivering the annual internal audit opinion

The PSIAS require public sector internal auditors to provide an annual opinion. This should inform the organisation's annual governance statement. In some sectors such as higher education, the annual internal audit opinion will be used by the audit committee in developing its own annual report to the governing body.

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Extract from PSIAS

It is the head of internal audit's responsibility to ensure that the audit plan, when taken together with other sources of assurance, will provide sufficient assurance to support this opinion. In CIPFA's experience of quality assessments, a range of approaches exist to underpin the opinion. For this report, we undertook a review using publicly available resources of the 2020/21 annual opinion provided at 33 London boroughs. This analysis reflects the variability of the nature and volume of audit work that heads of internal audit drew on when forming their annual opinion for 2020/21.

Many of the opinions reflect the considerations of the head of internal audit regarding whether sufficient work has been completed on which to base the opinion; reference was made in reports to CIPFA's guidance for internal auditors during the pandemic.

Other variations noted across those authorities' annual internal audit reports include the following.

- **The scope of the opinion given.** While relevant coverage may have been included within internal audit plans, 36% of the opinions reviewed did not explicitly mention governance or risk management in the opinion statement, therefore appearing to omit a requirement of PSIAS.
- **The scope of the organisation on which the opinion is given.** Some annual opinions appear to be based on work both at the authority's centre as well as in schools. Others were silent on this or appear to omit schools audit from their opinions, setting out schools' audit work as a separate schedule of activity.
- **The volume of audit work supporting the opinion.** Several heads of internal audit made a clear statement confirming they were satisfied that sufficient quantity and coverage of work had been undertaken to allow a conclusion to be drawn, and there were none stating they were unable to provide an opinion. There was a significant difference in the number of audits undertaken across the boroughs to support the 2020/21 opinion, varying from seven 'systems audits' and four 'schools audits' to authorities drawing on over 40 audits to form the opinion.

- **The form of wording.** Many reports remind the reader that the assurance provided cannot be absolute, and therefore only reasonable assurance can be provided. However, the specific wording of the opinion varies, and these variations include the following: "adequate and effective", "generally satisfactory", "reasonable assurance", "moderate assurance", "limited assurance", "a reasonable level of confidence", "adequate and remains robust" and "good with improvements required in a few areas". The most common conclusion wording used was "reasonable assurance".
- **The work and assurances on which the opinion is based.** Some opinions clearly state that they are based solely on work undertaken by internal audit. Others refer to consideration of risk management arrangements and other assurances available, including the work of second line functions such as anti-fraud teams. Some annual reports reflect the nature of audit work, setting out the number of assignments in year that were assurance, consultancy, follow-up or grant claim reviews, for example. Hillingdon is a useful example of this, informing the reader that the total number of audit assignments in each year has reduced by nearly a third between 2017 and 2021, although the overall number of assurance assignments has increased within that period.

Notwithstanding CIPFA's recognition that factors such as organisational complexity and appetite for assurance will impact on the quantum of audit, the variability identified in the quantum of audits underpinning the annual opinion is concerning.

Agreed action

- CIPFA will work with the CIIA and IASAB to develop guidance on annual internal audit opinions to help heads of internal audit provide an opinion and audit committees in using that opinion.
- CIPFA will consider options on how it can facilitate a thematic review of annual internal audit opinions, which will help heads of internal audit provide context and comparators with peers.

Recommendation:

For local government with education responsibilities, consider an annual internal audit report that splits out schools' audit work from the main opinion. This would make clearer the nature and quantum of assurance on which the opinion relating to the organisation's central risk management, governance and control environment is based.

As a small internal audit team covering both the police force and office of the police and crime commissioner, I proactively seek out other independent assurances and feedback that are relevant to the framework of governance, risk management and control.

The annual opinion I give each year is based on the internal audit work my team has delivered. I use the other assurances available to support and sense-check that opinion; it is a useful triangulation and also provides the Joint Independent Audit Committee with a view of the broader assurances and feedback from external parties during the year. This may include a report by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services, or assurance from another organisation's internal audit function where a service is outsourced or with whom the force collaborates.

Neil Shovell, Chief Internal Auditor, Thames Valley Police and the Office of the Police and Crime Commissioner

Organisational culture

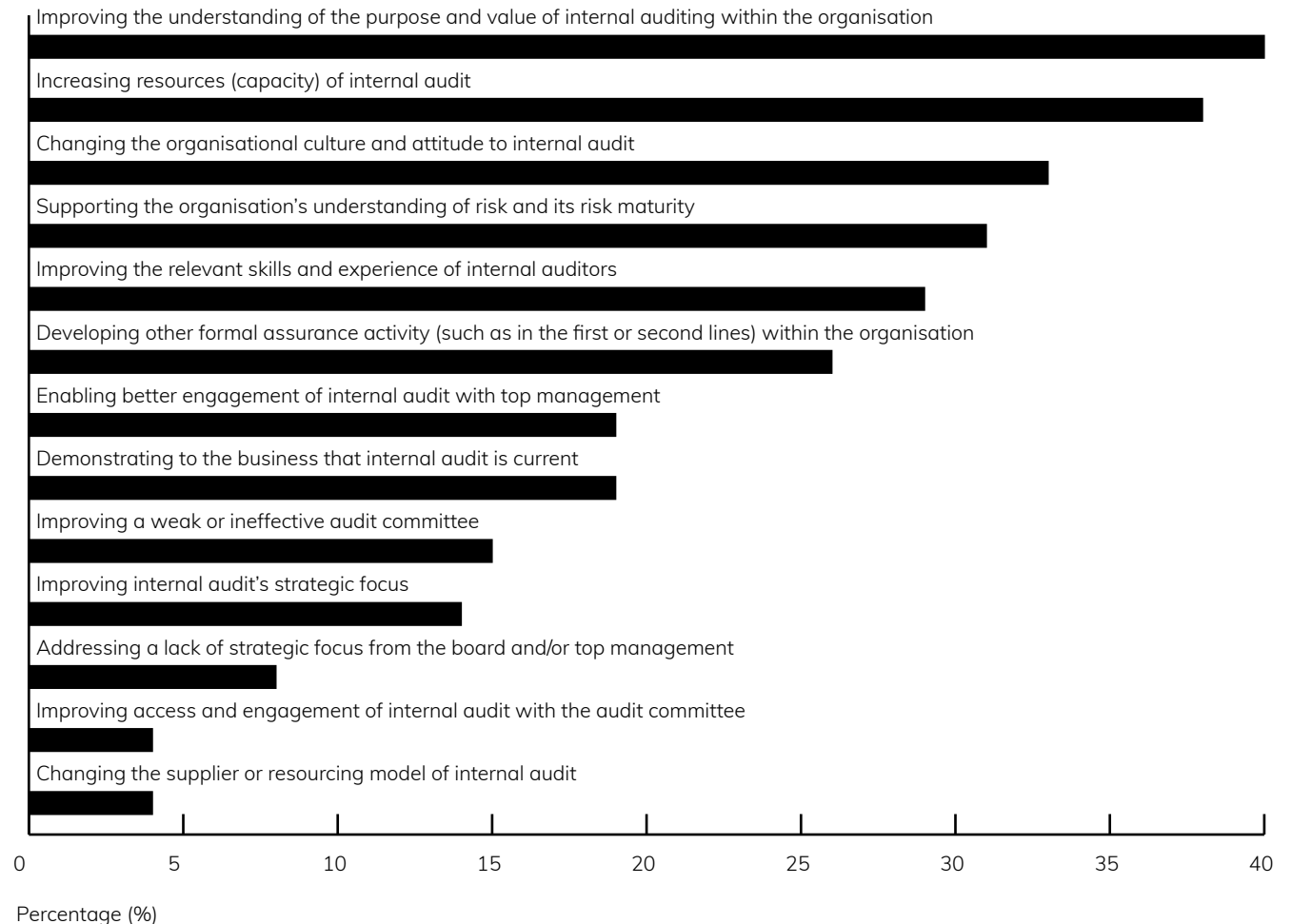
Respondents were invited to provide any additional comments at the end of the survey. Analysis of text responses highlighted that culture was commented on as much as resources available for internal audit.

Comments were shared on the scope and coverage of internal audit, and that it is important to have a culture where internal audit findings are taken as independent, objective, professional advice to be acted on and taken into consideration. The need for a risk management culture to be embedded was also shared, and the ability for internal audit to have a voice at the top table to be able to engage in new initiatives, change or transformation at an early stage. Twenty-six percent of heads of internal audit surveyed felt that their role did not have appropriate status within the organisation.

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 There was also recognition that greater use of data-driven tools for routine coverage should release audit resource to focus on more impactful work, including areas such as ethics and culture as well as governance.

Survey respondents shared views on what could improve the impact of internal audit in their organisation. As well as comments regarding resources and skills, the responses reflect the need for a cultural change, including one of assurance in all lines and not just by internal audit, and improving the risk maturity of the organisation.

While these areas will require buy-in from management and the audit committee, there is clearly a driver for internal audit to demonstrate its currency and that it can be strategic in its coverage and approach.

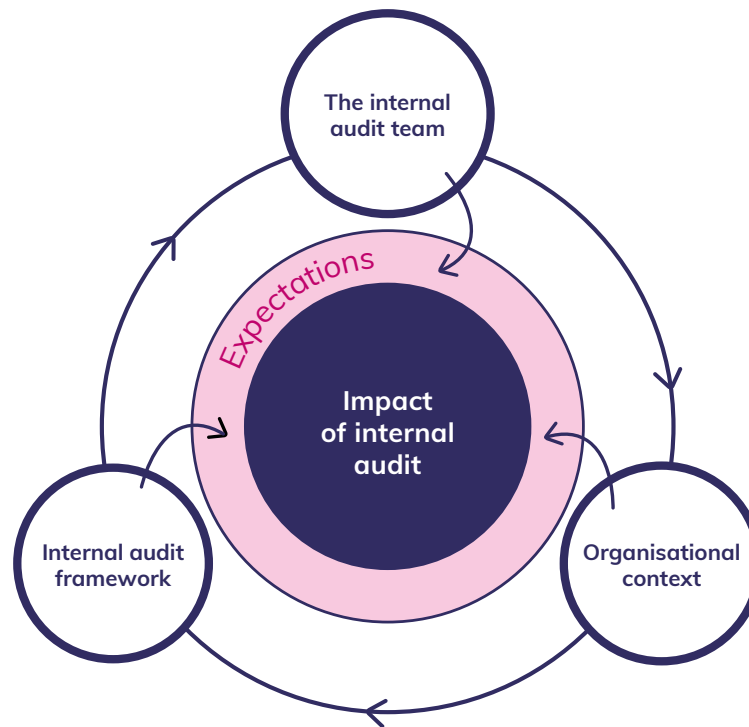


Views on what could improve the impact of internal audit in the organisation (respondents were asked to select their top three priorities).

Appendix A:

The framework for internal audit impact

The key elements of the internal audit impact model are defined below:



Impact

The ability of internal audit to support the organisation in achieving its strategic objectives and priorities. This will be through an appropriate mix of assurance, consulting activity and advice. The impact of internal audit will vary across organisations based on assurance needs, organisational culture, appetite for assurance and driving continual improvement.

Expectations

Stakeholder expectations: an impactful internal audit service will understand and manage stakeholder expectations. Where expectations of internal audit are low, the function will exceed these and raise expectations to help stakeholders understand the benefits of a modern, engaged internal audit function. Stakeholders are likely to include senior management, the audit committee and other assurance functions.

Audit expectations: internal auditors also set their own expectations in response to their professional judgement based on standards and their assessment of risks and audit needs.

Internal audit framework

Internal auditing standards: the professional framework that provides the foundation for the core quality of internal auditing. As a minimum, internal audit functions should be conforming with the requirements of these standards.

Internal audit leadership: the function must be led in such a way that it strives to make an impact, while engaging with the organisation and maintaining its independence and objectivity. The head of internal audit must be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and the audit committee.

Alignment with strategic priorities: the internal audit plan should be developed to address not only the key risks that the organisation faces but also support strategic objectives and priorities. This will also entail understanding where other assurance exists around strategic objectives and avoiding duplication or gaps in assurance.

Internal audit team

Internal audit skills and resources: there should be a clear view of the skills and resources required to deliver the assurance that is needed by the organisation to support an effective governance and risk management framework. Where there are gaps, there are discussions with top management and the audit committee to understand the impact and to agree action.

Service delivery model: the selected model of delivery should enable internal audit's professional delivery to the organisation according to its needs.

Organisational context

Governance framework: the organisation has an effective governance framework and a high-performing audit committee, with members with appropriate skills and experience. There are clear and unrestricted reporting lines for the head of internal audit to the audit committee, including private meetings between the head of internal audit and the committee.

Internal audit access to senior management: internal audit has unrestricted access to senior management, including the chief executive. There is regular dialogue, and the head of internal audit attends senior management meetings to be able to best understand the changing risks and assurance needs of the organisation.

