

## Audit and Standards Committee

Date and Time - **Monday 21 March 2022 – 6:30pm**

Venue - **Council Chamber, Town Hall, Bexhill-on-Sea**

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### **Councillors appointed to the Committee:**

A.K. Jeeawon (Chairman), J. Barnes, Mrs M.L. Barnes, P.C. Courtel, K.M. Harmer, Mrs E.M. Kirby-Green, C.A. Madeley and R.B. Thomas.

**Audit Independent Person:** Mr Patrick Farmer

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## **AGENDA**

### **1. MINUTES**

To authorise the Chairman to sign the Minutes of the meeting of the Audit and Standards Committee held on 6 December 2021 as a correct record of the proceedings.

### **2. APOLOGIES FOR ABSENCE**

### **3. ADDITIONAL AGENDA ITEMS**

To consider such other items as the Chairman decides are urgent and due notice of which has been given to the Head of Paid Service by 12 Noon on the day of the meeting.

### **4. DISCLOSURE OF INTERESTS**

To receive any disclosure by Members of personal and disclosable pecuniary interests in matters on the agenda, the nature of any interest and whether the Member regards the personal interest as prejudicial under the terms of the Code of Conduct. Members are reminded of the need to repeat their declaration immediately prior to the commencement of the item in question.

## **PART A - STANDARDS REPORTS – NONE**

## **PART B - AUDIT REPORTS**

### **5. INTERNAL AUDIT REPORT TO 31 DECEMBER 2021 (Pages 1 - 12)**

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**For all enquiries please contact**  
**[louise.hollingsworth@rother.gov.uk](mailto:louise.hollingsworth@rother.gov.uk)**

6. **REVIEW OF INTERNAL AUDIT 2021/22** (Pages 13 - 22)
7. **INTERNAL AUDIT PLAN 2022/23** (Pages 23 - 46)
8. **RISK MANAGEMENT UPDATE** (Pages 47 - 54)
9. **TREASURY MANAGEMENT UPDATE** (Pages 55 - 62)
10. **ACCOUNTING POLICIES 2021/22** (Pages 63 - 82)
11. **WORK PROGRAMME** (Pages 83 - 84)

Malcolm Johnston  
Chief Executive

Agenda Despatch Date: 11 March 2022

## Rother District Council

<b>Report to:</b>	Audit and Standards Committee
<b>Date:</b>	21 March 2022
<b>Title:</b>	Internal Audit Report to 31 December 2021
<b>Report of:</b>	Gary Angell, Audit Manager
<b>Purpose of Report:</b>	To report on Internal Audit activity in the third quarter of 2021/22 and to provide a progress update on the implementation of audit recommendations made in earlier periods.
<b>Officer Recommendation(s):</b>	It be <b>RESOLVED:</b> That the Internal Audit report to 31 December 2021 be noted.

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### Introduction

1. The Council is required to ensure that it has reliable and effective internal control systems in place. The adequacy of these systems is tested by both Internal and External Audit.
2. The Council's Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards. It is a requirement of these Standards that we report to the Audit and Standards Committee on audit matters and any emerging issues not only in relation to audit, but also to risk management and corporate governance.

### Current Position

3. The Internal Audit Team is now back on target to complete the majority of work in the 2021/22 Audit Plan by 31 March 2022.

### Summary of Activity to 31 December 2021

4. Five audit reports were issued in the quarter. An overview of the findings arising from each of these audits is given in the Executive Summaries which are reproduced in Appendix A.
5. All of these audits provided good or substantial assurance on those areas reviewed.

### Implementation of Audit Recommendations

6. Each quarter, Members are updated on the progress made on implementing the audit recommendations reported at previous meetings. Appendix B shows a summary of the current position.
7. From this it can be seen that there has been some movement on the older year recommendations this quarter. However, this includes two recommendations which were closed, unresolved. Both relate to technical issues with the

Creditors system, which in certain circumstances can allow additional expenditure to either be authorised without proper approval or authorised by the same person who raised the original purchase order. The root cause of these issues has now been established, but the cost of fixing them would be prohibitive given how infrequently they occur. The Chief Finance Officer has therefore decided to accept the risk of taking no further action in both cases.

8. Two other recommendations (ICT Network Security and ICT Governance) are almost complete and the third (Procurement) has recently been picked up by the Chief Finance Officer following the retirement of the Assistant Director Resources.
9. The Chief Executive has been informed about progress on all long outstanding recommendations.
10. Progress on the current year recommendations remains good, with over half now completed.

## Conclusion

11. The majority of the 2021/22 Audit Plan will be completed by 31 March 2022.
12. There has been some movement on the older audit recommendations this quarter and only three recommendations now remain outstanding.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	External Consultation	No
Environmental	No	Access to Information	No
Risk Management	No	Exempt from publication	No

Chief Executive:	Malcolm Johnston
Report Contact Officer:	Gary Angell, Audit Manager
e-mail address:	<a href="mailto:gary.angell@rother.gov.uk">gary.angell@rother.gov.uk</a>
Appendices:	A – Audit Reports issued during Quarter to 31 December 2021 B – Summary of Progress on Recommendations Made up to 30 September 2021
Relevant Previous Minutes:	AS21/41
Background Papers:	None.
Reference Documents:	None.

**GROUNDS MAINTENANCE CONTRACT (CLIENT CONTROL) AUDIT**

Head of Service: Deborah Kenneally

Officer(s) Responsible for Implementing Recommendations: Venus Blunden and Anna Evett

Overall Level of Assurance: **SUBSTANTIAL**

**Purpose and Objectives**

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

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

**Control Objectives**

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

<b>Contract</b> – The contract is properly authorised and the contract documentation complete.	<b>M</b>
<b>Monitoring Performance</b> – The performance of the Contractor is adequately monitored to ensure compliance with the terms of the contracts.	<b>M</b>
<b>Payments</b> – All contract payments are correct and within the authorised budget.	<b>P</b>
<b>Budget</b> – The budget is monitored and controlled.	<b>M</b>

**Level of Assurance**

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

The only issue found relates to the calculation of the annual inflation uplift. The wrong indices were used in 2018 and 2020, resulting in a small net overpayment to the Contractor at the time of the audit. However, if the error remains uncorrected, this will result in an overpayment of approximately £400 per month from October 2021 onwards. The Parks team has therefore agreed to take corrective action to prevent any further overpayment.

**Executive Summary**

Overall, the control objectives are considered to have largely been met and it was only necessary to make one medium risk recommendation to management to correct the issue highlighted above.

Internal Audit Service  
October 2021

**WORKS CONTRACT – BLACKFRIARS PROJECT AUDIT**

Head of Service: Ben Hook

Officer(s) Responsible for Implementing Recommendations: Stephen Marsden

Overall Level of Assurance: **SUBSTANTIAL**

**Purpose and Objectives**

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

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

**Background and Scope of Audit**

The Blackfriars project aims to deliver 200 homes, including affordable housing, to the district. This audit focuses on the preliminary stages of the project and three contracts were reviewed, namely:

- Baily Garner LLP – the Employer’s agent
- Built Environment Design Partners Limited – for architectural design
- Breheny Civil Engineering Limited – for building of the spine road

The tendering process for building the residential housing was ongoing at the time of this audit and is not part of this report. However, it is intended that the house building stage of this project will be audited at a later date.

**Control Objectives**

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

<p><b>Pre-Contract Stage</b> – The project is formally appraised, and all works contracts are tendered for and let in accordance with Procurement Procedure Rules and Financial Procedure Rules. All contract documentation is in place before the commencement of works.</p>	<p><b>P</b></p>
<p><b>Currency of Contracts</b> – All contracts for the delivery of the project are properly administered to ensure that they are completed on time, for the agreed price, and that the work is of a satisfactory standard.</p>	<p><b>M</b></p>

**Level of Assurance**

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements. Some control issues were however identified, all of which relate to shortcomings in the Employer’s Agent’s management of the contract documentation. For example, Baily Garner had failed to ensure all necessary contract paperwork was in place before work commenced on two of the contracts reviewed. A performance bond which is required from the contractor building

the spine road had still not been completed at the time of the audit, several months after work had already commenced on site. Furthermore, Baily Garner has so far been unable to provide evidence that the contract for architectural design was ever signed. The work on this contract was completed some time ago, but without a signed contract in place the Council (rather than the contractor) could be held liable in any future disputes regarding design quality. The Developments Project Manager has therefore agreed to contact Bailey Garner to seek improvements to the service provided and will chase all outstanding paperwork.

None of the above mentioned issues have however hindered the progress of the project which remains good.

### **Executive Summary**

Overall, the control objectives are considered to have only been partially met. We have made three medium risk recommendations to management all of which are aimed at enhancing the governance arrangements.

Internal Audit Service  
November 2021

**INCOME MANAGEMENT AUDIT**

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Rebecca Algar

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

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

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

**Control Objectives**

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

<b>Collection Arrangements</b> – Adequate provision has been made for the collection and recording of Council income.	<b>M</b>
<b>Receipting of Income</b> – All collections and direct to bank credits are promptly, completely and accurately brought to account.	<b>M</b>
<b>Post Collection Adjustments</b> – Fund transfers and the refund of card payments are properly controlled. Income records are promptly updated where payment is rejected.	<b>M</b>

**Level of Assurance**

Based on the findings from the audit we have determined that good assurance can be given on the governance arrangements as no significant issues were found.

**Executive Summary**

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

Internal Audit Service  
November 2021



**TREASURY MANAGEMENT AUDIT**

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Tony Baden and Noreen Safdar

Overall Level of Assurance: **SUBSTANTIAL**

**Purpose and Objectives**

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

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

**Control Objectives**

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

<b>Policy and Procedures</b> – Investments are only made in accordance with the Council's approved policy and any amendments are promptly actioned. The Council seeks to maximise the return on its investments where it is prudent to do so.	<b>P</b>
<b>Authorisation and Record Keeping</b> – All investments and withdrawals are properly authorised with all relevant records and accounts updated and adequate documentation kept to support the transfer of funds.	<b>P</b>
<b>Monitoring of Performance</b> – There is regular monitoring and reporting of investment performance.	<b>M</b>
<b>Policy and Procedures</b> – The Council has an approved strategy for external borrowing and borrowing levels are related to the Council's needs.	<b>M</b>
<b>Authorisation and Record Keeping</b> – All loans are properly authorised with all relevant records and accounts updated and adequate documentation kept to support each transaction.	<b>M</b>
<b>Repayment and Interest</b> – All loan repayments and interest charges are correctly calculated and properly recorded.	<b>M</b>
<b>Reconciliation and Other Controls</b> – There are regular reconciliations to ensure that all transactions are accounted for. There is fidelity insurance cover for all staff involved in Treasury Management. Members receive Treasury Management training.	<b>M</b>

### Level of Assurance

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

The main issues found relate to:

- **Credit Ratings** – The sovereign credit ratings reported to Members in the Treasury Management Strategy for 2021/22 contained inaccurate ratings for four countries, including the UK. None of these countries fell below the minimum AA-rating specified in the Strategy but checks should be undertaken to ensure that the information contained in future reports is accurate.
- **Online Banking** – Alliance Homes' bank account has been added to the Lloyds Commercial Banking Online System and two Councillors and three officers have been set up as approvers. It is currently unclear whether the Councillors' access also allows them to approve payments from the Council's bank account, but this will need to be restricted if it does. The officers concerned will need access to both bank accounts but separate user names should be established so that it is clear in what capacity they are agreeing to the payments.

### Executive Summary

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

Internal Audit Service  
December 2021

## POLLUTION CONTROL AUDIT

Head of Service: Richard Parker-Harding

Officer(s) Responsible for Implementing Recommendations: Cathy Beaumont, Paul Yates and Christina Martin

Overall Level of Assurance: **SUBSTANTIAL**

### Purpose and Objectives

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

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

### Control Objectives

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

<b>Inspections</b> – All authorised processes (air pollution) are regularly inspected to ensure compliance with specified conditions. Complaints are also followed up as appropriate, and other environmental factors routinely monitored.	<b>M</b>
<b>Enforcement</b> – All enforcement action is undertaken in accordance with the Enforcement Policy and the costs incurred by the Council recovered where possible.	<b>M</b>
<b>Budget</b> – All expenditure on pollution control is correctly incurred and within budget, and all income from authorised process collected.	<b>M</b>
<b>Public Health Funerals</b> – Wealden DC public health funerals are administered in accordance with the Public Health (Control of Disease) Act 1984.	<b>P</b>

### Level of Assurance

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

The main issue identified relates to how cash found during Wealden DC public health funeral visits is banked. This has to be banked by the officers themselves as cash is no longer collected from the Council offices. However, the money is currently being deposited into an officer's personal NatWest bank account first then immediately transferred to the Council's Lloyds bank account. The reason given for this is that the local branch of Lloyds Bank does not have a coin counting machine. While this process has been established with the best of intentions, it is not acceptable practice, and a recommendation has therefore been made that all cash be deposited straight into the Council's bank account from now on.

Some minor issues were also found regarding the monitoring of outstanding pollution complaints, the charging and collection of subsistence fees for prescribed processes, and the recovery of costs incurred for works in default.

**Executive Summary**

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

Internal Audit Service  
December 2021

## Summary of Progress on Recommendations Made up to 30 September 2021

### Old Years – Audit Recommendations 2018/19 and 2019/20 and 2020/21

Previous quarter's performance shown in brackets

Risk	Issued	Implemented	Work-in-Progress	Not Started
High	3	3 (3)	0 (0)	0 (0)
Medium	79	77* (75)	2 (4)	0 (0)
Low	49	48 (46)	1 (2)	0 (0)
<b>Total</b>	<b>131</b>	<b>128 (125)</b>	<b>3 (6)</b>	<b>0 (0)</b>
		<b>97.7% (95.4%)</b>	<b>2.3% (4.6%)</b>	<b>0% (0%)</b>

Note – All audit recommendations made in 2020/21 have now been implemented.

\* This figure includes two long outstanding Creditors recommendations that have been closed unresolved.