Risk and assurance culture: the organisation, led by those charged with governance, seeks assurance as an integral part of its risk management framework and the decision-making process. Assurance is used to drive improvement and is viewed as an activity that supports decision making in all aspects of the organisation, both strategic and operational. The three lines model may be used as a structure to identify and plan assurance activity.

Appendix B:

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Maximising the impact of internal audit

Ten questions to ask your internal auditors

Suggested questions that senior management and audit committees should be asking to obtain the maximum impact from internal audit. Comparing views on these questions with the head of internal audit may also lead to some useful discussions.

Engagement with the organisation

1. Does internal audit receive the right level of support and engagement from the audit committee?
2. Does internal audit get good engagement from across the organisation when it plans and conducts audits?
3. Do managers within the organisation seek advice or assurance from internal audit?
What are the drivers of or obstacles to this?
4. Has the head of internal audit indicated that resources (capability or capacity) need to increase?
What steps are being taken to address this?

Quality, impact and continual improvement

5. Does internal audit conform to PSIAS as demonstrated by an independent external quality assessment undertaken within the last five years?
For local government organisations, this should also include conformance with the Local Government Application Note.
6. What action is internal audit taking to continually improve its quality, engagement and impact for the organisation?
Is internal audit considering the skills and competencies it will need in the future as well as now?

Assurance

7. Is there a clear view of the assurance that internal audit does, and does not, provide?
What assurance is provided by other functions or parties?
Are there gaps in the assurance that management or the audit committee require?
8. How do internal audit plans map to the organisation's strategic priorities and risks?
9. How is internal audit developing its approach to providing assurance – for example, making greater use of data or undertaking audits with a more strategic focus?

Strategy

10. What factors currently determine our internal audit strategy?
Are we confident that the strategy will deliver our internal audit needs in the future?

Appendix C:

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References and literature considered in our research

In addition to references cited in footnotes, a wide range of literature, websites and reports were reviewed as part of this research. The following bibliography provides details of the main sources consulted and contains links to the relevant website or document for ease of access.

CIPFA resources

[Benchmarking analysis: internal audit in local government](#) (2015)

[Facing up to COVID-19 in the public sector: the internal audit response](#) (2020)

[Financial Management Code](#) (2019)

[Financial Resilience Index](#) (2022)

[Local Government Application Note for the UK PSIAS](#) (2019 edition)

[Perceptions of audit quality: a survey analysis](#) (2009)

[Position statement on audit committees in local authorities and police](#) (2018)

[Statement on the role of the head of internal audit in public service organisations](#) (2019)

Online resources

[Assurance frameworks](#) (HM Treasury, 2012)

[Assurance, reassurance and performance](#) (Good Governance Institute, 2021)

[Audit and Inspection of Local Authorities in England: five years after the Local Audit and Accountability Act 2014 – Parliamentary Academic Fellowship report by Professor Laurence Ferry](#) (UK Parliament, 2019)

[Avoiding the blind spot: supporting financial stability and resilience](#) (Chartered Institute of Internal Auditors, 2021)

[Developing an overall opinion during the pandemic crisis – considerations for 2021/22 and reflections on 2020/21](#) (Internal Audit Standards Advisory Board)

[Government Functional Standard GovS 009: Internal Audit](#) (Government Internal Audit Agency)

[Head of internal audit annual opinion: key considerations for 2021/22](#) (HFMA, 2022)

[Independent review into the oversight of local audit and the transparency of local authority financial reporting](#) (Sir Tony Redmond, 2020)

[Internal Audit Code of Practice: guidance on effective internal audit in the private and third sectors](#) (Chartered Institute of Internal Auditors, 2020)

[Local authority governance](#) (National Audit Office, 2019)

[Models of effective internal audit: how to organise a successful internal audit function](#) (Chartered Institute of Internal Auditors, 2015)

[Public Sector Internal Audit Standards \(PSIAS\)](#) (Internal Audit Standards Advisory Board, 2017)

[The Future of Jobs Report](#) (World Economic Forum, 2020)

[Value proposition for internal audit](#) (The Institute of Internal Auditors)

Legislation

[The Accounts and Audit Regulations 2015](#)

Other academic references

Domingos M. Sequeira de Almeida (2007): *The Value of Internal Audit* (first published in *Auditoria Interna*), Lisbon: Instituto Português de Auditoria Interna (IPA)

Eulerich, M and Lenz, R (2020): *Defining, Measuring and Communicating the Value of Internal Audit*, Florida: Internal Audit Foundation

Eulerich A and Eulerich M (2020): *What is the value of internal auditing? – A literature review on qualitative and quantitative perspectives* (published in *Maandblad Voor Accountancy en Bedrijfseconomie*, Amsterdam University Press)

Appendix D:

Research methodology

This project was initiated in autumn 2021, with a survey open for one month, and roundtable discussions, wider research and interviews held during winter 2021.

Online survey – technical summary

On 6 October 2021, 5,120 individuals were invited by email to take part in the 'Internal audit in public services' online survey.

These individuals worked in central government, education, local government or housing and were in a job role described as being either audit or finance related or were a political appointment, eg a councillor.

Each person was contacted a maximum of four times: the initial email followed by up to three reminders (issued on 13 October, 20 October and 27 October). Potential respondents only received a reminder if they had not started or fully completed the survey. The number of people contacted/responded per wave is as follows.

- Wave 1 (initial): 5,120 issued/193 completed (45%)
- Wave 2 (first reminder): 4,921 issued/112 completed (26%)
- Wave 3 (second reminder): 4,179 issued/83 completed (20%)
- Wave 4 (third reminder): 4,720 issued/37 completed (9%)
- **Total completed: 425**

Links to the survey were also distributed to members of the following organisations and groups: HAIF, TIAN, CHEIA, National Housing Federation, GIAA, BUFDG, CIPFA Internal Audit Special Interest Group, IASAB, CIAA and the CIPFA Governance Audit Risk and Assurance working group. This yielded a further 328 responses. We also received 78 responses that we judged to be sufficiently complete to include in our report. This brought the total number of responses to 831.

The survey consisted of 23 questions, and if the respondent was not in an audit role, four questions were omitted. From a statistical perspective, while we're unable to provide a total response rate, we can make certain judgements about the reliability of our results.

Responses	Confidence level	Error rate
400	95%	±5.0%
700	95%	±4.0%
1,000	95%	±3.0%

Consequently, the statistical validity for this survey can be viewed as being highly credible.

Responses	Confidence level	Error rate
831	95%	±3.4%

What does this mean, or what impact does this error rate of ±3.4% have on our results? The simplest way to describe this is by example. If the result for any given question is, say, 51% 'yes' and 49% 'no', then this difference (2%) is lower than our error rate and is consequently not significant. If the result is 55% 'yes' and 45% 'no', then the difference (10%) is greater than the error and can be consequently said to be significant.

The other method by which we can assess the integrity of the survey is by undertaking an evaluation of potential bias. In other words: to what extent do the profiles of respondents match those of our population of interest? However, this assessment of bias comes with a caveat: the only profile information we have access to is that of the 5,120 we originally canvassed. Consequently, we have to assume that the profile of this cohort is similar to that of the other member organisations that raised awareness of our survey.

The profiling information being used for assessing bias relates to the person's level of seniority and their job role – see tables below.

Level of seniority	Population	Respondents	Difference
Operational	53.2%	38.1%	-15.1%
Head	16.2%	23.7%	7.5%
Director	16.1%	18.5%	2.4%
Manager	13.3%	16.8%	3.5%
Other	1.2%	2.8%	1.7%
Total	100.0%	100.0%	

The 'difference' illustrates the extent to which the respondent profile differs from that of the population of interest, ie the 5,130 people canvassed. The results would appear to suggest that we had a smaller proportion of operational staff taking part than that of our population, and consequently larger proportions of managers and senior managers. It could be argued that having a larger proportion of managers/senior managers' views is a positive thing.

Job role	Population	Respondents	Difference
Audit	69.1%	67.5%	-1.5%
Finance	12.4%	14.6%	2.2%
Councillor	11.2%	7.6%	-3.5%
Other	7.4%	10.2%	2.8%
Total	100.0%	100.0%	

An identical comparison but based on the job role shows that any bias is far less obvious. Essentially, where the 'difference' is at or around 2%, then we would claim that any bias is within acceptable bounds. From this perspective, we can claim that our results are representative.

Roundtable meetings

Of the 831 survey respondents, 143 agreed to get involved. Respondents were organised into five groups, generally corresponding to their job roles, eg heads of internal audit; clients, audit committee chairs; clients, senior managers; auditors, excluding heads of; and selected heads of internal audit together with clients. Four of these roundtables took place in November 2021 and one took place in December 2021. To help stimulate debate and to ensure that specified topics were discussed, a guide was created based on the findings from the online survey.

However, the content did vary from group to group, but it generally covered:

- assurance frameworks/risk management
- resources and skills
- IT, including digitisation, real-time assurance and analytics
- being strategic
- changing perceptions/improving understanding of internal audit
- the future.

Each roundtable was hosted on Microsoft Teams and, with the necessary approvals in place, recorded. The recordings were uploaded to Otter AI for transcription, and a Word document was created for each roundtable. The original audio/visual document was also retained. The contents of the various Word documents were imported into NVivo's text analytics software, allowing us to identify the key themes arising and the comments that best illustrated them.

Sector of respondents	%
Local government body	76
Civil Service – central government department, including NDPB/agencies	9
Police/fire	6
Education/FE/HE	4
Other public sector/social enterprise/charity/not-for-profit/housing/social care	3
NHS/health body	2
Role of respondents	%
Qualified/experienced internal auditor, including trainee internal auditor	37
Head of internal audit or equivalent	29
Executive/senior manager	18
Audit committee member	13
Other	3
Internal audit resourcing model	%
In-house internal audit team	57
Outsourced to an external provider	23
In-house team with a co-sourced arrangement	18
Contractor/outsourced head of internal audit managing an in-house team	3



77 Mansell Street, London E1 8AN

+44 (0)20 7543 5600

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For Publication

Regulation of Investigatory Powers Act 2000 (RIPA) Annual Report to Standards Committee 2022 and RIPA Inspection

Meeting:	(1) Standards And Audit Committee (2) Cabinet Member for Governance
Date:	(1) 27 th July 2022 (2) Tbc
Report by:	RIPA Senior Responsible Officer
For Publication	

1.0 Purpose of Report

- 1.1 To give an annual report to members on activities relating to surveillance by the Council and policies under the Regulation of Investigatory Powers Act 2011.
- 1.2 To inform members of the routine RIPA inspection by the IPCO

2.0 Recommendation

- 2.1 To note the report and the outcome of the 2022 inspection.
- 2.2 That the Surveillance Policy be updated as set out in this report with the Head of Regulatory Law authorized to make any necessary consequential amendments.
- 2.3 That the proposed activity for 2022/23 be progressed.

3.0 Reason for recommendations

- 3.1 To enable the Council to operate the RIPA system effectively and as required by law and guidance.

4.0 Report details

- 4.1 RIPA

Chesterfield Borough Council has powers under the Regulation of Investigatory Powers Act 2000 (RIPA) to conduct authorised directed surveillances (DI) and use of human intelligence sources (CHIS) in certain circumstances in connection with the conduct of criminal investigations. These powers arise from the need to protect the rights of individuals relating to private and family life (including business relationships).

4.2 **Reporting to Members**

This report is submitted to members as a result of the requirement to report to members under paragraph 3.35 of the Home Office Code of Practice for Covert Surveillance and Property Interference.

4.3 The previous annual report was submitted to members in April 2019. Due to other priorities, including work arising from the Covid-19 pandemic, no reports were issued in 2020 and 2021. Further reports will continue to be submitted annually whether or not there has been any authorised surveillance.

4.4 The July 2019 inspection outcome was reported to members in September 2019.

4.5 **Background**

All directed surveillances (covert, but not intrusive) and use of covert human intelligence sources (CHIS) require authorisation by a senior Council officer and the exercise of the powers is subject to review. The controls are in place in accordance with the Human Rights Act, particularly the right to respect for family and private life.

4.6 Originally the Office of the Surveillance Commissioner (OSC) oversaw the exercise by councils of their surveillance powers. However, since September 2017 and the coming into effect of the Investigatory Powers Act 2016 this role is undertaken by the Investigatory Powers Commissioner (IPC)¹. The Right Honourable Sir Brian Leveson is the current IPC.

4.7 A confidential database of authorised surveillances (the central record) is maintained, charting relevant details, reviews and cancellations. There

¹ <https://www.ipco.org.uk/>

have been no authorisations since 2010. Because of data retention considerations there is no data contained within the database.