Breakdown of outstanding audit recommendations by Service Manager:

#### Antony Baden (Chief Finance Officer)

- Procurement (2018/19) – issued 05/10/18 (1 Medium)

#### Graham McCallum (ICT Manager & Data Protection Officer)

- ICT Network Security (2018/19) – issued 16/01/19 (1 Low)
- ICT Governance (2018/19) – issued 12/04/19 (1 Medium)

### Current Year – Audit Recommendations 2021/22 (up to 30 September 2020)

Previous quarter's performance shown in brackets

Risk	Issued	Implemented	Work-in-Progress	Not Started
High	0	0 (0)	0 (0)	0 (0)
Medium	10	6 (3)	4 (4)	0 (0)
Low	9	5 (3)	4 (3)	0 (0)
<b>Total</b>	<b>19</b>	<b>11 (6)</b>	<b>8 (7)</b>	<b>0 (0)</b>
		<b>57.9% (46.2%)</b>	<b>42.1% (53.8%)</b>	<b>0% (0%)</b>

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**Rother District Council**

<b>Report to:</b>	Audit and Standards Committee
<b>Date:</b>	21 March 2022
<b>Title:</b>	Review of Internal Audit 2021/22
<b>Report of:</b>	Gary Angell, Audit Manager
<b>Purpose of Report: Officer</b>	To report on the effectiveness of the Internal Audit Service.
<b>Recommendation(s):</b>	It be <b>RESOLVED:</b> That the Review of Internal Audit 2021/22 be approved.

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**Introduction**

1. The Council's Internal Audit Service is operated in accordance with the Public Sector Internal Audit Standards. These Standards require the Audit Manager to undertake periodic self-assessments of the effectiveness of Internal Audit, but they do not specify how frequently these reviews should take place. The Audit Manager considers it beneficial for annual reviews to be carried out, and for Members to receive the findings, prior to 31 March each year so that reliance can be placed on the effectiveness of Internal Audit when reviewing the Annual Governance Statement.

**Quality Assurance and Improvement Programme**

2. The Public Sector Internal Audit Standards (hereafter referred to as 'the Standards') aim to achieve consistent industry standards for Internal Audit. The Standards also require the Audit Manager to develop and maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the Internal Audit activity. This includes both internal and external assessments.
3. Periodic internal assessments are necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and Attribute and Performance Standards. The Audit Manager therefore carries out an annual self-assessment review of the Internal Audit function in order to meet this requirement and uses a comprehensive checklist to ensure that all aspects of the Standards are covered. Given the length of this document, the results of the review have been summarised for this report, but the detailed checklist is also available to view upon request. The Summary Compliance Checklist can be found in Appendix A.
4. Internal Auditors are expected to comply with the Standards as far as possible and where compliance is not possible, to explain why. The level of compliance with each aspect of the Standards is indicated in the checklist by a tick in the relevant column; **Y** (Yes - Compliant), **P** (Partial Compliance) or **N** (Not Compliant). Where further work is required, there is a corresponding item in the Action Plan for 2022/23 (shown at Appendix B).

5. Any material non-compliance with the Standards would need to be highlighted in the Annual Governance Statement but no such issues were found.
6. In addition to periodic self-assessment, the Standards also require an external (peer) assessment to be carried out at least once every five years. The last peer review was arranged via the Sussex Audit Group and was conducted by the Chief Internal Auditors at Arun and Horsham District Councils in 2016/17. This concluded that that “the Internal Audit Service of Rother District Council generally conforms with the Public Sector Internal Audit Standards (PSIAS) and general good practice for the profession”. However, a further review is now overdue.
7. The most cost-effect method of completing this work would be to enter into similar reciprocal arrangement to that used last time. However, the Sussex Audit Group has not met since the COVID-19 pandemic first hit (although there has been some recent interest in reviving the forum) and some of the audit teams in East and West Sussex have since merged or sourced their own external provider. It is therefore unclear at this stage whether there will be any appetite for such an arrangement.
8. The alternative would be to hire the services of an external provider to carry out the work, but this could be expensive, and may only go ahead if the funds are available to do. The Audit Manager will however investigate the cost of engaging a suitable provider and will report back on progress later in the year.
9. A progress update on the Action Plan from last year's review is also provided in Appendix B. This shows that action has now been taken on all of the points raised.

## Conclusion

10. In summary, only one new issue has been highlighted by the latest internal assessment and all three action points from last year's review have now been addressed.
11. The results of this assessment, and the earlier peer review, therefore demonstrate the Internal Audit Service continues to achieve a good level of compliance with the Standards and none of the areas of partial compliance are significant in nature. On this basis, the Audit Manager concludes that **there is a high level of effectiveness overall**.
12. The Section 151 Officer and Monitoring Officer support the conclusion.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	External Consultation	No
Environmental	No	Access to Information	No
Risk Management	No	Exempt from publication	No

Chief Executive:	Malcolm Johnston
Report Contact Officer:	Gary Angell, Audit Manager
e-mail address:	<a href="mailto:gary.angell@rother.gov.uk">gary.angell@rother.gov.uk</a>
Appendices:	A – QAIP Summary Compliance Checklist 2021/22



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	B – QAIP Action Plans
Relevant Previous Minutes:	AS17/14 – Internal Audit - Peer Review AS20/52 – Review of Internal Audit 2020/21
Background Papers:	Review of Internal Audit 2021/22 (Full Checklist) – copy available on request.
Reference Documents:	None.

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Ref	Public Sector Internal Audit Standards Compliance Check	Y	P	N	Comments
<b>1.0</b>	<b>Definition of Internal Auditing</b>				
1.1	Using evidence gained from assessing conformance with other Standards, is the Internal Audit activity: a) Independent? b) Objective?	✓ ✓			
1.2	Using evidence gained from assessing conformance with other Standards, does the Internal Audit activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation?	✓			
<b>2.0</b>	<b>Code of Ethics</b>				
2.1	<b>Integrity</b> Using evidence gained from assessing conformance with other Standards, do Internal Auditors: a) Perform their work with honesty, diligence and responsibility? b) Observe the law and make disclosures expected by the law and the profession? c) Not knowingly partake in any illegal activity nor engage in acts that are discreditable to the profession of Internal Auditing or to the organisation? d) Respect and contribute to the legitimate and ethical objectives of the organisation?	✓ ✓ ✓ ✓			
2.2	<b>Objectivity</b> Using evidence gained from assessing conformance with other Standards, do Internal Auditors display objectivity by not: a) Taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment? b) Accepting anything that may impair or be presumed to impair their professional judgement? c) Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review?	✓ ✓ ✓			

Ref	Public Sector Internal Audit Standards Compliance Check	Y	P	N	Comments
2.3	<p><b>Confidentiality</b></p> <p>Using evidence gained from assessing conformance with other Standards, do Internal Auditors display confidentiality by:</p> <ul style="list-style-type: none"> <li>a) Acting prudently when using information acquired in the course of their duties and protecting information? ✓</li> <li>b) Not using information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation? ✓</li> </ul>				
2.4	<p><b>Competency</b></p> <p>Using evidence gained from assessing conformance with other Standards, do Internal Auditors display competency by:</p> <ul style="list-style-type: none"> <li>a) Only carrying out services for which they have the necessary knowledge, skills and experience? ✓</li> <li>b) Performing services in accordance with the Standards? ✓</li> <li>c) Continually improving their proficiency and effectiveness and quality of their services, for example through Continuing Professional Development schemes? ✓</li> </ul>				
<b>Standards</b>					
<b>3.0</b>	<b>Attribute Standards</b>				
<b>3.1</b>	<b>1000 Purpose, Authority and Responsibility</b>	✓			
3.1.1	1010 Recognising Mandatory Guidance in the Internal Audit Charter	✓			
<b>3.2</b>	<b>1100 Independence and Objectivity</b>	✓			
3.2.1	1110 Organisational Independence	✓			
3.2.2	1111 Direct Interaction with the Board	✓			
3.2.3	1112 Chief Audit Executive Roles Beyond Internal Auditing	✓			The Audit Manager has recently taken on the role of Risk Management Co-Ordinator, but he has no responsibility for managing the risks identified. Members will be informed should this role impair his independence or objectivity.

Ref	Public Sector Internal Audit Standards Compliance Check	Y	P	N	Comments
3.2.4	1120 Individual Objectivity	✓			
3.2.5	1130 Impairment to Independence or Objectivity	✓			This situation has not arisen in 2021/22.
<b>3.3</b>	<b>1200 Proficiency and Due Professional Care</b>	✓			
3.3.1	1210 Proficiency	✓			
3.3.2	1220 Due Professional Care	✓			
3.3.3	1230 Continuing Professional Development	✓			
<b>3.4</b>	<b>1300 Quality Assurance and Improvement Programme (QAIP)</b>	✓			
3.4.1	1310 Requirements of the Quality Assurance and Improvement Programme	✓			
3.4.2	1311 Internal Assessments	✓			
3.4.3	1312 External Assessments			✓	The last peer review was completed in 2016/17 A further external assessment is now overdue.
3.4.4	1320 Reporting on the Quality Assurance and Improvement Programme	✓			
3.4.5	1321 Use of “Conforms with the Public Sector Internal Audit Standards”	✓			
3.4.6	1322 Disclosure of Non-conformance	✓			This situation has not arisen in 2021/22.
<b>4.0</b>	<b>Performance Standards</b>				
<b>4.1</b>	<b>2000 Managing the Internal Audit Activity</b>	✓			
4.1.1	2010 Planning	✓			
4.1.2	2020 Communication and Approval	✓			
4.1.3	2030 Resource Management	✓			
4.1.4	2040 Policies and Procedures	✓			
4.1.5	2050 Coordination	✓			
4.1.6	2060 Reporting to Senior Management and the Board	✓			
4.1.7	2070 External Service Provider and Organisational Responsibility for Internal Auditing	-	-	-	N/A - Service provided by in-house team.

Ref	Public Sector Internal Audit Standards Compliance Check	Y	P	N	Comments
<b>4.2</b>	<b>2100 Nature of Work</b>	✓			
4.2.1	2110 Governance		✓		Internal Audit has never specifically evaluated the design, implementation and effectiveness of the Council's ethics-related objectives, programmes and activities but any significant governance issues would be highlighted in other audit work. No further action is therefore required
4.2.2	2120 Risk Management	✓			
4.2.3	2130 Control	✓			
<b>4.3</b>	<b>2200 Engagement Planning</b>	✓			
4.3.1	2201 Planning Considerations	✓			
4.3.2	2210 Engagement Objectives	✓			
4.3.3	2220 Engagement Scope	✓			
4.3.4	2230 Engagement Resource Allocation	✓			
4.3.5	2240 Engagement Work Programme	✓			
<b>4.4</b>	<b>2300 Performing the Engagement</b>	✓			
4.4.1	2310 Identifying Information	✓			
4.4.2	2320 Analysis and Evaluation	✓			
4.4.3	2330 Documenting Information	✓			
4.4.4	2340 Engagement Supervision	✓			
<b>4.5</b>	<b>2400 Communicating Results</b>	✓			
4.5.1	2410 Criteria for Communicating	✓			
4.5.2	2420 Quality of Communications	✓			
4.5.3	2421 Errors and Omissions	✓			

**Summary Compliance Checklist 2021/22**

**Appendix A**

Ref	Public Sector Internal Audit Standards Compliance Check	Y	P	N	Comments
4.5.4	2430 Use of “Conducted in Conformance with the Public Sector Internal Audit Standards”	✓			Conformance with the Standards is not something that is stated in individual audit reports but overall conformance with the Standards is confirmed each year in the Audit Manager’s annual report.
4.5.5	2431 Engagement Disclosure of Non-conformance	✓			This situation has not arisen in 2021/22.
4.5.6	2440 Disseminating Results	✓			
4.5.7	2450 Overall Opinion	✓			
<b>4.6</b>	<b>2500 Monitoring Progress</b>	✓			
<b>4.7</b>	<b>2600 Communicating Results</b>	✓			

**Key to level of compliance: Y** (Yes - Compliant), **P** (Partial Compliance) or **N** (Not Compliant)

## Action Plan for 2022/23

Reference	Standard	Issue Found	Action Required	Officer Responsible For Delivery	Target Date
3.4.3	1312 External Assessments	An external assessment of Internal Audit's conformance with the Standards should be carried out at least once every 5 years. The last review was in 2016/17  A further assessment is therefore overdue.	Liaise with the Sussex Audit Group to explore the possibility of a reciprocal arrangement with other local authorities in West Sussex. If that is not possible, investigate the cost of engaging an external provider and proceed if funds are available to do so.	Audit Manager	31 December 2022

## Previous Year's Action Plan (2021/22) – Progress Update

Reference	Standard	Action Required	Officer Responsible For Delivery	Target Date	Status
3.4.2	1311 Internal Assessments	Re-introduce QA questionnaires in 2021/22 to obtain stakeholder feedback on the quality of the audit work performed.	Audit Manager	30 September 2021	<b>Completed</b> – QA questionnaires have now been re-introduced.
4.1.1	2010 Planning	Produce a risk-based plan that is sufficiently flexible to reflect the changing risks and priorities of the Council.	Audit Manager	22 March 2021	<b>Completed</b> – A risk-based plan was produced for 2021/22 and was reported to the Audit and Standards Committee on 22 March 2021.
4.3.4	2230 Engagement Resource Allocation	Quantify the audit resources needed for 2021/22 as part of the audit planning process.	Audit Manager	22 March 2021	<b>Completed</b> – This was done as part of the preparations for the 2021/22 Audit Plan and was also reported to the Audit and Standards Committee on 22 March 2021.

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## Rother District Council

**Report to:** Audit and Standards Committee

**Date:** 21 March 2022

**Title:** Internal Audit Plan 2022/23

**Report of:** Gary Angell, Audit Manager

**Purpose of Report:** To report the proposed programme of Internal Audit work for the coming year.

**Officer**

**Recommendation(s):** It be **RESOLVED**: That:

- 1) the Internal Audit Plan 2022/23 be approved.
- 2) the revised Internal Audit Charter in Appendix F be approved

### Introduction

1. The Accounts and Audit Regulations 2015 require the Council to “undertake an effective Internal Audit to evaluate the effectiveness of risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. The proper practice for the Internal Audit Service is laid down in the Public Sector Internal Audit Standards (hereafter referred to as “the Standards”).
2. These standards are met by establishing a risk-based plan to determine the priorities of the Internal Audit Service, consistent with the Council’s goals. This plan must take into account the requirement to produce an annual Internal Audit opinion and the assurance framework. It must also incorporate or be linked to a strategic or high-level statement of how the Internal Audit Service will be delivered and developed in accordance with the Internal Audit Charter.
3. The Audit Manager is required to communicate the plan and resource requirements, including significant interim changes, to senior management and the Audit and Standards Committee for review and approval. In order to approve the Internal Audit Plan for 2022/23, Members must first be satisfied that it meets the above requirements.