- 4.8 Substantial changes were made to the powers of Local Authorities to conduct directed surveillance and the use of human intelligence sources under the Protection of Freedoms Act 2012.
- 4.9 As from 1 November 2012 Local Authorities may only use their powers under the Regulation of Investigatory Powers Act 2000 to prevent or detect criminal offences punishable by a minimum term of 6 months in prison (or if related to underage sale of alcohol and tobacco – not relevant to this Council). The amendment to the 2000 Act came into force on 1 November 2012.
- 4.10 Examples of where authorisations could be sought are serious criminal damage, dangerous waste dumping and serious or serial benefit fraud. The surveillance must also be necessary and proportionate. The 2012 changes mean that authorisations cannot be granted for directed surveillance for e.g. littering, dog control or fly posting.
- 4.11 As from 1 November 2012 any RIPA surveillance which the Council wishes to authorise must be approved by an authorising officer at the council and also be approved by a Magistrate; where a Local Authority wishes to seek to carry out a directed surveillance or make use of a human intelligence source the Council must apply to a single Justice of the Peace.
- 4.12 The Home Office have issued guidance, in the form of codes of practices, to Local Authorities and to Magistrates on the approval process for RIPA authorisations. The most recent code of practice guidance was issued in September 2018 and was considered in the 2019 annual report to this Committee.²

5.0 Activity between 2019 and 2022

No directed surveillance

- 5.1 During this period no directed surveillances (DS) or use of human intelligence sources (CHIS) were authorised by the Council under the Act. The police used Council CCTV for a duly authorised monitoring exercise in 2021, but as this was not a Council investigation RIPA was not engaged for this authority.

² <https://www.gov.uk/government/publications/covert-surveillance-and-covert-human-intelligence-sources-codes-of-practice>

Training

- 5.2 In the 2018 annual report members were informed that an Aspire Learning module covering all key issues of RIPA had been trialled by some enforcement officers and was to be rolled out to all officers involved with enforcement, their managers, relevant legal officers and also the chief executive (who has ultimate responsibility). Further, more detailed, modular training would be considered as and when necessary in due course.
- 5.3 59 officers involved in enforcement activity are identified as required to complete the mandatory RIPA module in 2022. At the time of writing this report (22nd June 2022) 49 users are certified and 10 are yet to successfully complete the module.
- 5.4 The 2022 inspection confirmed that there was less stress by the IPCO on training currently, provided relevant officers maintained awareness of RIPA. However, it is not proposed to change the Council requirement for these officers to revisit the training module each year.
- 5.5 In addition to the RIPA module, the Monitoring Officer, who is the RIPA Senior Responsible Officer, also undertakes external training courses where appropriate.

Internal guidance

- 5.6 Intended unified guidance on the use of CCTV and e.g. body cams by Council enforcement staff was not developed as intended. This will be carried forward to 2022/23 (see below).
- 5.7 Following the RIPA inspection in 2019 guidance was published on the Council's intranet³ including reference to relevant issues and controls relating to:
- Social Media
 - Employee monitoring
 - Drones
 - Error reporting

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<https://aspire.interactgo.com/Utilities/Uploads/Handler/Uploader.ashx?area=composer&filename=Regulation+of+Investigatory+Powers+-+2019+Update.pdf&fileguid=0785f79f-314b-4076-b305-1852fafa1248>

Governance

5.8 The executive responsibility for the RIPA function is with the Cabinet Member for Governance.

6.0 IPCO Annual Reports

6.1 Each year the Investigatory Powers Commissioner issues comprehensive annual reports to the Prime Minister on all aspects of surveillance, with a section with findings on local authorities. Since the previous annual report to this committee there have been three IPCO annual reports.

6.2 **The 2018 Annual Report** (published December 2019) related to all surveillance activities and agencies. The section on local authorities recognised the IPCO's

...dual function with regard to local authorities: first, inspecting the recorded use of covert powers and, secondly, investigating the culture and practice across the organisation to establish a level of confidence that any who need to use covert powers would be recognised by staff and would be properly authorised.

6.3 It noted the continuing decline in use of covert powers, with most authorities not using covert powers at all. One reason was that benefit fraud was now being investigated by the DWP, another was that local authorities preferred use of overt investigations and working with the police. Resource limitations also played a part, with the requirement to obtain a magistrates court authorization seen by many to be a hurdle not a safeguard.

6.4 Its findings included that authorizing officers should clearly articulate their considerations relating to necessity, proportionality and collateral intrusion, and that any CHIS application should be accompanied by a risk assessment. It focused on use of social media in investigations and enforcement (see elsewhere in this report and the 2019 inspection) and said it would continue to focus on this activity in 2019, and the importance of regular training.

6.5 **The 2019 Annual Report** (published October 2020) noted the continued low use by local authorities of RIPA powers for covert surveillance, with the risk of staff becoming less skilled over time and their general fear of incorrect use of the powers. There was an increasing risk of using internet and social media for investigations, with inherent privacy

implications. Investigations were increasingly overt, and due to reduced financial resources authorities often favoured collaborative working instead. The importance of training was again emphasised, as was the need for clear policies on the use of CHIS.

- 6.6 Use of the internet as a legitimate information source should be used responsibly and in a structured way, and that councils could consider firewalls and permissions systems to prevent unrestricted access to such information. Such use should also be auditable. It recognised the use of mobile and other CCTV as a deterrent (but seeing that authorised covert use could lead to prosecutions and convictions). The risks of staff using private devices for surveillance was highlighted.
- 6.7 It found an increased use of directed surveillance to detect and prosecute housing fraud, even though this did not reach the crime test in the Protection of Freedoms Act 2012. The report also reviewed the use of communications data by local authorities.
- 6.8 **The 2020 Annual Report** (published November 2021) noted the change to using remote inspections during the pandemic and the focus on adequacy of data retention safeguards and proper storage. It recognised the continued low usage of investigatory powers, and the diversion of resources during the pandemic. Innovative use of partnership to reinforce enforcement was supported. It remains unusual for local authorities to use CHIS.
- 6.9 On use of the internet and social media it noted that overt use of social media monitoring involves data protection issues, overseen by the ICO and that guidance is published by the Home Office. Guidance should be available to staff, online activity should be recorded and periodically scrutinised.. Without an audit trail it is difficult for the SRO to have necessary reassurance that the internet is being used in a controlled and well understood manner.
- 6.10 Use of surveillance against fly tipping and unauthorised disposal of waste, and to detect RTB fraud was noted. It recognised that in some authorities training paused during the pandemic, but said that it should be resumed. It recognised the benefit of centralised authorisations through the National Anti Fraud Network for acquiring communications data: It made inspection easier (one body rather than hundreds of local authorities, and obviated need for relevant training at those authorities).

6.11 Proper storage of data, review, retention and disposal is stressed. Authorities should consider whether RIPA material should be retained or disposed as soon as it is no longer needed for the authorised purpose or when there are no legal proceedings (something which had been picked up in the April 2020 IPCO letter – see below).

7.0 IPCO Review of Data Handling and Retention Safeguards

7.1 In April 2020 the IPCO issued a letter to public authorities they oversee to help ensure compliance with obligations including the Data Protection Act 2018.

7.2 Their enquiries had found that many authorities held data for longer than necessary or appropriate, partly because data retention and disposal policies were not properly in effect. No decisions were being taken about how long data should be retained in individual cases, and in some cases data was retained indefinitely. Future IPCO inspections would include this aspect. The following was recommended:

- Review safeguarding obligations in the relevant Code of Practice
- Ensure policies for retention, reviewing and disposal of data are accurate and up to date
- Ensure authorising officer has full understanding of any data pathways
- Ensure all data obtained is clearly labelled and stored on a data pathway with a known retention policy
- Review wording of safeguards in any applications to obtain data and ensure they accurately reflect retention and disposal processes
- Review whether data obtained under previous authorisations is being retained for longer than necessary and if necessary consider disposal

8.0 IPCO Inspection 2022

8.1 In September 2019 the outcome of the in-person IPC inspection in July 2019 was reported to members⁴. The inspection report recommended some updates to the Council's surveillance policy which were adopted. It also recommended that officers' personal profiles were not used when conducting online activity.

⁴ <https://chesterfield.moderngov.co.uk/documents/s27556/Report%20-%20RIPA%20-%20IPCO%20Inspection%20Report%20-%202019-09-25.pdf>

- 8.2 The next three year inspection was through a Teams interview on 9th June 2022. This was a desktop inspection between the inspector and the RIPA Senior Responsible Officer, also attended by the Data Protection Officer.
- 8.3 During the inspection the inspector confirmed that the absence of annual reviews during the pandemic was not exceptional or problematic, and mirrored other authorities, not least as investigation activity would have been restricted during this period, which included lockdowns.
- 8.4 The inspector was complimentary about the Council's RIPA Policy and considered it one of the best they had seen.
- 8.5 They advised that IPCO emphasis had changed from RIPA training to a more general awareness of likely circumstances where RIPA related considerations might arise.
- 8.6 They referred to the IPCOs April 2020 data handling letter and that the authority's central record should refer to the need to hold data no longer than necessary and in accordance with retention and disposal policies. Some minor updates to the RIPA policy were discussed, including emphasis on officers not using personal accounts for social media.
- 8.7 Sir Brian Leveson's written inspection report, dated 13th June, found:
- That the Council had made the necessary arrangements in response to the 2019 inspection report, and discharged the recommendations made.
 - That the Council's RIPA policy was impressive, covered most relevant points and was easy to follow
 - Some minor amendments/inclusions were recommended to the policy (these are incorporated in the amended RIPA Policy attached)
 - While noting that no activity had been conducted, it was important to ensure there was an awareness of RIPA across the organisation, and noted the online training module available to staff
 - Clear guidance was contained in the policy regarding management of the product of surveillance, also included in the Information Asset Register
 - That the Council was well placed to comply with safeguarding provisions in the Codes of Practice, and might consider adapting the Central RIPA record to include management and review of such product if acquired.

9.0 Surveillance Policy and other updates

9.1 The Council's RIPA Policy is available on the Council's website and [here](#). In spring 2022 it was updated to:

- remove reference to Arvato and Kier (the partnership ending there was no longer the need to note separate regimes) and
- reflect changes in some service and post names.

9.2 The policy has now been updated in draft to reflect the recommendations of the 2022 inspection and any relevant issues in the Annual Reports and April 2020 IPCO letter on data retention as well as more general updates (See Appendix).

9.3 The RIPA Central Record has been amended to refer to data retention and disposal requirements.

10.0 Activity in the current year

10.1 While the authorisation process is very rarely appropriate or necessary and has not been used since 2010 the 2022 inspection indicates that the council is well placed should any be required.

10.2 A RIPA update will be sent to relevant officers.

10.3 Updated information will be placed on the RIPA and other pages of the Council's intranet, as necessary.

10.4 Relevant corporate CCTV policy and guidance is still to be developed. This will include the use of body cams by Council enforcement staff and deployable cameras. The growth in use of CCTV by different services, whilst overt surveillance, requires greater consistency across the authority and a corporate CCTV policy should be developed.

11.0 Alternative options

11.1 Given the outcome of the 2022 inspection and the current position on directed surveillance, no alternatives are appropriate.

12.0 Implications for consideration – Financial and value for money

12.1 The inspection outcome endorses the Council's approach to RIPA.

13.0 Implications for consideration – Legal

13.1 The RIPA system sets up a framework for surveillance which needs to be properly followed. The Council has not needed to carry out authorized covert surveillance in recent years.

14.0 Implications for consideration – Human resources

14.1 N/A

15.0 Implications for consideration – Council plan

15.1 The Council's RIPA policy and practices contribute to improving the quality of life for local people

16.0 Implications for consideration – Climate change

16.1 There are not considered to be any direct climate change impacts in relation to this report.

17.0 Implications for consideration – Equality and diversity

17.1 N/A

18.0 Implications for consideration – Risk management

18.1 Proper application of the surveillance policy will help to minimize risks arising on this matter.

Decision information

Key decision number	<i>N/A</i>
Wards affected	All

Document information

Report author
Gerard Rogers Head of Regulatory Law and Monitoring Officer – RIPA Senior Responsible Officer

Corporate	
Background documents	
These are unpublished works which have been relied on to a material extent when the report was prepared.	
<i>This must be made available to the public for up to 4 years.</i>	
Appendices to the report	
Appendix 1	Surveillance Policy - with tracked amendments

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CHESTERFIELD BOROUGH COUNCIL **SURVEILLANCE POLICY**

1 Why does the council need a Surveillance Policy?

All public bodies like the council must comply with The Human Rights Act 1998 (HRA). That act confers the right to respect for private and family life, home and correspondence (Article 8).

The Regulation of Investigatory Powers Act 2000 (RIPA) provides a framework for intrusive investigative procedures carried out by various authorities as part of their normal functions. This is to ensure that such procedures are carried out in a way that complies with the Human Rights Act. RIPA procedures were substantially changed by the Protection of Freedoms Act 2012.

The Investigatory Powers Commissioner carries out inspections of local authority procedures and policies, and oversees the exercise by public authorities of their powers under the Act.

2 What does RIPA cover?

RIPA aims to ensure that when public bodies carry out investigations:

- they respect the privacy of individuals and
- that there is an interference with privacy only where the law permits it and there is a clear public interest justification.

RIPA controls the use of various methods of investigation, in particular the use of:

- covert surveillance
- covert human intelligence sources (“CHIS” – see paragraph 12 below) and
- accessing communications data.¹

If the activities proposed by investigating officers fall within the definitions then this policy and guidance must be followed.

¹ The Act states that it regulates: “the interception of communications, the acquisition and disclosure of data relating to communications, the carrying out of surveillance, the use of covert human intelligence sources and the acquisition of the means by which electronic data protected by encryption or passwords may be encrypted or accessed.”

If investigating officers have any doubts about the application or meaning of this policy, they should seek advice from the council's legal service before proceeding.

The Act covers public bodies ranging from the police and secret services to district councils. The council's use of RIPA will deal mainly with carrying out surveillance and, possibly, some use of covert human intelligence sources. However, RIPA only applies to the council's core functions – its statutory duties - and not staffing issues or contractual disputes.

The changes to RIPA by the Protection of Freedoms Act 2012 took effect on 1st November, 2012. These are described in more detail in this Policy but in summary:

- RIPA authorisations must be approved by a Magistrate.
- Authorisations can only be given for preventing or detecting more serious crimes which are punishable by at least 6 months' imprisonment or concern sales of alcohol or tobacco to children.

The council may not seek authorisation for directed surveillance to investigate disorder that does not involve criminal offences or to investigate low level offences such as littering, dog fouling or fly-posting.

Non-RIPA Activity

While the instances where RIPA authorisation may be sought are therefore limited, the principles in this policy should also be applied to any surveillance activity falling below the threshold (non-RIPA activity). Records should also be kept within services and reported to the Senior Responsible Officer periodically and at least quarterly.

3 Human Rights Principles

RIPA requires compliance with the following human rights principles in investigatory work:

- Is the proposed action lawful?
- Is the proposed action proportionate?
- Is the proposed action necessary?
- Is the proposed action non-discriminatory?

Codes of Practice have been published by the Home Office and this Surveillance Policy is intended to establish procedures to ensure council officers are able to carry out their jobs without risking claims that their actions are breaching any person's rights to respect for their private and family life.

RIPA should be seen as assisting the council by providing a statutory defence against such claims.

The requirements of RIPA and the HRA impact on all officers of the Council but mainly those who undertake investigatory or enforcement activities, including, Environmental Health, Planning and Internal Audit.

Surveillance plays a necessary part in modern life. It is used not just in the targeting of criminals but as a means of protecting the public from harm and preventing crime.

4 Restrictions on Surveillance

Council officers may **only** authorise or engage in:

- covert surveillance,
- CHIS, and
- access to communication data

where it is:

- necessary for the “prevention or detection of crime or disorder” (and the criminal offences concerned are punishable by a maximum term of at least 6 months’ imprisonment OR are related to underage sales of tobacco or alcohol). Examples of such offences are:-
 - dumping of dangerous waste
 - serious criminal damage
- and proportionate in what it seeks to achieve.

Whether or not the crime threshold is met should be kept under review during the course of the investigation. If the relevant criminal offence is downgraded and the threshold no longer met the authorisation for surveillance should be cancelled.

5 Definitions

“Surveillance” is:

- monitoring, observing or listening to persons, their movements, their conversations or other activities or communications;
- recording anything monitored, observed or listened to in the course of surveillance; and
- surveillance by or with the assistance of a surveillance device.

Surveillance can be general (not directed at an individual or group) or **covert**. Only covert surveillance is covered by RIPA.

Types of Surveillance

Surveillance may be **overt** or **covert**.

Overt Surveillance

RIPA is not concerned with **overt** surveillance. Most of the surveillance carried out by or on behalf of the council will be overt. That is, there will be nothing secretive, clandestine or hidden about it. In many cases, officers will simply be behaving in the same way as a normal member of the public (e.g. in the case of most test purchases), and/or will be going about council business openly (e.g. a council officer walking through one of the council's housing estates or inspecting council land).

Similarly, surveillance will be **overt** if the subject has been told that it will happen (e.g. where a noisemaker is warned, preferably in writing, that noise will be recorded if it continues, or where an premises licence is issued subject to conditions, and the licensee is told that officers may visit without notice or identifying themselves to the licence holder to check that licence conditions are being met).

Covert (or 'hidden') Surveillance

However, covert surveillance is carried out in a manner calculated to ensure that the person subject to the surveillance is not aware it is or may be taking place. That is, it is done **secretly**.

Directed Surveillance

Directed Surveillance is surveillance which is:-

- covert;
- NOT **intrusive surveillance** (see definition below) –
- Not carried out as an immediate response to events which would otherwise make seeking authorisation under the Act not reasonably practicable (e.g. spotting something suspicious and continuing to observe it) and
- undertaken for the purpose of a **specific investigation or operation** and
- in a manner **likely to obtain private information** about a person (whether or not that person is specifically targeted). (Private information is any information about a person's family or private life – see definition below).

Private information

Private information is defined in section 26(10) of the 2000 Act as including any information relating to a person's private or family life. The concept of private information should be broadly interpreted to include an individual's private or personal relationship with others, and can include running of business affairs. Family life should be treated as extending beyond the formal relationships created by marriage.

6 Effect of Valid Authorisations

An authorisation will provide lawful authority for a public authority to carry out covert surveillance. A covert surveillance operation will not always require an authorisation. However, authorisation is required where the purpose of the covert surveillance (wherever it takes place) is to obtain private information about a person, whether or not that person is the target of the investigation or operation.

The key issue in Directed Surveillance is the targeting of an individual with the likely effect of gaining private information (as defined above).

7 CCTV and other Cameras

- 7.1 RIPA does not cater for the use of overt CCTV surveillance systems, as members of the public should be made aware that such systems exist. General use of CCTV does not require authorisation. However, data protection considerations relating to personal information will apply to overt CCTV.
- 7.2 However, if CCTV is used for a covert pre-planned operation to follow an individual already identified then an authorisation should be sought for Directed Surveillance.
- 7.3 While the covert pre-planned operation may be carried out jointly with the police, if the surveillance is in relation to possible criminal prosecution by the police, then it is the police who should seek a prior authorisation under police RIPA procedures.
- 7.4 It is only when the council is planning carrying out covert pre-planned operation in relation to its own possible criminal proceedings that authorisation should be sought under the council's policy.
- 7.5 Relevant law relating to the use of CCTV (eg Protection of Freedoms Act 2012 and guidance (eg ICO's CCTV Code of Practice, Surveillance Camera Commissioner's Code of Practice) as well as the council's own code of practice should be followed when any CCTV is used.
- 7.6 These considerations are also relevant when considering use of other forms of cameras. For example, body cams, deployable cameras, and drones (if used).

7.7 Care needs to be taken if cameras are to be hidden, notwithstanding signs in the locality, as these may be considered to be covert. Signs are always necessary to make surveillance by cameras overt. This means that care should always be taken to ensure signs are in place in the vicinity of deployable cameras and body worn cameras.

7.8 If for any reason these cameras are to be used in circumstances where they are not overt and without signage, as they are likely to be below the RIPA threshold, careful discussion with an Authorising Officer is necessary and documented at the time in case of subsequent challenge or complaint.

7.9 *Drones*

Use of airborne crafts to carry out surveillance can be regarded as covert due to their reduced visibility at altitude. Therefore the rules about directed surveillance authorisations apply to their use.

8 **Intrusive Surveillance**

This **cannot** be carried out by the council and only relates to investigations as described below.

Covert surveillance is intrusive if it:

- is carried out in relation to anything taking place on any residential premises or in any private vehicle;
- **involves the presence of an individual on the premises or in the vehicle or is carried out by means of a surveillance device (i.e. any apparatus designed or adapted for use in surveillance and will include cameras, tape recorders etc.**

However, surveillance carried out in relation to residential premises by use of a device (i.e. a camera) which is not in or on the premises **is not intrusive** (although it will be directed) unless it is of the same quality of information as would be obtained if the equipment was in the premises.

9 Examples of Types of Surveillance

Type of Surveillance:	Examples:
<u>Overt</u>	<ul style="list-style-type: none"> • Street Warden, Enforcement Officer or Ranger on routine patrol • Sign-posted Town Centre CCTV cameras (in normal use) • Recording noise coming from outside the premises after the occupier has been warned that this will occur if the noise persists.
<u>Directed must be RIPA authorised</u>	<ul style="list-style-type: none"> • Officers follow an individual or individuals over a period, to establish whether they are working when either claiming benefit or whilst off sick from employment • Test purchases where the officer has hidden camera or other recording device to record information that might include information about the private life of a shop-owner, e.g. where they are suspected of running their business in an unlawful manner
<u>Intrusive - the council cannot do this!</u>	<ul style="list-style-type: none"> • Planting a listening or other device ('bug') in a person's home or in their private vehicle or using a sophisticated listening device outside a person's home or in their private vehicle that will provide results equivalent to being 'on-site'.

- Going onto residential premises to take action to address an immediate nuisance, where it would not be reasonably practicable for an authorisation to be sought, is not covert surveillance (it might breach Article 8 (right to privacy) but would come within the permitted derogations provided the action could be shown to be proportionate to the harm being caused).

10 Communications Data

Local authorities are only permitted to acquire communications data for the purpose of preventing or detecting serious crime. This is an offence punishable by a maximum term of 12 months imprisonment or more.

Special additional rules apply to acquiring communications data. The Home Office Acquisition and Disclosure of Communications Data Code of Practice² sets these rules out.

² <https://www.gov.uk/government/publications/code-of-practice-for-the-acquisition-and-disclosure-of-communications-data>

The request must also be made through a qualified single point of contact accessed via the National Anti-Fraud Network and must also receive prior judicial approval³.

What is communications data?

The Regulation of Investigatory Powers (Communications Data) Order 2010 extends to local authorities certain powers set out within RIPA to access **communications data**.

Communications data includes information relating to the use of a **communications service** but does not include the contents of the communications itself (see section 21(4) RIPA ⁴ for the detailed definition of “communications data”).

Local authorities are allowed to access certain types of communications data **only for the purposes of the prevention or detection of crime or the prevention of disorder.**

The types of data concerned are as follows:

³ See www.nafn.gov.uk

⁴ (a) any traffic data comprised in or attached to a communication (whether by the sender or otherwise) for the purposes of any postal service or telecommunication system by means of which it is being or may be transmitted;
(b) any information which includes none of the contents of a communication (apart from any information falling within paragraph (a)) and is about the use made by any person— (i) of any postal service or telecommunications service; or (ii) in connection with the provision to or use by any person of any telecommunications service, of any part of a telecommunication system;(c) any information not falling within paragraph (a) or (b) that is held or obtained, in relation to persons to whom he provides the service, by a person providing a postal service or telecommunications service.

Traffic Data is (a) any data identifying, or purporting to identify, any person, apparatus or location to or from which the communication is or may be transmitted, (b) any data identifying or selecting, or purporting to identify or select, apparatus through which, or by means of which, the communication is or may be transmitted, (c) any data comprising signals for the actuation of apparatus used for the purposes of a telecommunication system for effecting (in whole or in part) the transmission of any communication, and (d) any data identifying the data or other data as data comprised in or attached to a particular communication,

but that expression includes data identifying a computer file or computer program access to which is obtained, or which is run, by means of the communication to the extent only that the file or program is identified by reference to the apparatus in which it is stored.

(7) In this section— (a) references, in relation to traffic data comprising signals for the actuation of apparatus, to a telecommunication system by means of which a communication is being or may be transmitted include references to any telecommunication system in which that apparatus is comprised; and (b) references to traffic data being attached to a communication include references to the data and the communication being logically associated with each other; and in this section “data”, in relation to a postal item, means anything written on the outside of the item

Subscriber (“Customer”) data

being any information, which does not include any of the contents of a communication, about the use made by any person of a postal or telecommunications service. In respect of a telecommunications service provider this is normally referred to as the “billing information”). This will include:

- Name of subscriber
- Address for billing, delivery or installation
- Contact telephone numbers
- Abstract personal data provided by the subscriber e.g. demographic information
- Subscriber account information e.g. billing arrangements including bank, credit/debit card details Other services provided to the customer

Service data being any other information held by the service provider relating to the persons to whom the service is provided. (This is normally referred to as “**subscriber information**”). This will include:

- The period during which the customer used the service Information about forwarding services provided by telecommunication service providers and re-direction services provided by postal service providers
- Itemised billing information
- Information on connection, disconnection and redirection Information on conference calls, call messaging, call waiting and call barring services
- Top-up details for pre-pay mobile phones including credit/debit cards used
- For postal items, records of registered, recorded or special delivery of postal items and the delivery or collection of parcels.