### Overview of Audit Planning Process

4. The preparation of the Audit Plan is a three-step process:

Step	Process	Description
1	Review the Assurance Map	Update the existing assurance map to identify any gaps in assurance requiring review.
2	Risk assessment	A list of all auditable activities is maintained by the Audit Manager and each area is risk assessed and scored by him based on multiple criteria such as the

		volume and value of transactions, the results of previous audits, system complexity, strategic importance, and the frequency of change. This list is updated throughout the year as new audits are completed and information on new or emerging risks become known. The latest position is reviewed in February each year for audit planning purposes.
3	Draft the Audit Plan	The work plan for the coming year is then compiled reflecting the results of Steps 1 and 2 and available staff resources.

### Assurance Map

5. The Standards require that the Audit Manager considers other sources of assurance as part of the planning process. An 'assurance map' has therefore been developed to assess the level of assurance provided.
6. An assurance map provides a visual representation of the various sources of assurance received by an organisation on its management of strategic risks. Its purpose is to assist our understanding of the assurance received, to evaluate its adequacy and to highlight any potential gaps in coverage.
7. To produce an assurance map for this Council, the main sources of assurance were first grouped based on the 'three lines model' shown below.

First Line	Second Line	Third Line
<p><b>Functions that own and manage risk.</b></p> <p><i>The business operations which contribute to internal control and the day to day management of risk.</i></p>	<p><b>Functions that oversee or specialise in risk management compliance.</b></p> <p><i>Oversight functions include the Corporate Management Team and individual committees which set directions, define policy and provide assurance.</i></p>	<p><b>Functions that provide independent and objective assurance, and advice on all matters related to the achievement of objectives.</b></p> <p><i>These functions include Internal Audit, External Audit, and any other scrutiny or regulatory body that offer independent challenge to the levels of assurance provided by business operations and oversight functions.</i></p>

8. The effectiveness of each type of assurance across a number of key services and processes is then assessed and scored, and a traffic light system is used to indicate the level of assurance obtained. Any significant gaps in assurance would be highlighted in red but there are none on this occasion.

9. The assurance map was last reported to this Committee in March 2021. This document has now been updated and the current position (as at February 2022) is shown in Appendix A. Our assessment methodology is set out in Appendix B.
10. Only one area (Risk Management) was identified as medium risk on this occasion. Such an assessment would ordinarily have led to its inclusion in the forthcoming Audit Plan, but in view of the improvements proposed in the Risk Management Update (featured elsewhere on this agenda), the Internal Audit Team has decided to defer the next review until 2023/24 to allow time for the changes to be implemented.

### **Risk Assessment**

11. A risk assessment exercise was carried out by the Audit Manager in February 2022 and includes all new and emerging risks identified through discussions with the Corporate Management Team and Heads of Service.
12. All activities assessed to be high risk are included in the new Audit Plan. Medium risk activities are generally reviewed every two to three years, and the new plan excludes any that have only recently been reviewed. Low risk activities are ignored to make the best use of audit resources.

### **Audit Plan 2022/23**

13. The Audit Plan sets out Internal Audit's work programme to obtain assurance on the Council's control environment. It was agreed by this Committee at its December 2021 meeting (Minute AS21/41 refers) that the three-year strategic audit plan would be replaced by standalone annual audit plans from here on. The Audit Plan for 2022/23 is attached in Appendix C.
14. Other medium risk areas that were considered when compiling the new plan, but not included in final version, are listed in Appendix D for information. There are a few items on this list that have not been audited for some time. This is mainly due to the backlog of audit work caused by the COVID-19 pandemic. However, the same is also true of several audits that do feature in the plan, and due regard had to be given to other factors when determining which audits to include. For example, prioritising those areas with the longest gap between audits, including areas where there are known changes since the last review, and organising the work to avoid over-burdening those managers responsible for multiple areas of audit interest. Most of the areas on the list are however scheduled to be reviewed in 2023/24.
15. The plan has been compiled by the Audit Manager in accordance with the Internal Audit Charter 2022 (see paragraph 21). The Corporate Management Team and Heads of Service have been consulted about its contents and the final version detailed in this report is supported by the Chief Executive.
16. The plan allows for 532 days of audit work on 22 separate audit reviews/consultancy activities, plus provisions for counter fraud work. It is important that the plan includes a broad range of activities as this allows the Audit Manager to obtain sufficient assurance from the audit work to enable him to present an annual Internal Audit opinion on the adequacy of the control environment.

17. As in previous years, a significant portion of the plan will be spent on the annual Governance Audits. These audits are reviewed each year, as failures in these areas could have a negative impact on the External Auditor's overall opinion of the Council's financial statements.

## **Resources**

18. Best practice dictates that the plan should meet the audit needs of the organisation, regardless of the level of resources available to deliver it. If the days required exceed the days available, then it is for senior management to decide whether additional resources should be made available or whether they are content to accept the risks involved of not carrying out some of the reviews, and state which reviews should be omitted.
19. The resources available for the work planned in 2022/23 are shown in Appendix E. From this it can be seen that it will be possible to meet the total resource requirement of the plan using existing resources.

## **Reporting Arrangements**

20. Progress against the plan will be monitored by the Audit Manager and reported to the Audit and Standards Committee once a quarter. The content of the plan will also be kept under review by the Audit Manager in liaison with the Corporate Management Team and adjusted if required, to ensure that it continues to reflect the Council's needs and priorities.

## **Internal Audit Charter 2022**

21. The Standards require the development and adoption of an Internal Audit Charter to define the purpose, authority and principal responsibilities of the Internal Audit Service. The existing charter was last revised in May 2020 and now needs to be updated in light of organisational changes and the move away from a three-year strategic audit plan. A revised Internal Audit Charter is therefore provided in Appendix F for Members' consideration and approval.

## **Conclusion**

22. The Audit Plan needs to provide sufficient coverage to meet the Council's statutory duty. The annual Audit Plan aims to meet this requirement by optimising the effectiveness of Internal Audit, so as to contribute to the achievement of sound governance.
23. The Audit and Standards Committee should note the report, approve the Audit Plan for 2022/23 and make any comments considered appropriate to their governance role.

## **Risk Management**

24. Failure to produce a risk-based audit plan could result in Internal Audit not providing management with independent assurance where it is most needed and could increase the risk of serious control weaknesses going undetected.

<b>Other Implications</b>	<b>Applies?</b>	<b>Other Implications</b>	<b>Applies?</b>
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	External Consultation	No
Environmental	No	Access to Information	No
Risk Management	Yes	Exempt from publication	No

Chief Executive:	Malcolm Johnston
Report Contact Officer:	Gary Angell, Audit Manager
e-mail address:	<a href="mailto:gary.angell@rother.gov.uk">gary.angell@rother.gov.uk</a>

Appendices:	<p>A – Rother Assurance Map (February 2022)</p> <p>B – Rother Assurance Map – Methodology</p> <p>C – Audit Plan 2022/23</p> <p>D – Other audit areas considered but not included in the plan</p> <p>E – Resources for the Audit Plan 2022/23</p> <p>F – Internal Audit Charter 2022</p>
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Relevant Previous Minutes:	AS21/41 Internal Audit Report to 30 September 2021
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Background Papers:	None.
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Reference Documents:	None.
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Service or Process	First Line				Second Line			Third Line			Gap Analysis - Cumulative Points	Internal Audit - Assurance Gap Risk Analysis
	Functions that own and manage risk				Functions that oversee or specialise in risk management compliance			Functions that provide independent and objective assurance, and advice				
	Management self assessments	Key Performance Indicators	Complaints Reporting	Strategy/Policy In Place	Corporate Management Team	Risk Management	Reporting to Members	Internal Audit	External Audit	Third party assurance/advice		
Asset Management	0	3	0		0	0	0	0			3	Low
Contract Compliance	0		0		0	0	0	0			0	Low
Data Protection	0		0	3	0	0		0			3	Low
Environmental Services	0		0	0	0	0	0	0			0	Low
Financial Services	0		0	0	0	0	0	0	3		3	Low
Health and Safety	3		0	0	0	0		3		0	6	Low
Housing	0	3	3	0	0	0	0	0			6	Low
Human Resources & Payroll	0		0	3	0	0		0			3	Low
ICT Security	0		0	3	0	0		0		3	6	Low
Planning	0	3	3	0	0	0	0	0			6	Low
Procurement	3		0	0	0	0	0	3			6	Low
Property Investment	3		0	0	0	0	0	3		0	6	Low
Revenues & Benefits	0	0	3	0	0	0	0	0	0		3	Low
Risk Management	3		0	0	0		0	3		3	9	Medium
Treasury Management	0		0	0	0	0	0	0	0	0	0	Low

Processes Assurance Key and Scoring	
Good Assurance	0
Moderate Assurance	3
Inadequate Assurance	5
Not Applicable	

**Changes to Assurance Gap Risk Analysis since Feb 2021**

Asset Management, Contract Compliance and Data Protection have all moved from Medium to Low risk.  
 Risk Management has moved from Low to Medium risk.  
 All other assessments remain unaltered.

Assurance Gap Risk Analysis Key	
Low Risk (0-6)	Low
Medium Risk (7-12)	Medium
High Risk (13+)	High

## Rother Assurance Map – Methodology

### First Line

#### Management Self-Assessments

Ideally an exercise should be carried out by management to determine the levels of assurance they consider to be in place for the services/processes under their control. This should be based on their opinion of the quality of internal controls, the quality of operational management, the experience and knowledge of staff etc. However, in order to complete this section of the map we have mirrored the Internal Audit assurance ratings. We have done this on the basis that management agree the Internal Audit reports and have an opportunity to challenge areas where they disagree. On the whole, Internal Audit reports are accepted by management without dispute.

#### Key Performance Indicators

**Note – This section is based solely on the Key Performance Indicators (KPIs) that have been reported to the Overview and Scrutiny Committee for the first six months of 2021/22.**

The Council has a number of KPIs that are reported to Members at the Overview and Scrutiny Committee. However, these do not cover all the services/processes identified in the assurance map, and only four areas have relevant KPIs. These are set out in the table below.

Assurance Map Service or Process	Key Performance Indicators
Asset Management	<ul style="list-style-type: none"> <li>• Net income from all investment assets</li> </ul>
Housing	<ul style="list-style-type: none"> <li>• Number of all households in Temporary Accommodation</li> <li>• Average weeks in Temporary Accommodation</li> <li>• Number of households on the Housing Register</li> <li>• Net additional homes provided</li> <li>• Number of affordable homes delivered (gross)</li> </ul>
Planning	<ul style="list-style-type: none"> <li>• Major applications processing times</li> <li>• Minor applications processing times</li> </ul>
Revenues & Benefits	<ul style="list-style-type: none"> <li>• Number of Council Tax Reduction Claimants</li> <li>• Council Tax Collection Rates</li> <li>• Business Rates Collection Rates</li> </ul>

The Performance Report for the Second Quarter 2021/22 submitted to the committee in November 2021 was examined. This showed that whilst Revenues & Benefits KPIs were performing well, most of the other KPIs were behind target, despite improvement in some areas.

The assurance level for Revenues & Benefits is therefore rated as “green” and the three other areas are rated as “amber”.

### Complaints Reporting

Details of all official complaints received by the Customer Services team between 1<sup>st</sup> January 2021 and 31<sup>st</sup> January 2022 were reviewed. A total of 221 complaints were received in this period but the vast majority were resolved.

Seven complaints were upheld. These are made up of six Stage 1 complaints in respect of Housing (1), Planning (4) and Council Tax (1), and one Stage 2 complaint (Planning). Housing, Planning and Revenues & Benefits are therefore rated as “amber”.

### Strategy/Policy in Place

Any services/processes where an up-to-date strategy or policy is in place are rated “green”. Strategies and policies which are overdue a review are rated “amber”.

## **Second Line**

### Corporate Management Team

The level of assurance in this section is based on the amount of senior management oversight and awareness of current issues in the listed areas. The scores shown were shared with the Corporate Management Team and agreed by the Chief Executive.

### Risk Management

The Corporate Risk Register was reported to the Audit and Standards Committee in March 2021 and again in September 2021.

The latest Corporate Risk Register was reviewed to ascertain what risks have been identified and addressed.

Asset Management, Environmental Services, Planning, and Revenues & Benefits are only covered in the broadest sense by the risks “Significant loss of staff due to pandemic”, “Failure of a significant system supplier”, “Buildings unavailable due to incident/accident”, “Loss of staff and recruitment”, and possibly “Significant Legal case against Council”.

### Reporting to Members

All service/processes which are regularly reported to Members are rated “green”.

## **Third Line**

### Internal Audit

Assurance ratings are based on Internal Audit findings on engagements carried out in the last two years. Any services/processes where there has been at least one minimal overall audit assurance rating, or two limited audit assurance ratings are marked as “red”. Any services/processes which have had one limited audit assurance rating are marked as “amber”. Services/processes where all audits undertaken in the last two years have had a good or substantial audit assurance rating are marked as “green”.



## **Appendix B**

There are two services/processes where no routine audit engagements have been completed in the last two years, namely Procurement and Risk Management. As only moderate assurance can be given in these areas, they have been marked as “amber”. Similarly, Health & Safety is yet to be reviewed by Internal Audit, so this is also marked as “amber” for the purposes of this exercise.

### External Audit

The External Auditors give assurance on the final accounts and the Housing Benefit subsidy claims. Where no significant issues have been reported in recent years, the relevant services/processes have been marked as “green”. Financial Services has been marked as “amber” because of issues found with the property valuations in the accounts.

### Third Party Assurance/Advice

The three main areas where this is applicable are Health and Safety, Property Investment and Treasury Management.

Health and Safety – The Health and Safety Executive (HSE) carry out spot checks and no issues have been highlighted in the past 12 months. The Council also uses an external company that is registered with the Institution of Occupational Safety and Health (IOSH) for advice and training.

Property Investment – Professional and legal advice is obtained regarding the acquisition of land and property.

Treasury Management – Link Asset Services provide advice on Treasury Management issues.

All of these areas are therefore marked as “green”.

A recent review by Zurich Resilience Solutions on Enterprise Risk Management, Business Continuity and Disaster Recovery (currently at draft report stage) includes recommendations for improvement pertinent to ICT Security and Risk Management. Both are therefore marked as “amber”.

## **Scoring System and Analysis**

### Processes Assurance Key and Scoring

This is set out in the yellow box at the bottom of the assurance map. Points are awarded based on whether the assurance function provides good, moderate or inadequate assurance. These scores enable us to quantify the level of assurance received and identify those areas of higher risk where control may need to be improved.

### Gap Analysis – Cumulative Points

This column records the cumulate scores after all sources of assurance have been taken into consideration.

Internal Audit - Assurance Gap Risk Analysis

This column is aimed at prioritising areas for future Internal Audit assurance and consultancy exercises.

The Gap Analysis scores are banded into three assurance categories; low, medium and high risk in accordance with the parameters shown in the blue box at the bottom of the assurance map.

## AUDIT PLAN 2022/23

<b>GOVERNANCE AUDITS</b>	<b>DAYS</b>
Benefits	25
Business Rates	20
Council Tax	25
Creditors	25
Debtors	15
ICT Governance	15
Main Accounting	10
Payroll	25
Treasury Management	20
<b>TOTAL</b>	<b>180</b>

<b>HIGH &amp; MEDIUM RISK AUDITS</b>	<b>DAYS</b>
Building Maintenance	12
Capital Programme	15
Community Infrastructure Levy (CIL)	20
Cyber Security	20
Homelessness Prevention Initiatives	20
ICT Asset Management	10
Licensing	15
Procurement	15
Property Investment	15
Public Conveniences Cleaning Contract - Client Control	10
Reprographics Sales Income	5
<b>TOTAL</b>	<b>157</b>

<b>CONSULTANCY WORK</b>	<b>DAYS</b>
New HR/Payroll System - Consultancy	10
New Initiatives - Audit Advice	20
<b>TOTAL</b>	<b>30</b>

<b>COUNTER FRAUD WORK</b>	<b>DAYS</b>
Fraud Analysis & Referrals	60
NFI Coordination & Review	15
<b>TOTAL</b>	<b>75</b>

## AUDIT PLAN 2022/23 (Continued)

<b>OTHER WORK</b>	<b>DAYS</b>
Audit Advice/Special Investigations	50
Committee Representation and Training	25
Liaison with External Audit	5
Recommendation Follow Up	10
<b>TOTAL</b>	<b>90</b>

<b>TOTAL CHARGEABLE DAYS</b>	<b>532</b>
<b>NUMBER OF AUDITS AND CONSULTANCY WORK</b>	<b>22</b>

### Other audit areas considered but not included in the plan

Audit Title	Last Review	Notes
Asset Management	Jun-18	Looking to replace ePIMS with in-house solution. Defer next review until 2023/24
BACS/BACSTEL-IP Computer System	Feb-22	Only recently reviewed. Next review 2024/25
Car Park Income	Aug-20	Next review due 2023/24
Climate Change	Never	Defer first review until 2023/24 to allow time for progress
Data Protection	Jun-21	Only recently reviewed. Next review 2024/25
Estates Income	Jun-21	Only recently reviewed. Next review 2023/24
Food Safety	Jun-18	Next review rescheduled to 2023/24
Grounds Maintenance Contract – Client Control	Oct-21	Only recently reviewed. Next review 2023/24
Housing Temporary Accommodation	Sep-21	Only recently reviewed. Next review 2024/25
Income Management	Nov-21	Only recently reviewed. Next review 2023/24
Income Tax	Sep-16	Next review rescheduled to 2023/24
Land Charges	Jun-21	Only recently reviewed. Next review 2024/25
Legal Services	Aug-11	Revisit VFM audit after new service provision is agreed
M3 Computer System	Feb-17	Env. Services - M3 due to be replaced in Oct 2022 by Idox-Tascomi. Review 2023/24
Planning Income	Jul-17	Reduced risk as most fees now paid online. Next review rescheduled to 2023/24
Pollution Control	Dec-21	Only recently reviewed. Next review 2024/25
Risk Management	Jun-15	COVID-19 risks reviewed 2020/21. New approach planned. Defer until 2023/24
Section 106 Agreements	Jun-18	Next review rescheduled to 2023/24
Temporary Accommodation Investment	Never	First review 2023/24 - to check business case and due diligence for each TA property purchase
Value Added Tax (VAT)	Jan-22	Only recently reviewed. Next review 2024/25
Waste Contract - RDC Client Control	Aug-21	Only recently reviewed. Next review 2024/25
Works Contract (General Provision)	Nov-21	Only recently reviewed (Blackfriars Project). Consider other contracts 2023/24

All of the above areas were assessed as medium risk in February 2022.

## RESOURCES FOR THE AUDIT PLAN 2022/23

	TOTALS	Audit Manager	Senior Auditor	Internal Auditor
<b>FTE POSTS</b>	<b>3.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>

<b>DAYS AVAILABLE</b>	<b>783</b>	<b>261</b>	<b>261</b>	<b>261</b>
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PLANNED AUDIT WORK	Days
Governance Audits	180
High & Medium Risk Audits	157
Consultancy Work	30
Counter Fraud Work	75
Other Work	90
<b>TOTAL CHARGEABLE DAYS</b>	<b>532</b>

NON-CHARGEABLE TIME	Days			
Management & Supervision	20	20	0	0
Team Meetings	30	10	10	10
Training	16	2	2	12
Planning & Business Development	12	10	2	0
Performance Appraisals	4	2	1	1
Review of Governance Audit Coverage	10	2	4	4
Annual Leave (Inc. Days Carried Over)	91	33	32	26
Public Holidays	27	9	9	9
Sickness	12	4	4	4
Maternity/Paternity Leave	0	0	0	0
Vacancies/Recruitment	0	0	0	0
Non-Audit Work - COVID-19 Grant Returns	5	0	0	5
Non-Audit Work - Elections	0	0	0	0
Non-Audit Work - RM Coordination	24	24	0	0
<b>TOTAL NON-CHARGEABLE DAYS</b>	<b>251</b>	<b>116</b>	<b>64</b>	<b>71</b>

<b>TOTAL RESOURCE REQUIREMENT</b>	<b>783</b>
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<b>TOTAL AVAILABLE DAYS</b>	<b>783</b>
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## INTERNAL AUDIT CHARTER



### Introduction

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

### Definition of Internal Audit

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

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

### Requirement for Internal Audit

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

### Standards

4. The standards for the work of Internal Audit are laid down in the Public Sector Internal Audit Standards (hereafter referred to as “the Standards”). These standards, which also relate to CIPFA and their professional requirements, were last updated in April 2017.
5. The Standards are based on the mandatory elements of the IIA International Professional Practices Framework (IPPF) as follows:
  - Definition of Internal Auditing;
  - Code of Ethics; and
  - International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).
6. The Standards also state the Mission of Internal Audit and the Core Principles for the Professional Practice of Internal Auditing.

7. It is a mandatory requirement that Internal Audit complies fully with all of these elements and they are also included in this Charter.
8. The Standards set out the responsibility for the “Chief Audit Executive” to ensure compliance. There is no requirement within the Standards to adopt this job title and this role is fulfilled by the Audit Manager.
9. In addition to the Standards, the Internal Audit Service is also governed by the Council’s Financial Procedure Rules.

### **Mission of Internal Audit**

10. The Standards include the following mission statement:

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

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

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

### **Code of Ethics**

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

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

14. Under the Standards, this Charter is required to define the “Board” and “Senior Management”. Both the Board and Senior Management have specific and complementary roles and responsibilities set out within the Standards. With the



exception of matters relating to employment (see below), the “Board” is the Audit and Standards Committee.

15. The Audit Manager is not a statutory post within the definition of the Local Government Act 1972. The Head of Paid Service and Senior Management are therefore responsible for the appointment and remuneration of the Audit Manager where the service is provided in-house.
16. “Senior Management” comprises the members of the Strategic Corporate Management Team.

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

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

### **Rights of Access**

20. The rights of access for the Internal Audit Service are provided for by the Accounts and Audit Regulations 2015. Regulation 5 (2) states that:

*“Any officer or member of a relevant body must, if required to do so for the purposes of the Internal Audit:*

  - (a) make available such documents and records; and*
  - (b) supply such information and explanation as are considered necessary by those conducting the Internal Audit.”*
21. Regulation 5 (3) also goes on to state that the definition of “documents and records” includes information recorded in an electronic form.

22. There are consequently no limitations on Internal Audit's access to records. Internal Audit staff have the authority to:

- access Council premises at reasonable times;
- access all assets, records, documents, correspondence and control systems;
- receive any information and explanation considered necessary concerning any matter under consideration;
- require any employee of the authority to account for cash, stores or any other authority asset under his/her control;
- access records belonging to third parties, such as contractors (provided this right of access is specified in their contract); and
- have direct access to the Chief Executive Directors, Section 151 Officer, Monitoring Officer, Heads of Service and any Member or body of Members considered appropriate and any other person charged with the governance of the authority.

### **Main Areas of Work**

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

- Assurance Work
- Consultancy Work
- Counter Fraud Work

#### Assurance Work

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

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

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

#### Consultancy Work

23.3 Internal Audit give advice on risk, control and governance issues in respect of new activities, major system changes and other areas of concern. This work can take any form, provided that the independence of the service is not compromised but will typically include special

reviews or assignments where requested by Management, which fall outside the approved work plan and for which a contingency is included in the Audit Plan. Any consultancy work known about in advance will however be itemised in the Audit Plan. There will be no significant variation in consultancy work without approval by the Board.

### Counter Fraud Work

- 23.4 Management have clearly defined responsibilities for risk management, internal control and preventing fraud and corruption, which are set out in the authority's Financial Procedure Rules and the Anti-Fraud and Corruption Framework.
- 23.5 The Internal Audit Service also has a role in fraud prevention, detection and investigation. Its Auditors are required to consider the possibility of fraud in all systems they review, and work with Management to make sure that the correct controls are in place to reduce the likelihood of fraud occurring. The fact that absolutely any Council activity can be subject to Internal Audit review also acts as a deterrent to potential fraudsters.
- 23.6 Other counter fraud activities carried out by the Internal Audit Service include:
- the development and maintenance of the Anti-Fraud and Corruption Framework;
  - coordinating the National Fraud Initiative data matching exercises and assisting with the analysis of the results;
  - the investigation of any areas of potential fraud or error identified through routine audit work or brought to its attention by Management. The Audit Manager will investigate any allegations of fraud or corruption involving staff, Members or contractors;
  - reviewing and acting upon whistleblowing referrals; and
  - the proactive gathering of intelligence on areas of potential fraud; examining individual cases for evidence of error or wrongdoing; and liaising with the relevant departments to stop or recover losses where fraud is suspected.

### **Audit Strategy and Work Plan**

- 24 In order for the Internal Audit Service to accomplish its objectives, the Audit Manager will:
- ~~prepare a rolling 3-year risk-based Audit Plan in consultation with Senior Management and Heads of Service for approval by the Board (note that the "Board" may approve, but not direct the plan). This Strategic Plan will be regarded as flexible, to allow for changing needs and priorities identified through the Corporate, Project and Service Risk Registers. It will be reviewed annually and reported to the Board each March;~~

- carry out an annual risk assessment of all Council activities and ensure that any areas deemed as high risk are reviewed within a year, and all medium risk items are reviewed within two to three years;
- prepare a detailed annual Audit Plan setting out the work to be undertaken in any given financial year. This work will be completed in consultation with Senior Management and Heads of Service reported to the Audit and Standards Committee for approval by the Board (note that the “Board” may approve, but not direct the plan);
- prepare the Internal Audit Budget and Resource Plan;
- ensure a system of close supervision of audit work and maintain a review of audit files, adherence to standards and quality of audits;
- formally report the results of audits and the recommendations made to Senior Management, other relevant managers and the Board. Where Management has accepted a level of risk that may be unacceptable to the Council and this is not resolved with Senior Management, the Audit Manager will report this to the Board;
- follow up audit recommendations to make sure that corrective action is taken;
- provide an annual audit opinion to those charged with governance based on an objective assessment of the framework of governance, risk management and control, sufficient to inform the Council’s Annual Governance Statement; and
- undertake an annual review of the effectiveness of Internal Audit and report the outcomes to Senior Management and the Board as part of the Quality Assurance and Improvement Programme (QAIP). At least once every 5 years, the Internal Audit Service will also commission an external assessment or peer review.

## Resources

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

## Staffing

26. The Internal Audit Service at Rother District Council is provided by an in-house team.
27. The Standards state that *“Internal Auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The Internal Audit activity collectively must possess or obtain the knowledge, skills and competencies.”*

28. The Audit Manager must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced. The Audit Manager is a Chartered Member of the Institute of Internal Auditors (CMIIA).
29. The job descriptions and recruitment processes provide for the appointment of individuals with an appropriate set of skills, competencies and qualifications to meet the standard, either individually or as a combined Internal Audit Service.
30. All Internal Audit staff are trained in order to be able to perform each element of their assignments with due professional care.
31. All Internal Audit staff are encouraged to enhance their knowledge, skills and other competencies through continuing professional development (CPD). Where staff are members of professional bodies, they must also comply with any CPD requirements of their membership.

### **Independence**

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

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

34. Every effort is made to preserve objectivity by ensuring that all Internal Auditors are free from any conflicts of interest and the undertaking of non-audit duties is kept to a minimum. Internal Auditors are required within the Standards to refrain from participating *"in any activity or relationship which may impair or be presumed to impair their unbiased assessment."*
35. A conflict of interest is a situation in which an Internal Auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the Auditor, the Internal Audit Service, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.
36. Where the Audit Manager has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be put in place to limit impairments to independence and objectivity. The Audit Manager must also highlight any potential or perceived impairment to the Board. The Board should then approve and periodically review any safeguards put in place to limit impairments to independence and objectivity. Safeguards may include delegating the audit of any such activity to an appropriate independent "deputy"

or commissioning an independent third party (such as another local authority or a contractor) who will then report directly to those charged with governance.