Access to communications data may be authorised by seeking the specialist services of the National Anti-Fraud Network of which the council is a member.

11 Procedures for Authorising Directed Surveillance

11.1 Need for Proper Authorisation

It is crucial that **all directed surveillance, using a CHIS or accessing communications data** is properly authorised. The authorisation and supporting documents setting out the case will then form the basis of the application to a Magistrate for consideration and approval.

Failure to secure proper authorisation and to comply with this procedure could lead to evidence being excluded by the court, significant costs being awarded against the council and complaints against the council.

11.2 General rules on Authorisations

11.2.1 Necessity and Proportionality

Obtaining an authorisation under RIPA will ensure that there is a justifiable interference with an individual's rights to privacy only if the interference is necessary, proportionate and in accordance with the law.

11.2.1.1 Necessity

The person granting an authorisation must believe that the authorisation is necessary **for the purpose of preventing or detecting crime or of preventing disorder of the type that could involve criminal offences**. In order to be satisfied there must be an identifiable offence to prevent or detect before an authorisation can be given. **The offence must be of a sufficiently serious category.**

11.2.1.2 Proportionality

Then, if the activities are necessary, the person granting the authorisation must believe that they are proportionate to what is sought to be achieved by carrying them out: not the proverbial 'sledgehammer to crack a nut'. This involves balancing:

- the intrusiveness of the activity on the target and others who might be affected by it against
- the need for the activity in operational terms.

The activity will not be proportionate if it is excessive in the circumstances of the case or if the information which is sought could reasonably be obtained by other less intrusive means.

The HRA defines an action as proportionate if it:

- Impairs as little as possible the rights and freedoms of the individual concerned and of innocent third parties
- Is carefully designed to meet the objectives in question
- Is not arbitrary, unfair or based on irrational considerations

All such activity should be carefully managed to meet the objective in question and must not be arbitrary or unfair.

A potential model answer would make clear the four elements of proportionality had been considered:

- (a) balancing the size and scope of the operation against the gravity and extent of the perceived mischief.

- (b) explaining how and why the methods to be adopted will cause the least possible intrusion on the target and others,
- (c) that the activity is an appropriate use of the legislation and the only reasonable way, having considered all others, of obtaining the necessary result, and
- (d) evidencing what other methods have been considered and why they were not implemented.

11.2.1.2 In accordance with the law

The exercise of these powers must always be in relation to matters that are statutory or administrative functions of the council.

Officers seeking authorisation must present their application in a fair and balanced way. The application should set out any information which supports or weakens the case for authorisation

11.2.3 Collateral Intrusion

Before authorising surveillance the authorising officer should also take into account the risk of intrusion into the privacy of persons other than those who are directly the subjects of the investigation or operation (collateral intrusion).

Measures should be taken, wherever practicable, to avoid or minimise unnecessary intrusion into the lives of those not directly connected with the investigation or operation.

An application for an authorisation should include an assessment of the risk of any collateral intrusion. The authorising officer should take this into account, when considering the proportionality of the surveillance.

Those carrying out the surveillance should inform the authorising officer if the investigation or operation unexpectedly interferes with the privacy of individuals who are not covered by the authorisation. When the original authorisation may not be sufficient, consideration should be given to whether the authorisation needs to be amended and re-authorised or a new authorisation is required.

11.2.4 Confidential Information

Particular care should be taken in cases where the subject of the investigation or operation might reasonably expect a high degree of privacy, or where confidential information is involved.

Confidential information consists of matters subject to legal privilege, confidential personal information or confidential journalistic material. So, for example, extra care should be given where, through the use of surveillance, it

would be possible to acquire knowledge of discussions between a minister of religion and an individual relating to the latter's spiritual welfare, or where matters of medical or journalistic confidentiality or legal privilege may be involved.

In cases where through the use of surveillance it is likely that knowledge of confidential information will be acquired, the use of surveillance is subject to a higher level of authorisation by the Chief Executive (see Appendix 1).

11.3 Detailed Authorisation Procedures

11.3.1 Completing Application Forms

All procedures under RIPA must be documented on standard forms and records kept. This is necessary to show compliance with RIPA. Standard forms can be downloaded from the Home Office Security site at <https://www.gov.uk/government/collections/ripa-forms--2>

The RIPA Codes of Practice are at <https://www.gov.uk/government/collections/ripa-codes>

An applicant should complete the application form giving full details about the proposed surveillance and its duration. Particular care should be given to the following points:

11.3.2 Time Limit

A written authorisation granted by an authorising officer and approved by a Magistrate will take effect when signed by the Magistrate. It will automatically cease to have effect unless renewed or cancelled at the end of a period of three (3) months beginning with the day on which it took effect. CHIS authorisations last for 12 months (1 month if the CHIS is 18).

An authorising officer must set suitable review dates on which the authorisation can be formally reviewed with the applicant.

11.3.3 Application Details

- Why the action is being begun: why is it felt to be **necessary**?
- Why the action is **proportionate** to what it seeks to achieve: for instance could the required information reasonably be obtained by other means? It must be shown that there cannot be any other reasonable way of doing this. The questions to consider are:
- Is this excessive in relation to the offence? (For example, suspected theft from the workplace may merit surveillance at work but not at the person's home. The length of the investigation also needs to be proportionate.)

- Is there any less intrusive way of doing this and has it been thought through?
- What **collateral intrusion** is likely – other people and their Article 8 (1) rights (respect for private and family life, home and correspondence). Information about others should be minimised.
- Proportionality is **not** the same as necessity – there are separate boxes on the form for these two aspects.
- What action is to be authorised (i.e. observation or following, reference to any premises or vehicles involved and whether they are public or private) – describe the intended actions
- What information is sought from the action – for example, is there a breach of planning control?
- What is the likelihood of acquiring any religious or confidential material such as medical or financial records, legal documents etc.? **In such a case authorisation should be obtained only from the Chief Executive or (in his or her absence) any Executive Director or the Local Government & Regulatory Law Manager**

The applicant should discuss the contents of the form with the authorising officer, who if satisfied should sign the form. The authorising officer must fill in the box for his comments, addressing the issues of necessity and proportionality.

11.3.4 Urgent Cases

These will be extremely rare and an urgent case may be one where delay may, in the authorising officer's opinion, jeopardise the operation for which authorisation is being given. A lack of forethought or planning does not constitute urgency. If out of hours access to a JP is required, the council must make arrangements with HM Courts and Tribunals legal staff.

However, no RIPA authority is required if an immediate response to events is needed or in situations where it is not reasonably practicable to obtain it, for instance, where criminal activity is observed during routine duties and officers conceal themselves to observe what is happening.

11.4 Action during and after the Surveillance Period.

Each surveillance should have a dedicated log-sheet for officers' use. This should be kept in chronological order detailing who is the subject of the surveillance, where it is and what happens. When notes cannot be written up at the time of surveillance it should be completed as soon as possible afterwards.

All alterations in the log sheet should be crossed through and initialled and then the corrected material written to the side in the normal manner. Correction fluid should not be used at any time. Completion of the log should ensure that no empty lines are left where additional material could be written in at a later date. These logs could be used in the event of a criminal prosecution and should be kept correctly, signed as true statements and secure at all times.

In all cases there is a duty of care to those observed. All details and approvals must be kept strictly confidential. The privacy of individuals must not be put at risk and unnecessary information should not be documented i.e. if the observed person was incidentally observed in a private context such as an extra-marital affair.

When photographs or videos are taken then a photographic log needs to be maintained and all negatives/digital files retained. Technology is available to alter photographs and the logs are important to prove the originality of the photographs/videos/images.

Log sheets should be kept locked with the rest of the supporting documents for a period of at least three years.

Time limits should be placed on any authorisation for surveillance. In all cases written authorisations last for three months and then must be renewed if deemed necessary, using the appropriate form. Authorisations must be cancelled when no longer necessary or appropriate. Authorising officers should keep diary reminders for cancellation/renewal dates.

Where the product of surveillance could be relevant to pending or future criminal or civil proceedings it should be retained in accordance with established disclosure requirements. The requirements of the Code of Practice under the Criminal Procedure and Investigations Act 1996⁵, regarding recording and retention of material obtained in the course of an investigation, must be observed.

While there is nothing in RIPA to prevent use of material properly obtained through the authorised process in other investigations, material obtained will be protected by the Data Protection Act 2018 (DPA) and in addition to other considerations must be used, stored and destroyed in compliance with the relevant requirements of the DPA and the council's data protection, information security and records management policies.

Dissemination, copying and retention of material must be limited to the minimum necessary for authorised purposes. Section 9 of the Home Office Code of Practice sets out safeguards must be in place. Confidential and privileged information must be given particular protection.

⁵ <https://www.gov.uk/government/publications/criminal-procedure-and-investigations-act-code-of-practice>

11.5 Renewals

Any person who would be entitled to grant a new authorisation can renew an authorisation. However, it should be the person who originally granted the authorisation. Authorisations (other than oral authorisations in urgent cases) may be renewed more than once, provided they continue to meet the criteria for authorisation. Renewals must also be authorised by a Magistrate.

Applications for renewal must be made shortly prior to the expiry of the current authorisation, while taking account of factors which might delay the renewal process.

Authorisations may be renewed more than once; if necessary, and the renewal should be kept/recorded as part of the central record of authorisations.

Consideration of any renewal application must consider the matter afresh, taking into account the content and value of the investigation, the information obtained so far. It must consider the same criteria as for new applications.

11.6 Cancellations

The authorising officer who granted or last renewed the authorisation must cancel it if they are satisfied that the directed surveillance no longer meets the criteria upon which it was authorised. Where the authorising officer is no longer available, this duty will fall on the person who has taken over the role of authorising officer. If in doubt about who may cancel an authorisation, Legal Services must be consulted. There is no requirement for a Magistrate to consider cancellations.

12 Use of Covert Human Intelligence Sources (CHIS)

12.1 A person is a covert human intelligence source if they:

- establish or maintain a personal or other relationship with a person either to use the relationship to obtain information or disclose information obtained as a result of such a relationship;
- the surveillance is covert if and only if it is carried on in a manner calculated to ensure that the persons subject to the surveillance are unaware that it is taking place.

Examples of use of a CHIS are the use of professional witnesses or in 'entrapment cases' when a person pretends to be a customer (but see paragraph 9 and below)

Other circumstances in which the council could be considered to be using a covert human intelligence source is where a neighbour is requested to provide information about a neighbour and information is obtained not by personal observation as in the case of neighbour nuisance, but is information obtained

through conversation with the neighbour under investigation such as personal relationships. This means that asking a neighbour for information regarding who is living in a property and the relationship between the parties would be using that person as a covert human intelligence source, which would need special authorisation.

Asking a neighbour to keep records of nuisance suffered by the neighbour would not be using a covert human intelligence source because the neighbour would not be relying on a relationship with the person under investigation to obtain information. However, every case should be considered on its merits. If it becomes apparent that information is being obtained in the course of a relationship, the neighbour may in reality be a CHIS and legal advice should be sought before acting on their information.

12.2 Juvenile Sources

Special safeguards apply to the use or conduct of a juvenile CHIS (i.e. under 18 year olds). On no occasion can a child under 16 years of age be authorised to give information against his or her parents. The advice of Legal Services must be sought if the use of juveniles is being considered.

There are additional requirements if a person under 18 is a CHIS. Authorisation for an application to the Magistrates Court can only be granted by the Chief Executive or in their absence by an officer acting as head of paid service. This also applies to vulnerable individuals, below.

12.3 Vulnerable Individuals

A vulnerable individual is a person who is or may be in need of community care services by reason of mental or other disability, age or illness and who is or may be unable to take care of themselves, or unable to protect themselves against significant harm or exploitation.

A vulnerable individual will only be authorised to act as a source in the most exceptional of circumstances. The advice of Legal Services must be sought if the use of vulnerable individuals is being considered.

The same additional requirements apply when considering appointing a vulnerable individual as an under 18 year old (see above).

12.4 Test Purchases

Carrying out test purchases will not generally require the purchaser to establish a relationship with the supplier with the covert purpose of obtaining information and, therefore, the purchaser will not normally be a CHIS. For example, authorisation would not normally be required for test purchases carried out in the ordinary course of business e.g. walking into a shop and purchasing a product over the counter.

However, developing a relationship with a person in the shop, to obtain information about the sellers suppliers of an illegal product e.g. illegally imported products will require authorisation as a CHIS. Similarly, using mobile, hidden recording devices to record what is going on in the shop will require authorisation as directed surveillance. Note that a CHIS may be authorised to wear a hidden camera without the need for a separate directed surveillance authorisation.

The use of covert human intelligence source for a particular investigation must be subject to prior authorisation by a senior officer of a rank specified in Regulations made under RIPA. CBC's authorising officers are listed at the end of the document.

12.5 Appointment of a CHIS

A named officer (i.e. a 'handler') will have day to day responsibility for dealing with the CHIS. That officer will:

- Fully recognise the council has a duty of care to the CHIS, whose security safety and welfare is paramount,
- Undertake a risk assessment prior to the use of the CHIS to determine the risk to them and the likely consequences should their role become known,
- Take fully into account, at the outset, whether there will be ongoing security and welfare considerations related to the CHIS, once the authorisation has been cancelled, and
- Maintain a record of the use made by the CHIS, and regulate access to them, ensuring that the Regulation of Investigatory Powers (Source Records) Regulations 2000⁶ are fully complied with.

A further named officer will have general oversight of the use made of the CHIS (i.e. a 'Controller').

12.6 Safety and Welfare of CHIS

The safety and welfare of the CHIS is paramount. Risk assessments should be carried out to assess the risk of tasking a CHIS and the activities being undertaken taking into account the particular person appointed. The risk assessments should be regularly reviewed during the course of the investigation.

A single point of contact (SPOC) should be appointed for the CHIS to communicate with. They will be responsible for carrying out the risk assessments and taking all steps to ensure CHIS welfare and safety. This duty of care will continue following cancellation of a CHIS. A senior officer

⁶ SI 2000/2725 <http://www.legislation.gov.uk/uksi/2000/2725/made>

must also have oversight of the arrangements and be regularly updated by the SPOC. There should be regular face to face meetings with the CHIS, in addition to any appropriate remote contact (telephone or email). The potential risk to the CHIS should there be a requirement to disclose information in proceedings should always be taken into account.

13 Social Media and the Internet

- 13.1 While it is recognised that online information is a valuable source of information for public authorities carrying out their statutory purposes, persistent studying of an individual's online presence, extracting and recording material may engage privacy considerations and a RIPA authorisation might be necessary. Social media sites should only be viewed where necessary and viewing must be proportionate. Repeated viewing/recording without consent will engage RIPA. Automatic internet search tools (e.g. Google alerts) can also engage RIPA.
- 13.2 Because the information is available in the public domain does not mean that the intention was to make it available for covert investigative activity.
- 13.3 Use of a false identity, or a fake social media profile, may require authorisation. Using the identity of a person known or likely to be known to the subject of interest without authorisation or their consent is likely to breach RIPA. **Officers should not use their own personal social media accounts for these purposes.**
- 13.4 If the investigator engages in any form of relationship with the account operator without disclosing their identity then they become a CHIS requiring authorisation as such. They will require management by a Controller and Handler with a record being kept and a risk assessment created.
- 13.4 Where consent has been given, or the public authority has taken reasonable steps to inform the individual that surveillance is or may be taking place, the activity is likely to be seen as overt.
- 13.5 Care should be taken where there is collateral intrusion. While consent may have been given to access material, it might contain private information relating to third parties (e.g. in comments under a Facebook post) who have not given consent.
- 13.6 Should covert identities be used a record of these, the user and the purpose should be kept by the relevant service.

14 Deployable Cameras

- 14.1 Where deployable cameras are used to identify individuals suspected of activities such as fly tipping and anti-social behaviour these are usually used openly. Care should be taken where such equipment is capable of being used covertly.

- 14.2 While it is unlikely that these investigations would meet the threshold for a directed surveillance authority to be sought, the same considerations should be taken into account. Records should be kept of the date and time the equipment is deployed, the duration, considerations leading to deployment and reasons why the use of the equipment is justified. Reasons should also be kept if a request for deployment is rejected. Collateral intrusion should be minimised.
- 14.4 Information of this activity should be provided to the SRO on at least a quarterly basis to enable reporting to members (see section 19).

15 Employee Surveillance and Monitoring

- 15.1 While outside the RIPA controls, any surveillance – or monitoring - involving employees must comply with Part 3 of the Employment Practices Code⁷, and the Data Protection Act 2018. Monitoring is not only associated with disciplinary investigations, but also routine activities such as monitoring to ensure those working in hazardous environments are not put at risk due to unsafe working practices.
- 15.2 Where monitoring goes beyond one individual simply watching another and involves the manual or automatic recording/processing of personal data it must be done in a way that is lawful and fair to workers. Any adverse impact on workers must be justified by the benefits to the employer and others.

16 Record Keeping – Central Record

- 16.1 The council keeps a record of all authorisations; renewals, cancellations and rejections.
- 16.2 This is an electronic **Central Record** and is monitored by the RIPA Co-ordinator in the Regulatory Law Team.
- 16.3 The record shows:
- the type of authorisation;
 - the date the authorisation was given;
 - name of the authorising officer; the unique reference number (URN) of the investigation or operation;
 - the title of the investigation or operation, including a brief description and names of subjects, if known; whether the urgency provisions were used, and if so why.

⁷ https://ico.org.uk/media/for-organisations/documents/1064/the_employment_practices_code.pdf

- if the authorisation is renewed, when it was renewed and who authorised the renewal, including the name of the authorising officer;
 - whether the investigation or operation is likely to result in obtaining confidential information as defined in this policy
 - the date the authorisation was cancelled.
- 16.4 The Central Record is password protected, and access to it is strictly limited.
- 16.5 The Central Record is linked to scanned-in copies of RIPA documents themselves.
- 16.6 The council will keep records for a period of 6 years from the ending of the authorisation. The [Investigatory Powers Commissioner's Office \(IPCO\)](#) may at any time audit/review the council's policies and procedures, and individual authorisations.
- 16.7 The Regulatory Law Team will make arrangements for applications for approval by a Magistrate once an authorisation has been granted by a designated council Authorising Officer.
- 16.8 The Magistrates' Court will make a copy of a RIPA authorisation, the original of which is to be retained by the council.
- 16.9 The Central Record will also keep information about Errors and non-RIPA threshold activity reported to the SRO.

17 Records maintained by the Investigating Department

- 17.1 The following original documents must be retained by the Regulatory Law Team and copies kept by the relevant Service Manager:
- a copy of the Forms together with any supplementary documentation and notification of the approval given by the Authorising Officer;
 - a record of the dates on which an authorisation or notice in relation to access to communications data was started and cancelled;
 - the frequency of reviews prescribed by the Authorised Officer;
 - a record of the result of each review of the authorisation;
 - a copy of any renewal or an authorisation, together with supporting documentation submitted when the renewal was requested;
 - the date and time when any instruction was given by the Authorised Officer;

- the Unique Reference Number for the authorisation (URN).
- information about Errors and non-RIPA threshold activity reported to the SRO immediately they are identified (Errors), or at least quarterly (non-RIPA threshold activity).

17.2 Each form will have a URN which will be generated by the Central Record. **A URN should be requested by an applicant from the Regulatory Law Team** before the application is made, so that authorised and rejected applications will be recorded.

17.3 The Central Record and all other records are to be kept STRICTLY CONFIDENTIAL and may only be disclosed by or with the written consent of Legal Services.

18 Other investigations

18.1 In some cases other investigative and enforcement staff may carry out authorised surveillance when acting on behalf of the council.

18.2 Such staff must also maintain awareness relating to RIPA and receive relevant training and any directed surveillance must be properly authorised.

18.3 The Senior Responsible Officer should be satisfied that clear and effective procedures are in place to ensure any RIPA related activity is properly conducted by such partners.

19 Responsibilities of Elected Members

19.1 The Cabinet Member for Governance has portfolio responsibility for RIPA matters.

19.2 RIPA Codes of Practice in force from December 2014 recommend a scrutiny role for councillors in relation to RIPA. Accordingly at least once a year, the council's use of RIPA will be reviewed and its Surveillance Policy amended, if necessary, by Cabinet member and/or Standards and Audit Committee as appropriate.

19.3 On a regular basis, members should scrutinise internal reports on the use of RIPA to ensure that it is being used consistently in accordance with the council's policy. The RIPA Senior Responsible Officer will report to Standards and Audit Committee at least once a year, whether or not there has been any authorised surveillance activity, and an overview of any non-RIPA activity and error reporting

20 Training

20.1 Relevant officers under this policy shall maintain their awareness of these controls the likely circumstances where such considerations might arise.

Regular training is available to ensure their awareness is current and the authority is in a position of readiness to use these controls. This will also help ensure that investigating officers do not inadvertently undertake directed surveillance without proper authorisation.

20.2 Ideally, relevant officers should undertake mandatory training at least once a year, using the in-house Aspire Learning module. Legal advisors should undertake specialist legal training as necessary to ensure awareness of the law within the legal service is up to date. Where appropriate external online and/or face to face training could be used.

20.3 Relevant training / awareness maintenance is necessary, even if there is no directed surveillance or use of CHIS, to ensure the authority is prepared to take action should the need arise.

21 Error Reporting

21.1 Care must be taken to avoid errors. Relevant errors must be reported to the IPC because errors can have significant consequences for an individual's rights. Full details are contained in the 2018 Code of Practice.

21.2 Errors include:

- Surveillance without lawful authority
- Failure to comply with safeguards in statute or the code of guidance

Also

- any authorisation obtained due to an error of a person providing information, relied on in good faith by public authority
- Legally privileged materials obtained
- Failure to keep to safeguards for the use of a CHIS

21.3 Errors must be reported to the IPC through the SRO as soon as reasonably practicable and within 10 working days (or longer as agreed with IPC) after it has been established that an error has occurred. An interim notification to the IPC, pending full facts being established, can be made but this must give an estimated timescale of when the full report will be submitted.

21.4 This means that the SRO must be made aware of the error **as a matter of priority** so that these timescales will be met and/or the IPC informed. The SRO will also decide whether or not a relevant error has occurred and give advice, if appropriate, on how to avoid repetition of the error.

21.5 The report should contain:

- Details of the error
- Reasons why the report has not been available within 10 working days (if applicable)
- Cause of the error

- The amount of surveillance carried out and material obtained
- Any unintended collateral intrusion
- Any analysis or action taken
- Whether material retained or destroyed
- Steps taken to prevent recurrence

21.6 The IPC has power to inform the individual affected by a serious error and their rights to take the matter to the Investigatory Powers Tribunal. Home Office guidance sets out what action the IPC may take.

21.7 Material obtained under a covert surveillance authorisation must be handled in line with the council's other safeguards and policies, including breaches of data protection requirements. Any actions must also comply with GDPR and Data Protection Act 2018, including the new law enforcement processing requirements for criminal investigations and prosecutions. This means that errors and breaches might also have to be reported to the Information Commissioner.

21.8 The council must also report to an inspector at the commencement of a RIPA inspection all activity which should have been authorised but was not. This is to ensure that it can be demonstrated that any direction from the IPC has been followed.

22 **Role of Senior Responsible Officer**

22.1 In addition to the roles described elsewhere in this policy the SRO will have responsibility for:

- error reporting
- reviewing procedures and policy
- keeping intranet and website information updated
- issuing guidance to relevant officers
- monitoring online training material
- ensuring that all authorising officers are of an appropriate standard

23 **Government and ICO Codes of Practice and Guidance**

It is vital to take full account of relevant codes of practice and guidance because they set out current best practice and authoritative advice. They will also be taken into account by the courts and IPC when considering the actions of a public authority.

23.1 The Home Office has issued codes of practice including:

- Covert surveillance and property interference (2014, updated 2018)
- Covert human intelligence sources (2014, updated 2018)
- Acquisition and disclosure of communications data (2015)
- Interception of communications (2016)

These and any other relevant guidance are at:

<https://www.gov.uk/government/collections/ripa-codes>

It has also issued other guidance, for example:

- Judicial approval process (in the Magistrates Court) (2012)

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/118173/local-authority-england-wales.pdf

23.2 The ICO Code of Practice on [video surveillance](https://ico.org.uk/for-organisations/guide-to-data-protection/key-dp-themes/video-surveillance/) and [data protection](https://ico.org.uk/for-organisations/guide-to-data-protection/key-dp-themes/video-surveillance/) :

<https://ico.org.uk/for-organisations/guide-to-data-protection/key-dp-themes/video-surveillance/>

23.3 The Surveillance Camera Commissioner's Code of Practice (2013):

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/157901/code-of-practice.pdf

24 **Amendment of this policy**

24.1 This policy and any relevant authorisations, procedures and guidance will be reviewed and amended as necessary from time to time by the Senior Responsible Officer and/or as the result of consideration by the Cabinet Member and/or Standards and Audit Committee (see paragraph 17).

Appendix 1: Officers with RIPA Responsibilities

Authorising Officers where knowledge of confidential information is not likely to be acquired

An authorisation should not be granted by an officer directly involved in the surveillance because there should be an independent review of whether the surveillance is both necessary and proportionate.

Where an officer listed below considers that he or she is directly involved in the surveillance the Head of Regulatory Law (Monitoring Officer and Senior Information Risk Owner (SIRO)) will nominate an alternative authorising officer.

All officers listed below will have been or will be trained in RIPA.