37. Where Internal Audit staff are required to undertake non-audit duties, the Audit Manager will make it clear that those audit staff are not fulfilling those duties as Internal Auditors. The Audit Manager will ensure that within the service there remains sufficient impartiality to enable the actions and activities of those Internal Audit staff to be subject to audit by those independent from the activity.
38. Internal Auditors are not permitted to assess specific operations for which they were previously responsible for a period of at least 12 months.
39. If any member of the Internal Audit Service, or any individual or organisation engaged to act on its behalf considers that there is, or is perceived to be a conflict of interest, this must be declared to the Audit Manager, who will direct alternative and independent resources to the audit. If the Audit Manager finds himself in that position, he must declare this in writing to the ~~Strategic~~ Corporate Management Team and another independent person or body will be appointed to fulfil this role.

### Management and Internal Audit

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

### Relationships with Elected Members and Reporting

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

March	Quarterly Report on Internal Audit Activity Q3
March	Internal Audit Plan for forthcoming financial year
March	Annual Review of the Effectiveness of Internal Audit
June	Annual Report on Internal Audit Activity <u>and Opinion on the Control Environment</u>
September	Quarterly Report on Internal Audit Activity Q1
December	Quarterly Report on Internal Audit Activity Q2

43. Internal Audit aims to apply appropriate levels of transparency in reporting on work undertaken and recommendations for improvement. Reporting arrangements are designed to clearly show the standards and controls which

services are measured against and the Auditor's opinion on whether these have been met as well as applicable conclusions, recommendations and action plans. Reports deliberately do not include operational detail which might contain personal or commercially sensitive data.

### **Review of This Charter**

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

Date of next scheduled review: March ~~2023~~2025

Gary Angell  
Audit Manager  
February ~~2020~~2022

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## Rother District Council

<b>Report to:</b>	Audit and Standards Committee
<b>Date:</b>	21 March 2022
<b>Title:</b>	Risk Management Update
<b>Report of:</b>	Gary Angell, Audit Manager
<b>Purpose of Report:</b>	To consider the updated Corporate Risk Register and to discuss the issues and actions detailed in the report.
<b>Officer</b>	
<b>Recommendation(s):</b>	It be <b>RESOLVED</b> : That the Council's Corporate Risk Register at Appendix A be noted.

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### Introduction

1. This report provides a position update on Risk Management processes and the key strategic risks currently facing the Council.
2. Risk refers to the uncertainty that surrounds future events and outcomes. It is essential that the Council adopts a strong approach to Risk Management as it emerges from the COVID-19 pandemic, especially given the current backdrop of significant financial pressures.
3. Following the retirement of the Assistant Director Resources, the Audit Manager has now taken on the role of Risk Management Co-ordinator. This role primarily involves maintaining the Risk Management Policy and collating and reporting on updates to the Corporate Risk Register. The responsibility for identifying and managing risks, however, remains with Senior Management.
4. In addition to reporting on the latest version of the Corporate Risk Register, this update also outlines some of the recent improvements made to the Risk Management process and other changes planned for later in the year.

### Risk Management Policy

5. The Council has a simple overarching Risk Management Policy which sets out the responsibilities of Members, Corporate Management Team and Heads of Service. This was last reviewed in February 2020.
6. This document is now due for a further review, but this work has been temporarily postponed while the Council awaits the outcome of two third party assessments of its current Risk Management arrangements, namely:
  - Enterprise Risk Management, Business Continuity and Disaster Recovery Review by Zurich Resilience Solutions (currently at draft report stage), and
  - Risk Management Value for Money study being undertaken by our External Auditor, Grant Thornton

7. The findings of both these reviews will need to be taken into consideration before making any changes to the current policy. This is to ensure that the policy conforms with best practice and incorporates any recommendations for improvement. The revised policy will be reported to this Committee at the next Risk Management Update in September 2022.

### **Corporate Risk Register**

8. In the past the Corporate Risk Register has only been formally reviewed twice a year. The Audit Manager is now looking to introduce quarterly reviews and will also be encouraging lead officers to update their risks in the Corporate Risk Register in between meetings, as and when required. All progress will continue to be reported to this Committee on a six-monthly basis
9. The Audit Manager has recently discussed the content of the Corporate Risk Register with Senior Management and has updated it to reflect their views. The latest version is shown in Appendix A.
10. All risks were reevaluated, and some scores amended. New risks were also added in respect of Temporary Accommodation Costs (Risk 1), Interest Rate Increases (Risk 2) and Changes to the Rules around the Minimum Revenue Provision charge (Risk 7).
11. During the review of the Corporate Risk Register a few improvements were made which included:
  - Ensuring that there is a named lead officer assigned to each risk.
  - Merging some of the overlapping risks.
  - Rearranging the order of the risk register so that the highest (residual) risk items appear at the top.
  - All new risks added since the last update are flagged.
12. Despite reevaluating the risk scores, it is noted that in almost half of the cases listed, the risk score after mitigation is the same as the inherent risk. However, this does not necessarily mean that mitigating action has failed to reduce the risk. In most cases, it simply reflects the limitations of the current 3x3 risk scoring matrix, which allows no room for subtle changes. For example, the next step down from a high (red) risk rating of 15 is a medium (amber) risk score of 9, and whilst risk owners would like to acknowledge the positive effect of their mitigations, they may also feel uncomfortable about reducing the score by this much. It is therefore proposed to introduce a 5x5 risk scoring matrix for future risk evaluations to allow for more nuanced scoring.
13. Other proposed changes include:
  - Defining the Council's risk appetite so that Senior Management can score risks accordingly.
  - Reviewing whether to separately list certain high profile Corporate Plan projects in the Corporate Risk Register rather than covering them all under Risk 21 (Major Projects).
  - Considering the findings and recommendations of the third party reports mentioned above and amending the format of the Corporate Risk Register where appropriate.

14. One further, longer-term objective would be to establish a mechanism for the Corporate Plan Risk Register and all service-based and project risk registers to feed into the Corporate Risk Register, preferably adopting a similar template, and scoring method for all risk registers at all levels. Training and guidance may also be required to ensure that managers are equipped with the necessary tools to identify and evaluate risk.

### Service Based Risk Registers

15. It was agreed at the March 2021 meeting (Minute AS20/46 refers) that this Committee would review the risk registers kept by individual service areas. The purpose of this was to raise awareness of the key operational risks faced by each service area and the mitigations that are in place to prevent or reduce their impact. However, this process has since halted as a result of changes to the management structure.
16. Given the next stages of the corporate organisational restructure are yet to be finalised, it is not proposed to report any further service risk registers to this Committee until such time as this work is completed and the requirements for maintaining risk registers in specific areas of the Council are more clearly defined.

### Conclusion

17. The ongoing financial pressures faced by the Council mean that its acceptance of risk may have to increase, but this needs to be actively managed by both officers and Members. The process of embedding Risk Management practices at all levels of management will take time to achieve but steps are already being taken to improve procedures.

### Risk Management

18. The failure to adequately monitor and respond to an ever changing risk environment could have serious negative consequences for the Council.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	No	Access to Information	No
Sustainability	No	Exempt from publication	No
Risk Management	Yes		

Chief Executive:	Malcolm Johnston
Report Contact Officer:	Gary Angell, Audit Manager
e-mail address:	<a href="mailto:gary.angell@rother.gov.uk">gary.angell@rother.gov.uk</a>
Appendices:	A – Corporate Risk Register
Relevant Previous Minutes:	AS20/46 Risk Management Update
Background Papers:	None.
Reference Documents:	None.

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Version 15

		Without Mitigation			With Mitigation					
		Likelihood (1,3,5)	Impact (1,3,5)	Inherent Rating	Contingency	Comments/Actions	Lead	Likelihood (1,3,5)	Impact (1,3,5)	Residual Rating
1	<b>NEW</b> - Temporary accommodation costs continue to rise and the Council's fails to achieve its Financial Stability objectives.	5	5	25	Corporate Plan objective to increase supply of affordable housing development Housing, Homelessness and Rough Sleeping Strategy Temporary Accommodation Strategy and capital investment adopted Anti-Poverty Strategy Regular attendance at ESHOG		JP	3	5	15
2	<b>NEW</b> - Interest rate increases	5	3	15	Interest rate changes are an inherent risk of any capital programme but Rother's is particularly ambitious therefore it is more exposed to any changes.	The Council has already taken out new borrowing in 2021/22 whilst interest rates were at historic lows. We also have a good track record of managing our cash flow with current reserves and balances. We monitor the cash flow well and are in a good position to manage future rises. However, it is impossible to mitigate the risk completely.	AB	5	3	15
3	Loss of staff by contractors delivering key services or projects	3	5	15	Use of temporary staff agencies and specialist recruitment agencies. Close working relationship with contractor	This risk covers both major service contracts and major corporate projects where reliance is on either the physical deployment of staff or where specialist knowledge may be required.	BH	3	5	15
4	Significant contract fails to RDC	3	5	15	Close working relationship with contractor and regular operational meetings Rehearsed BCP Action Card with this scenario. Budget arrangements for managing this. Three authority BCP for Waste Collection contract. Open book accounting review.	Review legal aspects. Create waste and street sweeping response plan. Consider other response plans. Separate Waste Contract Risk Register (MG). Three authority review needed.	DK	3	5	15
5	Spending Review and Business Rate reset by Government	3	5	15	Robust Financial Plan. Use of reserves as short term support. Lobbying of MPs.	Influencing government decisions as an individual Council unlikely to be successful. Support of LGA/Rural Services Network to lobby on behalf of Districts more likely to have influence.	AB	3	5	15
6	Delivering savings and income targets as set out in MTFP	5	5	25	Strong partnership between Members and Officers. Dedicated resources to lead delivery of targets.	It is likely that the Council will not achieve a balanced budget without taking some difficult decisions in terms of service provision. This requires a strong partnership between Members and Officers to achieve.	MJ	3	3	9
7	<b>NEW</b> - Change in the rules around the Minimum Revenue Provision charge to the Council's revenue account.	5	3	15	The DLUHC and CIPFA have consulted local authorities on the potential changes to how Council's calculate its annual Minimum Revenue Provision charge (on borrowing). The new changes are unlikely to affect existing borrowing.	The changes could have a major impact on new borrowing if the Council decides to loan money to subsidiary companies. However, it is likely that the new changes will not take effect until April 2023 and therefore the impact can be minimised if we can accurately forecast the expenditure cash outflows. Further will be undertaken by the Finance team.	AB	3	3	9
8	Data loss	3	5	15	Back ups are maintained. Budget arrangements for managing this.	Ensuring sufficient resourcing to enable to bring systems back quickly needs to be considered.	LF	3	3	9
9	Extreme weather	3	5	15	Many staff live in Bexhill. Homeworking facilities. Communications. Guidance to staff in advance of weather warnings. RDC Emergency Plan. Priority Grid for Service staffing.	Some experience here already. Prolonged extreme weather is the issue.	LF	3	3	9
10	IT network failure	3	5	15	Contract for full range of backup support. Budget arrangements for emergency expenditure. Cheques can still be issued.	Well established back up. ICT BCP covers this risk. Communications link is singular, no possible contingency for link failure due to physical location of BT Hub.	LF	3	3	9
11	Knowledge management on staff exit	3	5	15	Exit process to include full role analysis and capture of unique duties/knowledge.	Identify staff to be knowledge recipient for each existing member of staff, succession planning	MB	3	3	9
12	Loss of staff and recruitment	3	5	15	Alternative ways of working. Greater flexibility where possible. Greater use of technology. Use of agencies/outsourcing companies.		MB	3	3	9
13	Major network attack	3	5	15	Contract for full range of backup support. Budget arrangements for emergency expenditure. Cheques can still be issued. Training and practical exercise undertaken regularly.	Already many IT systems in place to prevent this. ICT have active antivirus and firewalling, including various security posturing. Disaster recovery contract to be regularly reviewed. Despite the migration of many systems including email to the Cloud, the impact remains high	LF	3	3	9
14	National fuel shortage	3	5	15	Fuel priority grid including key staff & contractors. Homeworking facilities. Priority Grid for Service staffing .	Communications Plan needed. Recent work on Brexit plans helps informs actions required of RDC.	BH	3	3	9