A solicitor from the Regulatory Law team

Authorising Officers in cases where knowledge of confidential information is likely to be acquired

The Head of Paid Service (Chief Executive) or in their absence whoever is acting as the Head of Paid Service.

RIPA Senior Responsible Officer

The Head of Regulatory Law or other officer of equivalent level to be nominated by the Chief Executive to have responsibility for the integrity of the process in place within the council for covert activity. The functions of this individual are as follows:

- (a) To ensure compliance with RIPA and relevant Codes of Practice.
- (b) To assess the risks that the council is taking and to quality assure the work of the authorising officers.
- (c) To review authorisations to assess whether lessons can be learned from the tactics sought and/or granted.
- (d) To review whether the requirement for RIPA authorisation is being considered appropriately.
- (e) To support authorising officers and facilitate applications to a Magistrate for approval as soon as possible after an authorisation has been made.
- (f) To appraise the Chief Executive of the impact of covert activity and any risks that are being taken.
- (g) To engage with Commissioners and Inspectors when they conduct their inspections and if necessary implement post-inspection recommendations.

- (h) To facilitate members' review and scrutiny powers.
- (i) To liaise with the National Anti-Fraud Network where there is a need to access communications data in order to use the services of that organisation as an expert single point of contact for such data requests.

Document Control

Amendments to policy:

<i>April 2014</i>	<i>Cabinet 20th May 2014</i>
<i>Updated 2015</i>	<i>Changes to CMT</i>
<i>2016</i>	<i>new CMT structure</i>
<i>February 2017</i>	<i>RIPA Inspection recommendations and current best practice.</i>
<i>April 2019</i>	<i>S&A Committee: Changes to take account of 2018 Codes of Practice and current best practice</i>
<i>June 2019</i>	<i>Changes to ease reading of the document – eg s/he and him/her etc replaced with non gender specific terms</i>
<i>April 2022</i>	<i>Changes to service name and job titles, removal of refs to Arvato and Kier</i>
<u><i>June 2022</i></u>	<u><i>Updates following IPCO inspection and report</i></u>

**Standards and Audit Committee
2022/23 Work Programme**

Scheduled meeting dates:	Business items: (please note these are subject to change due to operational or workload pressures)	Function/Lead
20 April, 2022	Update on QPSC and Markets Internal Audit Recommendations	Leisure, Sport and Cultural Services
	Progress update on the 2021/22 Internal Audit Plan	Internal Audit
	Chesterfield Borough Council Internal Audit Plan 2022/23	Internal Audit
	Review of the Code of Corporate Governance and the 2021/22 Annual Governance Statement	Internal Audit
	Updates to the Constitution	Standards and Governance
27 July, 2022	Standards and Audit Committee Annual Report	Internal Audit
	Internal Audit Consortium Annual Report 2021/22	Internal Audit
	Internal Audit Consortium Progress Report	Internal Audit
	Internal Audit Untapped Potential	Internal Audit
	RIPA Annual Report	Standards and Governance
28 September, 2022	Summary of Internal Audit Reports issued and progress update on the 2022/23 Internal Audit Plan	Internal Audit
	Outstanding Internal Audit Recommendations	Internal Audit
	Review of the Internal Audit Charter	Internal Audit

	Implementation of Internal Audit Recommendations	Internal Audit
	Ombudsman Annual Review Letter	Standards and Governance
	Treasury Management Annual Report 2021/22 and Monitoring Report 2022/23	Finance
	Audit Report on the 2021/22 Statement of Accounts*	Finance/External Auditors
	Risk Management and Strategic Risk Register update	Health, Safety and Risk
	LGA Code of Conduct	Standards and Governance
	Updates to the Constitution	Standards and Governance
23 November, 2022	Summary of Internal Audit Reports issued and progress update on the 2021/22 Internal Audit Plan	Internal Audit
	Review of Unreasonable Complaints Policy	Standards and Governance
	Standards and Audit Committee Self-Assessment	Internal Audit
15 February, 2023	Risk Management Strategy and Strategy Risk Register	Health, Safety and Risk
	Treasury Management Strategy 2023/24	Finance
	External Audit Progress Report	External Auditors
	Audit Strategy Memorandum	External Auditors
	Outstanding Internal Audit Recommendations	Internal Audit
	Progress Update on the 2022/23 Internal Audit Plan	Internal Audit
	Standards of Conduct Annual Report	Standards and Governance

26 April, 2023	Progress update on the 2022/23 Internal Audit Plan	Internal Audit
	Chesterfield Borough Council Internal Audit Plan 2023/24	Internal Audit
	CIPFA Fraud and Corruption Survey Results 2022	Internal Audit
	Review of the Code of Corporate Governance and the 2022/23 Annual Governance Statement	Internal Audit
	Audit Strategy Memorandum 2022/23	External Auditors
	2022/23 Audit Progress Report	External Auditors
	RIPA Annual Report	Standards and Governance
Business items scheduled for future years:		
July 2023	Review of the Anti-Fraud, Bribery and Corruption Strategy (including Money Laundering)	Internal Audit
	Appointment of Independent Remuneration Panel	Standards and Governance
TBC	Procurement Update	Procurement
TBC	External Review of Internal Audit	Internal Audit

*may move to November depending on deadlines.

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Not For publication

Internal Audit Progress Update

Meeting:	Standards and Audit Committee
Date:	27th July 2022
Cabinet portfolio:	Governance
Directorate:	Finance
Not For publication (Appendix 3 only)	
This report is exempt from publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.	

1.0 Purpose of the report

- 1.1 To present for members' information a summary of Internal Audit Reports issued between the end of March 2022 and the end of June 2022 in respect of the 2021/22 internal audit plan.

2.0 Recommendation

- 2.1 That the report be noted.

3.0 Reason for recommendation

- 3.1 To update Members on progress against the 2021/22 Internal Audit Plan and to provide assurance on the governance, risk and control processes in place.

4.0 Report details

- 4.1 The Public Sector Internal Audit Standards require that the Head of the Internal Audit Consortium periodically reports to the Standards and Audit Committee in respect of performance against the audit plan. Significant risk and control issues should also be reported.
- 4.2 The 2021/22 Internal audit plan was approved at the Standards and Audit Committee on the 21st of April 2021.
- 4.3 Attached, as Appendix 1, is a summary of reports issued since this Committee last met in respect of the 2021/22 internal audit plan. This period 3 reports have been issued 1 with substantial assurance and 2 with limited assurance.

4.4 The limited assurance reports relate to Planning Fee Income and Non-Housing Property Repairs. Full copies of the reports can be seen at Appendices 2 and 3.

4.5 The main reasons for a limited opinion in respect of Planning Fee Income (Appendix 2) are: -

- Failure to reconcile planning income received from various sources to the planning system / bank account / Unit 4 accounting system leading to potential reputational damage if planning applications are not processed because it is believed that fees have not been received when they have / potential errors/loss of income not identified.
- No management checks are taking place meaning the lack of reconciliations above has not been identified and remedied
- Cheques are not always being banked promptly
- Income has been coded wrongly (e.g., to land charges) and this has not been identified which could affect budget forecasts / ability to successfully reconcile income received in respect of planning fees

The Main reason for a limited opinion in respect of non-housing property repairs are:
-

- Property condition surveys and maintenance plans are out of date
- It is unknown what budget is required in respect of the maintenance of non-housing properties
- There is a draft asset management plan but this still requires approval.

There is a significant risk that the current budget will not be able to fund the repairs identified by up to date condition surveys and maintenance plans.

4.5 The assurance level is awarded in respect of the controls in place and the system's ability to meet its objectives and manage risk in line with the definitions below.

Assurance Level	Definition
Substantial Assurance	There is a sound system of controls in place, designed to achieve the system objectives. Controls are being consistently applied and risks well managed.
Reasonable Assurance	The majority of controls are in place and operating effectively, although some control improvements are required. The system should achieve its objectives. Risks are generally well managed.
Limited Assurance	Certain important controls are either not in place or not operating effectively. There is a risk that the system may not achieve its objectives. Some key risks were not well managed.

Inadequate Assurance

There are fundamental control weaknesses, leaving the system/service open to material errors or abuse and exposes the Council to significant risk. There is little assurance of achieving the desired objectives.

4.6 No fraud has been detected.

5.0 Alternative options

5.1 The report is for information.

6.0 Implications for consideration – Financial and Value for Money

6.1 Internal audit reviews help to ensure that processes and controls are operating effectively thereby contributing to ensuring that value for money is obtained.

7.0 Implications for consideration – Legal

7.1 The core work of internal audit is derived from the statutory responsibility under the Accounts and Audit Regulations 2015 which requires the Council to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

8.0 Implications for consideration – Human Resources

8.1 None

9.0 Implications for consideration – Council Plan

9.1 Audit reviews help to ensure that the council’s resources and priorities are focused on achieving the objectives within the council plan.

10.0 Implications for consideration – Climate Change

10.1 Whilst there are not considered to be any direct climate change impacts in relation to this report, sound internal control, governance and risk management arrangements will support the achievement of the Council’s objectives.

11.0 Implications for consideration – Equality and Diversity

11.1 None

12.0 Implications for consideration – Risk Management

12.1 Regular audit reviews help to ensure that risk is appropriately managed.

Decision information

Key decision number	<i>N/A</i>
Wards affected	None

Document information

Report author	
Jenny Williams Internal Audit Consortium Manager Finance	
Background documents	
None	
Appendices to the report	
Appendix 1	Reports issued in respect of the 2021/22 Internal Audit end of March 2022 to the end of June 2022
Appendix 2	Internal Audit Report – Planning Fee Income
Appendix 3	Internal Audit Report – Non-Housing Property Repairs

Chesterfield Borough Council – Internal Audit Consortium

Report to Standards and Audit Committee

Summary of Internal Audit Reports Issued end of March 2022 to end of June 2022

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Report Ref No.	Report Title	Scope & Objectives	Assurance Level	Date			Number of Recommendations	
				Report Issued	Response Due	Response Received	Made	Accepted
017	Planning Fees Income	To ensure that Planning fees are collected correctly and promptly	Limited	20/4/22	11/5/22	20/4/22	8 (6M 2L)	8
018	Non- Housing Property Repairs	To ensure that there are up to date condition surveys for the Council's non housing properties and that the results of these are fed into the Council's budget. To ensure that there is an approved asset management strategy that is adhered to.	Limited	25/4/22	17/5/22	20/6/22	4 (2H 2M)	4
019	Treasury Management	To ensure that there is an approved treasury management strategy that is adhered	Substantial	12/5/22	6/6/22	6/6/22	1M	0

Note 1 Response not received at time of writing Report

Note 2 Response not due at time of writing report

H = High Priority

M = Medium Priority

L = Low priority

Bolsover, Chesterfield and North East Derbyshire District Councils'

Internal Audit Consortium

Internal Audit Report

Authority:	Chesterfield Borough Council
Subject:	Planning Fees Income
Date of Issue:	20th April 2022
Level of Assurance	Limited Assurance
Report Distribution:	Service Director – Economic Growth/ Development Management & Conservation Manager



INTERNAL AUDIT REPORT

Planning Fees Income

Introduction

An audit review of the procedures in respect of the collection, recording and banking of income arising from Planning Applications and miscellaneous income has recently been completed.

Scope and Objectives

The scope and objectives of the audit was to confirm for each application received that payment had been made (where applicable) and that adequate procedures and controls are in place for administering payments. Areas examined as part of the audit include: -

- Fees and charges
- Use of controlled financial stationery
- Sample of planning applications (25)
- Income and expenditure comparison
- Previous audit recommendations

Conclusion

The overall assessment of the reliability of the internal controls operating in the above areas was assessed as giving **Limited Assurance** (Certain important controls are either not in place or not operating effectively. There is a risk that the system may not achieve its objectives. Some key risks were not well managed).

Acknowledgement

The Auditor would like to thank the Development Management & Conservation Manager and Planning Technicians for the helpful assistance during the audit.

Findings and Recommendations

Previous Audit Recommendations

1. The previous audit was completed in April 2016. A total of 2 recommendations were reported. A review of these recommendations established the following: -

2 Previous Audit Recommendations	
Not Completed and reiterated in this report	2

2. The two previous audit recommendations have been incorporated into this report: -

- Previous Audit Recommendation R1 has been incorporated into R9
- Previous Audit Recommendation R2 has been incorporated into R1

Fees and Charges

3. Planning Application fees are set nationally and were last revised in January 2018. It was identified that the Councils fees and charges reflect these changes.
4. At the time of the audit the current fees and charges were not available to view on the Councils web-site.