15	Significant loss of staff due to pandemic	<ul style="list-style-type: none"> <li>• 30%+</li> <li>• Flu etc.</li> <li>• Across all services</li> <li>• Particular note of cover for significant posts</li> </ul>	3	5	15	<p>Contacts with local, national &amp; professional agencies. Homeworking facilities. Immediate medical prevention supplies available. Priority list for staff vaccinations. Priority Grid for Service staffing. Local Authority Duty to Co-operate.</p>	<p>Guidance to staff on precautions, minimise travel of travelling officers, hand cleansers at entrances to council buildings, close receptions, comms plan, move to online meetings only (subject to legislation for committees).</p>	MJ	3	3	9
16	Breach of Data Protection	<ul style="list-style-type: none"> <li>• Reputational damage/legal</li> <li>• Financial damage</li> <li>• Resources drained</li> <li>• Leakage/theft</li> </ul>	3	3	9	<p>Regular training for staff Learning from incidents. IT security measures. Data Risk log.</p>	<p>Reputational and significant financial risk under GDPR. Wider issue of Data Protection and consequences of data theft.</p>	LF	3	3	9
17	Coastal/river flooding	<ul style="list-style-type: none"> <li>• Major issues with transport</li> <li>• Staff diverted to emergency</li> <li>• Staff committed to recovery programme</li> </ul>	3	3	9	<p>RDC Emergency Plan. Local Authority Duty to Co-operate. Rye Bay Flood Plan. Flood network to cascade information. BCP plan for affected services.</p>	<p>BCP issue for services such as waste, car parking and coastal management (beach management). Cessation of visiting officers travel. Could have an impact on transport. Social media alerts. Communication - PR implicit. Manage impact of staff reallocation to rest facilities.</p>	BH	3	3	9
18	Failure of a neighbouring authority or other partner	<ul style="list-style-type: none"> <li>• Impact on RDC services including shared services</li> <li>• Financial loss</li> <li>• Service failure - shared services</li> <li>• Reputational damage</li> </ul>	3	3	9	<p>SLAs to set out process in the event of partner failure. Quantify the impact on individual shared services. Access to software and assets.</p>	<p>The Council has a number of key partnerships including shared services. For shared services where the Council is not the lead authority need to ensure the inter-authority agreement sets out the process/deliverables in the event of a partner failure. This would need to include access to software and assets as well as staffing.</p>	MJ	3	3	9
19	Failure of a significant system supplier	<ul style="list-style-type: none"> <li>• Service Specific</li> <li>• Unit4 Business World, Ocella, Academy, CRM, Whitespace</li> <li>• Customer Service</li> </ul>	3	3	9	<p>Contingency for simple alternative e.g. Excel. ESCROW agreements.</p>	<p>Consider neighbour council back up system or data transfer. Rights of user software. Contingency for alternatives. Web based systems need checking. System to be replaced if supplier no longer exists. Corporate direction - similar to Link data and voice, encourage use of county wide systems for the future/future purchase, which will reduce risk. ESCROW agreements will reduce short term impact.</p>	LF	3	3	9
20	Significant legal case against the Council	<ul style="list-style-type: none"> <li>• Reputational damage</li> <li>• Financial damage</li> <li>• Resources drained</li> </ul>	3	3	9	<p>Early Legal Service plan &amp; advice. Budget arrangements for managing this.</p>	<p>Work to Identify where service failure is in a legal case. Take steps to mitigate. Is it covered by liability insurances.</p>	LF	3	3	9
21	Major projects	<ul style="list-style-type: none"> <li>• Failure to deliver major project</li> <li>• Financial loss</li> <li>• Service failure</li> <li>• Reputational damage</li> </ul>	3	5	15	<p>Adequate project resources. Capable project managers. Training and support. Robust risk management practices. Unsuccessful in securing external funding. Robust business case process in place including need to demonstrate reliability of any related income stream.</p>	<p>The Council has a number of major projects to deliver including new housing and new commercial properties. It is well placed with experienced and trained officers in place, but there is a risk to project delivery if those resources are no longer available or cannot be replaced due to recruitment difficulties. The projects are also at risk if the Council is unsuccessful in securing external funding to make them financially viable.</p>	BH	1	5	5
22	Significant financial investment loss by the Council	<ul style="list-style-type: none"> <li>• Banks</li> <li>• Staff committed to emergency</li> <li>• Loss of income streams or assets</li> </ul>	3	5	15	<p>Management approval of transactions. Compliance with Investment Strategy to spread the risk. Treasury advice. Internal Audit/External Audit.</p>	<p>Monitor market warnings from treasury advisors and property fund managers. Understanding of breaking deals/notice periods etc.</p>	AB	1	5	5
23	Civil unrest	<ul style="list-style-type: none"> <li>• Loss of staff</li> <li>• Staff committed to emergency</li> <li>• Staff unable to get to work</li> </ul>	1	5	5	<p>Business Continuity Plan enacted.</p>	<p>Very unlikely within Rother. Potential for issues regarding seafood export at Rye if issues in Europe.</p>	BH	1	5	5
24	Failure of the ESCC Pension Fund	<ul style="list-style-type: none"> <li>• Investment Failure</li> <li>• Significant shortfall in funds</li> <li>• Fraud</li> </ul>	1	5	5	<p>ESCC Investment Panel operating within agreed investment strategy. Fund Managers adherence to their mandate. Ultimately Government Intervention/bailout.</p>	<p>Feedback from District and Borough representative.</p>	AB	1	5	5
25	Safeguarding children and vulnerable adults	<ul style="list-style-type: none"> <li>• Failure to identify child/adult at risk</li> <li>• Failure to report to relevant agency when child/adult at risk identified</li> <li>• Financial loss through legal compensation</li> </ul>	1	5	5	<p>Staff training delivered and regularly updated. Clear and understood communication channel from officers to lead safeguarding officer.</p>	<p>Safeguarding policy adopted by Council. All relevant new staff receive training. Further training/awareness to be provided to staff over the next 12 months. Procedures in place in Housing Division to ensure where Police have been made aware of location of vulnerable family, this information is updated for any subsequent move.</p>	LF	1	5	5
26	Major incident requiring our staff to support it	<ul style="list-style-type: none"> <li>• Loss of staff</li> <li>• Staff committed to emergency</li> <li>• Staff committed to recovery programme</li> </ul>	3	3	9	<p>Emergency planning training Management approval of transactions. Insurance.</p>	<p>CMT to foster good relations and cooperation on these issues.</p>	LF	3	1	3
27	Delivery of Corporate Plan	<ul style="list-style-type: none"> <li>• Change in political leadership</li> <li>• Insufficient capacity/resources</li> <li>• Reputational damage</li> </ul>	1	5	5	<p>Cross party support to Corporate Plan. Fully funded plan. Good communication.</p>		MJ	1	3	3
28	Failure to comply with legislation - e.g. Health and Safety at Work	<ul style="list-style-type: none"> <li>• Reputational damage</li> <li>• Financial loss</li> <li>• Risk to the individual</li> </ul>	1	5	5	<p>Oversight to decision making by Legal Services/Monitoring Officer. Joint Safety Committee. HR Policies and Procedures. Service Based Policies and Procedures.</p>		MJ	1	3	3
29	Fallout from Brexit	<ul style="list-style-type: none"> <li>• Financial market changes &amp; instability</li> <li>• European funding loss</li> <li>• Investment uncertainty</li> </ul>	5	1	5	<p>Financial advice to manage this as required. See separate detailed analysis of risks and mitigation plan.</p>	<p>Regular reviews of how Brexit affects Rother.</p>	AB	3	1	3

30	Financial shutdown RDC	<ul style="list-style-type: none"> <li>Bank shutdown</li> <li>Loss of Income stream/assets</li> <li>Build up of backlog</li> </ul>	1	5	5	Rehearsed BCP Action Card with this scenario. Budget arrangements for managing this. three authority BCP for Waste.	Consider neighbour council back up. Hastings are able to provide back up and support so that cheques can be produced. Customer advice and information to be put on website and telephone systems. Cheques can still be produced.	AB	1	3	3
31	Major incident preventing travel	<ul style="list-style-type: none"> <li>Loss of staff for more than one day</li> <li>Major incident blocking transport</li> <li>Major road closure</li> </ul>	1	5	5	Homeworking facilities. Potential to work from other authorities. Service priority grid. Protocol with staff on web message, website can be updated remotely.	Waste Contract BCP. Comms Plan.	BH	1	3	3
32	Property investments	<ul style="list-style-type: none"> <li>Long term loss of tenants leading to loss of income.</li> <li>Major structural failure of building not covered through insurance</li> <li>Restrictions imposed by Government on investment in commercial property</li> </ul>	1	5	5	Robust appraisal processes. Active tenant management including regular assessment of financial stability. Keep up to date with Government view on commercial property investment by Local Authorities. Understanding of market for types of commercial property.	The Council has a very thorough process in assessing property investments. Risks are minimised through use of professional advisors including valuation and surveyors. The risk around Government intervention is difficult to mitigate and if imposed may have implications beyond commercial property investments if borrowing is to be limited	BH	1	3	3
33	Terrorist incident involving RDC	<ul style="list-style-type: none"> <li>Impact on Public</li> <li>Impact on Staff</li> <li>Managing incident and recovery</li> </ul>	1	5	5	Monitoring intelligence. Liaison with Police.	Identify key staff & brief. Ability to closely manage access to Council.	MJ	1	3	3
34	Town Hall unavailable due to serious incident such as fire or flood	<ul style="list-style-type: none"> <li>Loss of office accommodation</li> <li>Loss of IT Infrastructure</li> <li>Building cordoned</li> </ul>	1	5	5	Homeworking facilities. Continued facility in Amherst Road until let/redeveloped. ICT BCP covers this risk.	Homeworking, if kit taken home and is safely off site. Potential damage to IT infrastructure. Consider neighbour council back up.	MJ	1	3	3
35	Significant & prolonged strike	<ul style="list-style-type: none"> <li>Loss of staff</li> <li>Staff committed to cover</li> <li>Staff home commitments</li> </ul>	1	3	3	Liaison with Unison. Ongoing work to achieve good industrial relations. 40% union membership (monitored).	Very unlikely, but could shift radically if Unison membership increased.	MJ	1	3	3
36	Significant facility falls to RDC	<ul style="list-style-type: none"> <li>Staffing to manage transition</li> <li>De La Warr, museum, charity</li> <li>Staffing to manage recovery/maintenance</li> </ul>	3	1	3	Budget arrangements for managing this.	Identify staff to manage the facility. Closure/Management Plan to be drawn up.	DK	3	1	3
37	Substantial/prolonged electricity failure	<ul style="list-style-type: none"> <li>Loss of frontline services &amp; systems</li> <li>Staff committed to emergency</li> <li>Staff unable to get to work</li> </ul>	1	3	3	BCP Action card on loss of premises. Regular inspection and maintenance of electrical supply to Council buildings. Flexible working arrangements. Priority Grid for Service staffing.	Emergency generator provision - limited in its scale or sustainability. To be incorporated into the regeneration of the town hall site project.	LF	1	3	3
38	Significant financial fraud against Council	<ul style="list-style-type: none"> <li>Reputational damage</li> <li>Financial damage</li> <li>Resources drained</li> </ul>	1	3	3	Internal Audit/External Audit. Management approval of transactions. Insurance.	Regular review of insurance cover. Internal Audit Service highlights areas of risk. Fidelity guarantee insurance in place. Whistleblowing policy in place and staff reminded of its existence. Comms team to be informed if major fraud discovered to manage Press interest.	AB	1	1	1

### Risk Scoring Matrix

Impact	Likelihood		
	Unlikely (1)	Possible (3)	Likely (5)
Major (5)	5	15	25
Moderate (3)	3	9	15
Minor (1)	1	3	5

#### Key

Risk Management Action Level	Low Priority	Activity necessary	High Priority
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## Rother District Council

<b>Report to:</b>	Audit and Standards Committee
<b>Date:</b>	21 March 2022
<b>Title:</b>	Treasury Management Update
<b>Report of:</b>	Antony Baden – Chief Finance Officer
<b>Purpose of Report:</b>	To note the Council's treasury activities for the third financial quarter ending the 31 December 2021
<b>Officer Recommendation(s):</b>	It be <b>RESOLVED</b> : That the report be noted

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### Introduction

1. Cabinet approved the Council's Investment Strategy for 2021/22 on 8 February 2021 (Minute CB20/99 refers). The strategy requires regular reports to be presented to this Committee on the Council's treasury management activities. In managing these, the Council has implemented the Department of Levelling Up, Housing and Communities investment guidance and followed the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management.
2. The investment activity to date conforms to the approved strategy and the Council has had no liquidity difficulties. Members are reminded that investment activity is also reported through the Members' Bulletin. This report focuses on the financial period ending 31 December 2021 and is based on the latest available data.

### Financial Investments review

3. As at 31 December 2021, the Council's total investments are estimated to be about £53 million with £18 million invested in short term call accounts and Property Funds. The remaining £35 million is held the General account but Members will note that a significant element of this balance relates to cash owed to public bodies, e.g. council tax precepts, shares of business rates.
4. Income from investments is forecast at £280,000 and is mainly achieved from the Property Funds, which are currently yielding returns of between 3.31% and 3.77%. The investment portfolio and Property Fund values are detailed in Appendix A.

### Capital Programme and Borrowing

5. The pandemic has continued to slow the pace of the Council's capital programme delivery (see Appendix B) and expenditure is forecast to be £15.348 million in 2021/22.

6. As a result of the increase in capital expenditure referred to in paragraph 6, the Council's Capital Financing Requirement (CFR) is forecast to increase to £26.167 million by the 31 March 2022. The CFR shows how much of the Council's capital expenditure is to be financed by borrowing and a summary is shown in Appendix B.
7. The value of outstanding loans will be £27.312 million, (the borrowing portfolio is also shown in Appendix B). This means the Council now has an 'over-borrowed' position of £1.145 million but this will only be for a short period of time, until further expenditure is incurred in 2022/23. The reason for this is because since the quarter 2 report, further borrowing of £9.3 million has been taken out at an interest rate of 1.65%. This is in addition to the £6.3 million of new borrowing taken out at 1.78% in the previous quarter.
8. The Treasury Management Strategy was approved by Cabinet on the 28 February 2022 and it included a forecast of Public Works Loans Board (PWLB) borrowing rates. The 50-year rate is forecast to rise to 2.4% by March 2025. If that happens, the Council could expect to save approximately £2.9 million in interest payments over a 50-year period as a result of taking out the new borrowing. This figure would increase to about £4.3 million should rates increase by 1%.
9. Officers will continue to keep borrowing policy under review and use internal balances where possible to minimize borrowing costs, but also take out new borrowing when required at the lowest rates possible.

### Treasury and Prudential Indicators

10. The updated Authorised and Operational external borrowing limits were approved by Cabinet on 7 February 2022 as part of the Council's Capital Strategy – please see Appendix C. The Council's current borrowing levels shown in Appendix B are comfortably within both limits.
11. The ratio of Net Financing Costs to the Net Revenue Stream is expected to be 2.03% based on current forecasts, which is 6.40% lower than the original budget of 8.43%. This is due to the delay in the capital programme delivery referred to in paragraph 5 above. The Prudential Indicators are shown in Appendix C.

### Non-Treasury Investments

12. The table below shows predicted property rental income for the year against the approved budget. It is split between existing assets and properties purchased through the Property Investment Strategy (PIS):

Property Type	Budget 2021/22	Forecast Rent	Variance	Return on Investment
	£	£	£	
Non-PIS	851,480	869,447	(17,967)	5.42%
PIS	966,300	1,046,488	(80,188)	7.16%
<b>Total</b>	<b>1,817,780</b>	<b>1,915,936</b>	<b>(98,155)</b>	<b>6.24%</b>

13. The PIS rental income exceeds the budget due to a lower than anticipated level of voids on the 16, Beeching Road site.

### Economic Update and Outlook

14. Whilst economic activity continues its recovery to pre-lockdown levels, the overall situation remains very uncertain. The cost of energy for domestic customers and commercial entities is set to increase significantly from April 2022 and the price of fuel at the pumps has already begun to rise. Employers and employees will also experience an additional 'hit' from April in the form of an increase of 1.25% percentage points on national insurance. However, the financial impact of the above has been partially alleviated for many council taxpayers as they will receive a £150 rebate on their 2022/23 bills as well as some limited support in relation to scheduled energy bill payments.
15. The Bank of England have increased the base rate to 0.50% since the last quarter update and further increases are predicted soon. Further information on interest rate forecasts is available in the Treasury Management Strategy report approved by Cabinet on 28 February 2022.
16. The current economic uncertainty has been exacerbated by the Russian invasion of Ukraine and whilst there has been worldwide condemnation and sanctions imposed on Russia, the war may be in its early days and its longer lasting impact on the global economic situation is still unclear.
17. The Audit and Standards Committee is recommended to note the report.