Recommendation	
R1	It would be prudent for a fee schedule to be accessible on the Councils Website. (Priority – Low)

Banking Procedures

5. Payments for planning application fees and miscellaneous fees can be paid by the following options:
 - Payment in person at the Customer Services Centre
 - Cheque payments by post
 - Debit / Credit card payments made over the telephone (processed by Revenues Cashiers)
6. If an application is submitted via the Planning Portal the fee is made payable to the Planning Portal. Once the application is released to the Council the Planning Portal pay the fees by BACS.
7. Income received via the Electronic Deposit Machines (EDM) in the Customer Contact Centre is detailed on a daily Fund 20 report. The Fund 20 report is generated by the Paye.net system and is emailed to the General Planning Inbox daily.
8. Cheque payments received in the post are paid in via the Electronic Deposit Machines (EDM) at the Customer Contact Centre by one of the Planning Technicians. These are also detailed on the Fund 20 Report.
9. Debit/Credit card payments taken over the phone are processed through Paye.net and these are also included on the Fund 20 Report.
10. The fund 20 report identifies planning application fees that have been paid by credit/debit card over the phone or via the EDM located in the revenues hall, or cash/cheque payments made via the EDM. When payment is taken the planning application reference number or site address is entered to identify which application the payment relates too.
11. A sample of two months fund 20 reports (01/11/2021 to 28/11/2021) & (29/11/2021 to 23/12/2021) were checked and reconciled to a report run from Paye.net and confirmed that CAPS (Planning System) had been updated, no issues were identified within the sample.

12. The fund 20 reports are saved electronically, following a review of 2021 fund 20 reports it was identified that 3 months (June, July & Aug 2021) were missing. It was established that there was an issue with not receiving the Fund 20 reports by email and this was not followed up/investigated at the time.
13. It was ascertained with ICT that there were no known or reported issues with Paye.net during the above period

Recommendation	
R2	It is essential that all Fund 20 Reports are saved and any missing reports are followed up with ICT. <i>(Priority – Medium)</i>

14. It was identified during the audit that no reconciliations of the daily fund 20 reports and the planning system CAPS takes place to confirm the payment made has been updated in CAPS.
15. It was also identified that on occasions Support Services have taken planning fees and not informed the planning office and subsequently the Caps system has not been updated to show the fee has been paid. If a reconciliation of the fund 20 reports had taken place by the planning service, the payment would have been identified.
16. Fund 10 cashier's receipts are provided to the Planning Service from the cashiers. These identify payments that have been made direct into the Councils bank account. The receipts identify the amount paid and a reference number relating to the planning application.
17. Cashiers complete a XX Income Paying-In Slip with the Planning Services cost centre and account code and amount (£). These are then passed to Accountancy.
18. The majority of the fund 10 receipts that Planning Services receive from cashiers are in relation to payments for applications received from the Planning Portal. Other instances where Planning Services would receive a Fund 10 cashier's receipt is if a customer paid their planning fee by bank transfer or a faster payment.
19. A sample of two months Fund 10 receipts (01/11/2021 to 28/11/2021) & (29/11/2021 to 23/12/2021) were checked and reconciled to the documentation that the planning portal send to Planning Services, Unit4 (FMS) and CAPS to confirm all payments had been received and that CAPS had been updated with the correct fees received. The following was identified: -
 - 3 payments were received, and the receipt passed to Planning Services, but the incorrect income code was written on the paying in slip.
 - 1 payment for a planning portal application – the planning portal remittance no. written on the receipt could not be identified on the list of applications submitted by the planning portal, establishing the fee did not relate to an application but this was not followed up by Planning Services at the time. This was resolved at the time of the audit; the Planning Portal were

contacted, and it was established that the applications under the Remittance ref: PPA1015171121 had been submitted and the fees paid but the remittance details had not been emailed.

- 1 payment for a planning portal application – the remittance number on the fund 10 receipt was confirmed to the list of applications received from the planning portal but the planning portal number which relates to the remittance number could not be identified in the CAPS system so could not view the application. This was discussed with the Planning Technician – Validating who confirmed the application number and identified the Planning Portal number was not visible in CAPS. This was corrected at the time of the audit.

20. It was identified that there is a reconciliation process but no reconciliations of the fund 10 cashier's receipts are being completed. This was discussed with the Planning Technician – Validation who had raised concerns that due to staff shortages this task is not being completed.
21. During the scoping of the audit the Development Management & Conservation Manager raised concerns that planning fees are being paid by the customer and planning are not being notified of the payment being received.
22. Example -: **[03/02/2022 11:28]**

I've just had a phone call from someone to check why an application hasn't been validated. They paid the fee by BACS on 11th January - £116.00 - CHE/21/00925/DOC.

A check of the fund 10 receipts which are stored in the Planning Office identified a receipt confirming payment on the 12/01/2021. If a reconciliation of the fund 10 receipts had taken place the receipt would have been identified.

Recommendation	
R3	It is essential that banking reconciliations between the Fund 20 Reports and CAPS and the Fund 10 Cashiers Receipts and the Planning Portal Remittance Notifications / CAPS are undertaken on a daily basis. <i>(Priority – Medium)</i>

23. It was identified that no management checks take place in relation to: -
- Planning income being received.
 - Fund 20 and Fund 10 Cashiers receipts have been reconciled to the CAPS system and the Planning Portal Remittance Notifications.
 - Confirming the fee has been coded to the correct planning application.
 - Confirming the fee is correct.
 - Confirming CAPS had been updated with the correct fee and date.
 - Confirm the correct validation date has been entered on CAPS in relation to a planning application where the application was invalid awaiting a fee.

Recommendation	
R4	It is essential that the Development Management & Conservation Manager completes monthly management checks to ensure planning fees are accounted for and the CAPS system is up to date and to confirm these reconciliations are taking place on a daily basis. <i>(Priority – Medium)</i>

24. The Development Management & Conservation Manager does do a monthly reconciliation between the monthly budget monitoring reports and the CAPS system but this is not documented. This generally does not reconcile due to the processing times but any significant variances would be discussed with Accountancy.

Recommendation	
R5	It would be prudent for the Development Management & Conservation Manager to document his monthly reconciliations to highlight any significant variances. <i>(Priority – Medium)</i>

25. A reconciliation does occur on an annual basis between the Fund 20 and the C+D Book, this is completed by Accountancy.
26. As evidenced in the auditors testing of all four systems (CAPS, Unit4, Capita & C+D Book) that they do not correctly reconcile across the financial year, this is due to the processing times of planning applications.
27. It was identified that any cheques received in the post are paid in via the Electronic Deposit Machines (EDM) at the Customer Service Centre.
28. A report was produced from Paye.net for October, November and December 2021 and the sample of applications selected was any payments made by cheque.
29. A sample of 5 applications identified the following: -
- Two applications were received on the 01.10.2021, The CAPS system states the payments were received on the 06.10.2021 and the applications were made valid on the 01.10.2021. This meaning both applications were made valid before the fee was received or the incorrect date has been entered in the payment screen i.e., the date the cheque was banked has been used instead of the date it was received.
 - One of these two applications above stated in CAPS that the payment was made by card instead of cheque.
 - 3 applications took 22 days, 26 Days, and 37 days to be banked - from the date they were received.

Recommendation	
R6	It is essential that cheques are banked on a weekly basis <i>(Priority Medium)</i>

30. Any planning application fees that are paid directly into the Councils bank account, the cashiers complete a paying in slip with the amount, account code, cost centre and date received, which is sent to accountancy to be coded in the FMS.
31. A sample of paying in slips (wks.32 to 35) held in accountancy were checked for accuracy and it was identified that two paying slips had been incorrectly coded to income code 9150 0431 (Land Charges)
32. It was identified no reconciliations are undertaken of planning fees to Unit4

Recommendation	
R7	It is essential that the Development Management & Conservation Manager completes regular reconciliations between cashier's receipts and Unit4 to ensure planning income has been correctly coded <i>(Priority Medium)</i>

Planning Fees

33. A sample of 25 planning applications was selected. The following was identified:
 - All application fees were calculated based on the schedule of rates and confirmed as correct.
 - All application fees have been paid in full.
 - All application fee payments were traced back to Capita reports, XX paying in slips, Receipts.
 - All applications have been checked on the CAPS system to confirm that the payment has been registered against the application details.
 - All applications have been approved by the correct means (Delegated officer or committee).
 - 9 Applications (36%) were decided inside the target timeframe.
 - 9 Applications (36%) were decided Outside the target timeframe.
 - 4 Applications (16%) were decided outside the target timeframe but in time with an agreed extension of time confirmed by the applicant/agent.
 - 2 Applications (8%) were still pending a decision but inside the target timeframe at the time of the audit.
 - 1 Application (4%) was found to be Permitted Development therefore no decision was required.
 - A review of the Quarter 3 monthly KPI figure shows on average 89% of delegated decision were made in time, the KPI Target being 90%

Miscellaneous Income

34. As cash is no longer received by the planning department no banking takes place.
35. When a member of the public is charged for misc. fee's, they're options for payment are the same as payments for planning applications which are stated above.
36. When payments are made via the Electronic Deposit Machines (EDM) at the Customer Service Centre the customer is required to enter the prefix "PLAN/" followed by a brief description or reference. This ensures that all planning miscellaneous fees are allocated to correct cost centre/account code.
37. There are minimal payments received for planning miscellaneous (sales of plans, photocopies etc) as these are available on Chesterfield Borough Councils website to download or print.
38. A report from Unit 4 established four payments totalling £35.00 were received in 2021/22 for copies of planning consents.
39. It was identified that the current miscellaneous fees and charges has not been reviewed since 2007. A recommendation was made in the 2016 Planning Income Audit to review the fees and charges. It was established that a review has not taken place.

Recommendation	
R8	As mentioned in the previous audit it would be prudent to review miscellaneous charges on a regular basis (Low Priority)

Income and Expenditure

40. It was established with the Senior Accounting Technician that there were no significant/major variances and expenses have not changed by a significant amount.
41. The monitoring of planning income for 2021/22 identifies fees and charges are above forecast by 10K to date. No issues were identified.

Appendix 1

Internal Audit Consortium Opinion Definitions

Assurance Level	Definition
Substantial Assurance	There is a sound system of controls in place, designed to achieve the system objectives. Controls are being consistently applied and risks well managed.
Reasonable Assurance	The majority of controls are in place and operating effectively, although some control improvements are required. The system should achieve its objectives. Risks are generally well managed.
Limited Assurance	Certain important controls are either not in place or not operating effectively. There is a risk that the system may not achieve its objectives. Some key risks were not well managed.
Inadequate Assurance	There are fundamental control weaknesses, leaving the system/service open to material errors or abuse and exposes the Council to significant risk. There is little assurance of achieving the desired objectives.

Internal Audit Report – Implementation Schedule

Report Title:	Planning Fees Income	Report Date:	20 th April 2022
		Response Due By Date:	11 th May 2022

	Recommendations	Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
				Officer	Date			
R1	It would be prudent for a fee schedule to be accessible on the Councils Website.	Low	✓	PS	End April 22	Should be medium priority to improve chance of correct fees being charged.	Need to establish planning contact for keeping website up to date.	Noted some fees changed 2021 (but not affected any CBC applications).
R2	It is essential that all Fund 20 Reports are saved, and any missing reports are followed up with ICT.	Medium	✓	PK/DG/ SGW	End April 22	no	no	Agreed to be saved direct from General Planning Enquiries inbox where received.
R3	It is essential that banking reconciliations between the Fund 20 Reports and CAPS and the Fund 10 Cashiers Receipts and the Planning Portal Remittance Notifications / CAPS are undertaken on a daily basis.	Medium	✓	PK/DG/ SGW	End April 22	no	Question daily requirement. Consider should be 2/3 times per week	Using spreadsheet maintained on all received applications awaiting validation in shared planning folder and update Uniform/Idox. Need to ensure DG/SGW have access to shared folder

Recommendations		Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
				Officer	Date			
R4	It is essential that the Development Management & Conservation Manager completes monthly management checks to ensure planning fees are accounted for and the CAPS system is up to date and to confirm these reconciliations are taking place on a daily basis.	Medium	✓	PS	End April 22	no	Question daily requirement. Consider should be 2/3 times per week	none
R5	It would be prudent for the Development Management & Conservation Manager to document his monthly reconciliations to highlight any significant variances.	Medium	✓	PS	End May 22	no	no	none
R6	It is essential that cheques are banked on a weekly basis	Medium	✓	PK/DG/SGW	End April 22	no	no	none
R7	It is essential that the Development Management & Conservation Manager completes regular reconciliations between cashier's receipts and Unit4 to ensure planning income has been correctly coded	Medium	✓	PS but also PK/DG/SGW	End April 22	no	no	The two samples identified have now been correctly coded to Development Management.

Recommendations		Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
				Officer	Date			
R8	As mentioned in the previous audit it would be prudent to review miscellaneous charges on a regular basis	Low	✓	PS/EB	End May 22	no	no	Need to agree charges for <ul style="list-style-type: none"> • Copy decisions • Copy applications (per paper size) • Hourly rate for officer time rather than self serve.

Please tick the appropriate response (✓) and give comments for all recommendations not agreed.

Signed Service Manager:		Date: 7 th April 2022
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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

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