### Conclusion

18. The investment activity conforms to the approved strategy and the Council has no liquidity difficulties.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	No	Access to Information	No
Sustainability	No	Exempt from publication	No
Risk Management	No		

Chief Executive:	Malcolm Johnston
Report Contact Officer:	Antony Baden
e-mail address:	<a href="mailto:antony.baden@rother.gov.uk">antony.baden@rother.gov.uk</a>
Appendices:	Appendix A – Investments Portfolio Appendix B – Capital Programme, CFR & Borrowing Portfolio Appendix C – Prudential Indicators
Relevant Previous Minutes:	None
Background Papers:	Capital Strategy Report to Cabinet, 7 February 2022 Treasury Management and Annual Investment Strategies Report to Cabinet, 28 February 2022
Reference Documents:	None

**Investments Portfolio**

Deposit	Type of account	Maturity Date	Amount £	Interest Rate	Share %
Lloyds - General (RFB)	Call	N/A	34,754,313	0.00%	65.89%
Bank of Scotland (RFB)	Call	N/A	46	0.00%	0.00%
Barclays - Call Account (NRFB)	Call	N/A	4,996,066	0.05%	9.47%
Santander - Call Account	Call	N/A	2,995,000	0.12%	5.68%
Santander - 31 Day Notice Account	31 Days Notice	N/A	2,001,868	0.27%	3.80%
CCLA Local Authority Property Fund	Long Term	N/A	5,000,000	3.68%	9.48%
HERMES Property Fund	Long Term	N/A	2,999,998	3.47%	5.69%
<b>Total</b>			<b>52,747,291</b>		<b>100.00%</b>
Total managed in-house			44,747,293		
Total managed externally			7,999,998		
<b>Total Treasury Investments</b>			<b>52,747,291</b>		

**Property Funds**

Name of Property Fund	Original Investment Value	Value as at 31st Dec 2021	Value as at 30th Sept 2021	Change
	£	£	£	£
CCLA Local Authority Property Fund	5,000,000	5,333,465	4,975,033	358,432
HERMES Property Fund	2,999,998	3,103,560	2,904,196	199,364
<b>Total</b>	<b>7,999,998</b>	<b>8,437,025</b>	<b>7,879,229</b>	<b>557,796</b>

**Capital Programme updated, 31<sup>st</sup> December 2021**

Line	2021/22 Revised Budget £ (000)	2021/22 Estimated Outturn £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)	2024/25 Budget £ (000)	2025/26 Budget £ (000)	2026/27 Budget £ (000)	Total Budget £ (000)
<b>Acquisitions, Transformation and Regeneration</b>								
<b>Other Schemes</b>								
1	130	110	130	130	130	130	130	760
2	172	89	83					172
3	384	231	153					384
4	435	36	399					435
5	66	65	0					65
6	200		200					200
7	460	445	15					460
<b>Property Investment Strategy</b>								
8	964	2,975						2,975
9	963	373	2,590					2,963
10	3,402	577	6,099	3,313				9,989
11	501	595	29					624
12	100	0						0
<b>Housing Development Schemes</b>								
13	600	434	166					600
14	10,728	2,900	7,450					10,350
15	6,940							0
16	25,000	1,508	60,492	18,000				80,000
17	100	101						101
<b>Housing and Community Services</b>								
18	54	56	55	56	57			224
19	811	710	101					811
20	1,085	185	900					1,085
21			189					189
22	140	50	90					140
23	1,625	1,250	1,625	1,625	1,625	1,625	1,625	9,375
24	125	114	125	125	125	125	125	739
25	100	20	80					100
26	47	46						46
27		5	55					60
28		19						19
29	7,300	2,255	4,000	1,500				7,755
<b>Strategy &amp; Planning</b>								
30	88	40	48					88
<b>Resources</b>								
31	123	109	14					123
32	50	50	350	350				750
<b>Total Capital Programme</b>								
	<b>62,693</b>	<b>15,348</b>	<b>85,438</b>	<b>25,099</b>	<b>1,937</b>	<b>1,880</b>	<b>1,880</b>	<b>131,582</b>
<b>Funded By:</b>								
Capital Receipts	1,085	185	900	0	0	0	0	1,085
Grants and contributions	13,893	6,143	7,200	1,625	1,625	1,625	1,625	19,843
CIL	431	238	446	0	0	0	0	684
Borrowing	20,846	6,727	15,384	5,288	125	125	125	27,774
Capital Expenditure Charged to Revenue	1,438	547	1,016	186	187	130	130	2,196
Borrowing - Alliance Homes (Rother) Ltd	25,000	1,508	60,492	18,000	0	0	0	80,000
<b>Total Funding</b>								
	<b>62,693</b>	<b>15,348</b>	<b>85,438</b>	<b>25,099</b>	<b>1,937</b>	<b>1,880</b>	<b>1,880</b>	<b>131,582</b>

## Capital Financing Requirement

Capital Financing Requirement (CFR)	2021/22 Original Budget £ (000)	2021/22 Estimated Outturn £ (000)
Opening Balance	18,168	18,168
Add unfinanced capital expenditure	48,764	8,235
Less Minimum Revenue Provision (MRP)	(513)	(235)
<b>Closing Balance</b>	<b>66,419</b>	<b>26,167</b>

## Current Borrowing Portfolio

Borrowing position as at 31st December 2021					
Properties	Amount o/s	Interest Rate	Term	Type	Full Year Repayments
14, Terminus Road	£433,817	2.59%	50	Annuity	£16,102
14, Terminus Road	£433,771	2.58%	50	Annuity	£16,070
Beeching Road	£1,605,719	2.39%	50	Annuity	£56,729
Various	£1,000,000	2.24%	50	Maturity	£22,400
Glovers House & Barnhorn Road	£8,277,624	2.48%	50	Annuity	£297,572
Various	£6,260,668	1.78%	50	Annuity	£190,804
Various	£9,300,000	1.65%	50	Annuity	£136,940
<b>Total Borrowing</b>	<b>£27,311,599</b>				<b>£736,617</b>

**Treasury Indicators (Borrowing Limits)**

<b>Treasury Indicators</b>	<b>31st Dec 2021 £ (000)</b>
Authorised Limit for External Debt	98,629
Operational boundary for External Debt	93,629
Gross External Debt (actual)	27,312
<b>Remaining Authorised Limit for External Debt</b>	<b>71,317</b>

**Prudential Indicators**

<b>Prudential Indicators</b>	<b>2021/22 Original Budget £ (000)</b>	<b>2021/22 Estimated Outturn £ (000)</b>
Capital Financing Requirement (CFR)	66,419	26,167
Annual Change in CFR	48,251	8,000
In-Year Borrowing Requirements	48,764	8,235
Ratio of Financing costs to Net Revenue Stream (%)	8.43%	2.03%

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**Rother District Council**

<b>Report to:</b>	Audit and Standards Committee
<b>Date:</b>	21 March 2022
<b>Title:</b>	Accounting Policies 2021/22
<b>Report of:</b>	Antony Baden – Chief Finance Officer
<b>Purpose of Report:</b>	To present the accounting policies and critical judgements that will be used in the preparation of 2021/22 Statement of Accounts
<b>Officer Recommendation(s):</b>	It be <b>RESOLVED</b> : That the Council's proposed accounting policies to be adopted in completing the 2021/22 Statement of Accounts be approved and the critical judgements noted

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**Introduction**

1. This report presents the accounting policies that will be used in the preparation of 2021/22 Statement of Accounts and summarises any changes from 2020/21 introduced as a result of amendments to the Code of Practice on Local Authority Accounting 2021/22 (the Code) or as part of the Council's annual review process. The report also explains the requirement to include notes on the critical judgements used in the production of the Statement of Accounts which have been presented alongside the accounting policies in line with best practice.

**Accounting Policies**

2. The Council's accounting policies are the specific principles, conventions, rules and practices that are applied in the production and presentation of the annual Statement of Accounts. These policies have to be disclosed as a note to the annual accounts. A copy of the policies can be found at Appendix A.
3. The Code of Practice on Local Authority Accounting for 2021/22 has been reviewed and it introduces no significant changes, compared to the previous year, that need to be implemented. However, the Council, as part of its annual review of policies, has taken the opportunity to make some minor changes to improve the wording and presentation of the policies. In addition, the section on interests in companies has been updated to reflect that the Council has an interest in its wholly owned housing company.
4. In applying the accounting policies set out in Appendix A, the Council will need to make certain judgements about complex transactions or those involving uncertainty about future events. The external auditors (Grant Thornton) are kept informed of any such matters.
5. It is recommended that the proposed accounting policies, to be used to prepare the Council's 2021/22 Statement of Accounts, are approved by the Audit and Standards Committee before the financial statements are prepared.

## Critical Judgements

6. In line with International Financial Reporting Standards (IFRS) and the Code, the Council is required to disclose those judgements that management have made in the process of applying the Council's accounting policies that have the most significant effect on the amounts recognised in the financial statements. Appendix B sets out those critical judgements that management have made.

## Consultation

7. Consultation has taken place with the Council's External Auditors, Grant Thornton UK LLP.

## Conclusion

8. The Committee is asked to review and approve the Council's proposed accounting policies, to be adopted in completing the 2021/22 Statement of Accounts and to note the critical judgements.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	No	Access to Information	No
Sustainability	No	Exempt from publication	No
Risk Management	No		

Chief Executive:	Malcolm Johnston
Report Contact Officer:	Antony Baden
e-mail address:	<a href="mailto:Antony.Baden@rother.gov.uk">Antony.Baden@rother.gov.uk</a>
Appendices:	Appendix A – Accounting Policies Appendix B – Critical Judgements
Relevant Previous Minutes:	None
Background Papers: Reference Documents:	None

## Accounting Policies

### ACCOUNTING POLICIES

#### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

#### 2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients whether for services or the provision of goods, is recognised when (or as) the goods are transferred to the service recipient in accordance with the performance obligations in the contract. However, for low individual value annual transactions (e.g. annual payment for beach hut licences and Environmental Health licences) this is recognised on a cash basis.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Accruals are generally only made for amounts exceeding £100

#### 3. Accounting for Council Tax and Non-Domestic Rates

The Council collects income from payers of Council Tax and Non-Domestic Ratepayers, but only part of the income relates to this Council, the balance being collected on behalf of other major precepting authorities, including the Government (for business rates). The amounts of debtors, adjustments for doubtful debts, overpayment creditors and receipts in advance that relate to the precepting authorities are shown as a single net debtor or creditor in the balance sheet. The element of the Collection Fund due to or from preceptors is held as part of the Short -Term Creditors or Debtors balance. Annual changes in the amounts held for preceptors are shown as part of financing activities in the Cash Flow Statement.

The amounts legally credited to the General Fund are those estimated before the start of the financial year, including distributions of estimated surplus, or contributions towards estimated deficits. In accounting terms, however, the Council's share of the collectable debit (including adjustments to allowances for doubtful debts and appeals) are credited to the Comprehensive Income and Expenditure Statement (CI&ES). The difference between the cumulative amounts for statutory and accounting purposes forms the Collection Fund Adjustment Account (an unusable reserve) and the annual adjustment forms part of the accounting and financing adjustments.

#### **4. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than ninety days from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

#### **5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

#### **6. Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. This provision, known as Minimum Revenue Provision (MRP), is equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## **7. Employee Benefits**

### **Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that these benefits are charged to the General Fund in the financial year in which payment is made.

### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service cost line in the CI&ES when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### **Post-Employment Benefits**

The majority of the Council's employees are members of the Local Government Pensions Scheme, administered by East Sussex County Council. The Scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the East Sussex pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of x.x% (TBC at the appropriate time) based on the indicative rate of return on high quality corporate bond chosen by the Fund's Actuary.
- The assets of the East Sussex pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities - current bid price
  - unquoted securities - professional estimate
  - unitised securities - current bid price

- property - market value
- The change in the net pension liability is analysed into the following components:
  - current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the CI&ES to the services for which the employees worked
  - past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the CI&ES as part of the cost of the Resources service
  - net interest on the defined benefit liability, i.e. net interest expense for the Council – the change during the period in the net defined benefit liability that arises from the passage of time charged to the financing and investment income line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the defined benefit liability at the beginning of the period – taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
  - remeasurements comprising:
    - the return on plan assets, excluding amounts included in net interest on the net defined liability, charged to the Pension Reserve as Other Comprehensive Income and Expenditure
    - actuarial gains or losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - contributions paid to the East Sussex pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### **Discretionary Benefits**

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## 8. Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## 9. Fair Values

The Council measures some of its non-financial assets (surplus assets and investment properties), and any available for sale financial asset, at fair value at each reporting date. The Council also discloses fair values for financial assets and liabilities categorised as loans and receivables. Fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction at the year end. The fair value measurement assumes that the transaction takes place either in the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market.

The Council measures the asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that they act in their economic best interest.

When measuring the fair value the Council takes into account the market participants' ability to generate economic benefits by using the asset or liability in its highest or best use, or by selling it to another party that would use the asset or liability for its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques for assets and liabilities that are measured or disclosed in the financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the year end.
- Level 2 Inputs, other than quoted prices within Level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3 Unobservable inputs for the asset or liability.

## 10. Financial Instruments

### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CI&ES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the CI&ES is the amount payable for the year according to the loan agreement.

Liabilities include trade payables. It has been assessed that the carrying amount in the Balance Sheet is a proxy for the fair value of those liabilities.

### Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- Amortised cost
- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)

The business model of the Council is to hold investments to collect contractual cash flows. Financial assets are therefore classified at amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

#### *Financial Assets Measured at Amortised Cost*

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are then measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CI&ES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CI&ES is the amount receivable for the year in the loan agreement.

However, the Council has from time to time made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CI&ES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CI&ES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost



of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CI&ES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. Any gains and losses that arise on the de-recognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the CI&ES.

#### *Expected Credit Loss Model*

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased substantially since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased substantially or remains low, losses are assessed on the basis of 12-month expected losses.

The Council has a substantial amount of investments and employs treasury management advisers in addition to full time professional staff. However, reasonable and verifiable information to support the measurement of lifetime losses on individual instruments is not available without undue cost or effort. Losses are mainly assessed for the portfolio on a collective basis.

Financial Assets are amalgamated into the following groups to assess risk and associated loss allowances whilst making use of a simplified approach contained in regulations.

Group 1 – Commercial investments in line with treasury management policy including counterparties that have external credit ratings of A or better. Loss allowances will be assessed on a group basis using the simplified approach of collective assessment.

Group 2 – Loans to related parties. Loss allowances for these loans are assessed on an individual basis and / or an individual borrower basis.

Group 3 – Other loans to local businesses, in support of the Council vision and objectives. Loss allowances for these loans are assessed on an individual basis and / or an individual borrower basis.

#### *Financial Assets Measured at Fair Value through Profit or Loss*

Financial assets that are measured at FVPL are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains or losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CI&ES.

#### *Financial Assets Measured at Fair Value through Other Comprehensive Income*

Financial assets that are measured at FVOCI are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are charged to the Other Comprehensive Income and Expenditure and are held in the Financial Instrument Revaluation Reserve.

Movements in amortised cost are charged to the Surplus or Deficit on the Provision of Services

Cumulative gains/losses on fair value are transferred to the Surplus or Deficit on the Provision of Services on derecognition.

### **11. Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the CI&ES until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as liabilities. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the CI&ES.

Where capital grants are credited to the CI&ES, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

The above treatments relate to grants received by the Council as the Principal. However, where the Council acts as an agent passporting support grants to local residents and businesses, (for example Covid support grants) both the grant income and expenditure are removed from the financial statements and any potential

difference between the two at the end of the financial year results in creation of a debtor or creditor with the central government.

The Council has elected to charge a Community Infrastructure Levy (CIL) on new builds with appropriate planning consent. The income from the levy will be used to fund various projects described as “infrastructure” in a broader sense than used for Council property in Note 1.16 below. The infrastructure investment is determined by a panel and it is not necessarily this Council that will undertake the works. Part of the CIL income is retained to offset the cost of administration and is accounted for as income for the Strategy and Planning service. Some is also payable to parishes: this is treated as an agency service and is excluded from the CI&ES. The rest is intended for use to finance capital and is treated as capital contributions. As it is received without conditions it is recognised immediately as capital grants and contributions income and is then transferred to the Capital Grants Unapplied Reserve.

The income from CIL is accounted for on an accruals basis and recognised immediately in the CI&ES at the commencement date of the chargeable development. Surcharges and interest received in accordance with the CIL regulations will be accounted for as if they were CIL receipts.

## **12. Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use.

Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the CI&ES. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## **13. Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and that the Council will be able to generate future economic benefits or

deliver service potential by being able to use the asset. Costs relating to the development of computer software for internal use are capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred in the development phase. When the software is available for its intended use, these costs are amortised in equal annual amounts over the estimated useful life of the software. Amounts capitalised include the total cost of any external products or services and labour costs directly attributable to development. Management judgement is involved in determining the appropriate internal costs to capitalise and the amounts involved. The useful life is determined by management at the time the software is acquired and brought into use and is regularly reviewed for appropriateness. For computer software licences, the useful life represents management's view of the expected period over which the Council will receive benefits from the software.

Intangible assets are measured initially at cost. The depreciable amount of an intangible asset is written down over its useful life, to the appropriate line in the CI&ES. No intangible assets are recorded with indefinite lives. An asset is tested for impairment whenever there is an indication that the asset might be impaired, and any losses are posted to the appropriate line in the Income and Expenditure Statement. The calculated amounts for amortisation and impairment are charged to the Cost of Services in the CI&ES, but they are not proper charges against the General Fund. A transfer is therefore made from the Capital Adjustment Account to the General Fund to reverse the impact.

#### **14. Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

##### **The Council as Lessee**

Rentals paid under operating leases are charged to the CI&ES as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease). As a lessee all the Council's leases have been determined to constitute operating leases.

##### **The Council as a Lessor – Finance Lease**

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the balance sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the balance sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the CI&ES as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the CI&ES also as part of the gain or loss on disposal (i.e. netted off against the

carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the balance sheet

Lease rentals receivable are split between:

- a charge for acquiring the interest in the property – applied to write down the lease debtor (together with any premiums received) and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the CI&ES on disposal is not permitted by statute to increase the general fund balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the general fund balance to the capital receipts reserve in the Movement in Reserve Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the general fund balance to the deferred capital receipts reserve in the Movement in Reserve Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the capital receipts reserve.

### **The Council as Lessor – Operating Lease**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the appropriate line in the CI&ES. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

## **15. Overheads and Support Services**

The cost of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

## **16. Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

## Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The cost of assets acquired other than by purchase is deemed to be its current value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Vehicles, plant, etc. and infrastructure - depreciated historical cost.
- Community assets and assets under construction - historic cost.
- Land and buildings - current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV). Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value.
- Surplus Properties – fair value, as described in accounting policy 1.9 above, equating to market value for their highest and best use from a market participant's perspective.

Assets included in the Balance Sheet at current value are subject to a full valuation once every five years but are subject to a desktop review at the end of each year to ensure that their carrying amount is not materially different from their current value, or fair value at the year-end. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the CI&ES where they arise from the reversal of a loss previously charged to a service. Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CI&ES.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

The values of Land and Buildings assets individually worth less than £10,000 are recorded, but not included in the balance sheet values. The de minimis rule may be waived where grant or borrowing consent is made available for items of capital expenditure below £10,000.

## **Impairment**

Assets are assessed at each year-end as to whether there is any indication that the value of an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CI&ES.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the CI&ES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

## **Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings - straight-line allocation over the useful life of the property as estimated by the Valuer. Useful life is between 10 and 60 years depending on the asset.
- vehicles, plant, furniture and equipment – straight line allocation over the useful life of the asset. Useful life is between 3 and 20 years.
- Infrastructure - straight-line allocation over 50 years.

No depreciation is charged in year of acquisition but is charged at a full year rate in the year of disposal.

Reclassified assets are depreciated from year of reclassification.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

## **Componentisation of Property Assets**

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Where the Council has revalued a property, or carried out major capitalised works, it has been necessary to identify the major components making up the property using the following major component analysis:

- Land

- Buildings
- External areas (such as car parks)
- Plant and equipment (such as lifts and heating systems)

The Council will recognise and depreciate separate components where the cost is the higher of 10% or £50,000 in relation to the total building asset value (de minimis £500,000).

## **Disposals**

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the other Operating Expenditure line in the CI&ES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CI&ES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts and are credited to the Capital Receipts Reserve and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## **17. Provisions, Contingent Liabilities and Contingent Assets**

### **Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.



## Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

## Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

## 18. Reserves

The Council maintains two groups of reserves, usable and unusable. Usable reserves comprise the following:

- Capital Receipts Reserve: proceeds from the sales of non-current assets are initially credited to the CI&ES, but legally can only be used to finance capital expenditure, and so are transferred to the Capital Receipts Reserve and afterwards used for this specific purpose.
- Capital Grants Unapplied: the Council receives grants and contributions towards capital expenditure, and, where repayment conditions are not present or no longer apply, they are credited to the CI&ES and immediately transferred into the Capital Grants Unapplied Reserve until required to finance capital investment.
- Earmarked Reserves: the Council may set aside earmarked reserves to cover specific projects or contingencies. These are transferred from the General Fund, and amounts are withdrawn as required to finance such expenditure. The expenditure itself is charged to the appropriate line in the CI&ES. There are no legal restrictions on the use of earmarked reserves, and unspent balances can be taken back to the General Fund in the same way.
- General Fund: this represents all other usable reserves, without legal restrictions on spending, which arise from annual surpluses or deficits.

Unusable Reserves consist of those which cannot be used to finance capital or revenue expenditure:

- Revaluation Reserve: this consists of accumulated gains on individual items of Property, Plant and Equipment. The Reserve contains only gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains before that date were consolidated into the balance on the Capital Adjustment Account. The balance is reduced when assets with accumulated gains are:
  - revalued downwards or impaired and the gains are lost
  - used in the provision of services and the gains are consumed through depreciation, or

- disposed of and the gains are realised.
- Capital Adjustment Account: Receives credits when capital is financed from the General Fund or from the Capital Receipts and Capital Grants Unapplied reserves and receives debits to offset depreciation and other charges relating to capital which are not chargeable against the General Fund. The account contains revaluation gains accumulated on non-current assets before 1 April 2007, the date on which the Revaluation Reserve was created to hold such gains.
- Deferred Capital Receipts: in some cases (particularly former housing stock disposed of, where the purchaser financed the transaction through a mortgage from the Council) an asset is disposed of, but the income cannot be collected immediately. The Council maintains records for a long-term debtor, offset by a balance in the Deferred Capital Receipts Account. When the income is received the debtor is written down and a transfer is made between this account and the Capital Receipts Reserve.
- Pensions Reserve: The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the CI&ES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.
- Collection Fund Adjustment Account: this represents the differences arising from the recognition of Council Tax income and Non-Domestic Rates in the CI&ES as they fall due from payers, compared with the statutory arrangements for paying across amounts from the Collection Fund to the General Fund.
- Accumulated Absences Reserve: this contains the difference between the statutory and accounting liability for the cost of accumulated absences: the cost is properly chargeable to the CI&ES, but not to the General Fund.
- Pooled Investment Fund Adjustment Account: this contains the unrealised gains or losses made by the Council arising from increases or decreases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments.

## **19. Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset is charged as expenditure to the relevant service in the CI&ES in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

## **20. VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## **21. Interests in Companies and Other Entities**

The Council is 100% shareholder of a wholly owned house building company. The company was incorporated in October 2020. Group accounts will be prepared where material.

In the Council's own single-entity accounts, its interest in companies and other entities are recorded as financial assets at cost, less any provision for losses.

**Critical Judgements****The Council's wholly owned house building company**

The Council is sole shareholder of a house building company. Since its inception in October 2020, costs incurred by the company have been small in scale. The Council has determined that group accounts will not be prepared in 2021/22, in addition to its single entity accounts, since the interest is not material to the Council's overall financial position. It is anticipated that group accounts will be prepared for 2022/23.

## AUDIT AND STANDARDS COMMITTEE

<b>WORK PROGRAMME 2021 – 2022</b>	
<b>DATE OF COMMITTEE</b>	<b>SUBJECT</b>
<b>Monday 21 March 2022</b>	<p><b>Part A – Standards Reports (none scheduled)</b></p> <p><b>Part B – Audit Reports</b></p> <ul style="list-style-type: none"> <li>• Internal Audit Report to 31 December 2021</li> <li>• Review of Internal Audit 2021/22</li> <li>• Internal Audit Plan 2022/23</li> <li>• Risk Management Update</li> <li>• Treasury Management Update</li> <li>• Accounting Policies 2021/22</li> </ul>
<b>Monday 11 April 2022</b>	<p><b>Part A – Standards Reports (none scheduled)</b></p> <p><b>Part B – Audit Reports</b></p> <ul style="list-style-type: none"> <li>• Grant Thornton – Audit Findings Report 2020/21</li> <li>• Grant Thornton – Annual Audit Report 2020/21</li> <li>• Grant Thornton – Audit Progress Report and Sector Update</li> <li>• Grant Thornton – External Audit Plan Year ending March 2022</li> <li>• Statement of Accounts 2020/21</li> <li>• Treasury Management Presentation</li> <li>• Annual Property Investment Update</li> <li>• Audit Planning Risk Assessment</li> </ul>
<b>WORK PROGRAMME 2022 – 2023</b>	
<b>Monday 20 June 2022</b>	<p><b>Part A – Standards Reports</b></p> <ul style="list-style-type: none"> <li>• Code of Conduct Complaints Monitoring and other Standards Matters</li> <li>• Ombudsman Complaints Monitoring</li> </ul> <p><b>Part B – Audit Reports</b></p> <ul style="list-style-type: none"> <li>• Internal Audit – Annual Report and Opinion 2021/22</li> <li>• Treasury Management Update – 2021/22 Outturn</li> <li>• Annual Governance Statement 2021/22</li> <li>• Wholly owned Council Housing Company Governance Monitoring</li> </ul>
<b>Wednesday 27 July 2022</b>	<p><b>Part A – Standards Reports (none scheduled)</b></p> <p><b>Part B – Audit Reports</b></p> <ul style="list-style-type: none"> <li>• Grant Thornton – Annual Governance Report 2021/22</li> <li>• Statement of Accounts 2021/22</li> <li>• Treasury Management Update</li> </ul>

<p style="text-align: center;"><b>Monday 26 September 2022</b></p>	<p><b>Part A – Standards Reports (none scheduled)</b></p> <p><b>Part B – Audit Reports</b></p> <ul style="list-style-type: none"> <li>• Internal Audit Report to 30 June 2022</li> <li>• Treasury Management Update</li> <li>• Risk Management Update</li> </ul>
<p style="text-align: center;"><b>Monday 5 December 2022</b></p>	<p><b>Part A – Standards Reports</b></p> <ul style="list-style-type: none"> <li>• Code of Conduct Complaints Monitoring and other Standards Matters</li> <li>• Local Government Ombudsman Complaints Monitoring and Annual Review 2021/2022</li> </ul> <p><b>Part B – Audit Reports</b></p> <ul style="list-style-type: none"> <li>• Internal Audit Report to 30 September 2022</li> <li>• Treasury Management Update</li> </ul>
<p style="text-align: center;"><b>Monday 20 March 2023</b></p>	<p><b>Part A – Standards Reports (none scheduled)</b></p> <p><b>Part B – Audit Reports</b></p> <ul style="list-style-type: none"> <li>• Grant Thornton – Audit Progress Report and Sector Update</li> <li>• Grant Thornton – External Audit Plan 2022/23</li> <li>• Internal Audit Report to 31 December 2022</li> <li>• Internal Audit Plan 2023/24</li> <li>• Review of Internal Audit 2022/23</li> <li>• Annual Property Investment Update</li> <li>• Treasury Management Update</li> <li>• Accounting Policies 2022/23</li> <li>• Risk Management Update</li> </ul>