

## Rother District Council

**Report to:** Audit and Standards Committee

**Date:** 5 December 2022

**Title:** Internal Audit Report to 30 September 2022

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

**Purpose of Report:** To report on Internal Audit activity in the second quarter of 2022/23, to provide a progress update on the implementation of audit recommendations made in earlier periods, and to agree the revised Internal Audit Charter.

### Officer

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

- 1) the Internal Audit report to 30 September 2022 be noted; and
  - 2) the revised Internal Audit Charter shown in Appendix C be approved.
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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. Progress on the 2022/23 Audit Plan is currently running a few weeks behind schedule. This is partly due to additional testing being required on some audits, but is mostly a result of resourcing issues within the Internal Audit Team over the past three months. It is hoped that this situation will be resolved in the near future, but in the meantime, the Audit Manager has had to postpone one audit (ICT Asset Management) and may have to reduce the coverage of other audits to ensure they are still deliverable.

### Summary of Activity to 30 September 2022

4. Three audit reports were completed 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. Two of these audits (Building Maintenance and Reprographics Sales Income) provided substantial assurance, but the third (Property Investment) only received a limited assurance rating. This is because the audit raised concerns about the adequacy of the controls for monitoring the ongoing financial viability of development sites purchased under the Property Investment Strategy.

However, it can be seen from the management comment included at the end of the executive summary that the Director – Place and Climate Change does not agree with this assessment or the action recommended to address the issue.

6. Internal Audit based its assessment on the on the fact that no evidence could be provided that robust financial appraisals and ongoing viability reviews were taking place at the time of the audit (July 2022) despite rising inflation and the cost of borrowing having increased significantly. These costs have continued to rise in recent months. It would also appear that the requirement in Financial Procedure Rules to report the estimated final costs for all capital projects to the Senior Leadership Team on a quarterly basis is not being adhered to.
7. Our primary concern here is that without regular re-appraisal, officers may fail to promptly identify if a project is no longer financially viable, resulting in abortive work, the cost of which will ultimately have to be met from the Council’s revenue budget. We are not suggesting that a final decision on the ongoing financial viability of any capital project should be determined based purely on an arbitrary uplift for inflation and increased borrowing costs, but if the results of such analyses indicate that there may be a problem then this could be explored further rather than waiting for the next RIBA development stage which may not be reached for some time.

### **Implementation of Audit Recommendations**

8. 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.
9. There are currently eight recommendations in the ‘Old Years’ section. This is made up of the two 2018/19 recommendations reported previously plus six recommendations from 2021/22. Most of these are in hand but no further progress has been reported on either of the 2018/19 recommendations this quarter.
10. The progress made to date on the current year recommendations is encouraging with most having been implemented and the rest in the process of being resolved.

### **Audits Planned Next Quarter**

11. The audits currently scheduled to take place in the fourth quarter of 2022/23 are as follows:

January 2023	Benefits
	ICT Governance
February 2023	Main Accounting
	Payroll
March 2023	Debtors
	Licencing

## Risk Management

12. The issues raised by Members and the Independent Person at the last Audit and Standards Committee meeting have been reported back to the Corporate Management Team for consideration. The Corporate Risk Register will be updated in due course and the next version reported to this Committee in March 2023.

## Internal Audit Charter

13. 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 February 2022 but now needs some further minor amendments to reflect the new senior management structure. A revised Internal Audit Charter is therefore provided in Appendix C for Members' consideration and approval.

## Conclusion

14. Progress on the 2022/23 Audit Plan is currently running behind schedule due to circumstances beyond our control. Some audit coverage may need to be reduced to ensure the rest of the plan is deliverable.
15. Three audits were completed in the second quarter of 2022/23. One of these received a limited assurance rating, but the validity of this assessment is disputed by the Director – Place and Climate Change.
16. Progress on the outstanding audit recommendations continues to be monitored.

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

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Appendices:	A – Audit Reports issued during Quarter to 30 September 2022 B – Summary of Progress on Recommendations Made up to 30 June 2022 C – Revised Internal Audit Charter
Relevant Previous Minutes:	AS22/30 Internal Audit Report to 30 June 2022
Background Papers:	None.
Reference Documents:	None.

## BUILDING MAINTENANCE AUDIT

Service Manager: Lee Beckham and Maria Benford

Officer(s) Responsible for Implementing Recommendations: Lee Beckham

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 Information

All requests for building maintenance work are now managed using Maintenance Tracker software which was developed in-house. This is a major improvement on the spreadsheet-based system seen at previous audits as it allows Estates Maintenance Manager far greater control over allocating work and monitoring progress.

### Limitations of Coverage

Whilst the audit included an overview of the Maintenance Tracker's functionality, no detailed testing of the system was undertaken on this occasion due to time constraints. A walkthrough check was however carried out to confirm that the system is operating as expected.

Audit checks on services contracts was limited to the fire and intruder alarm systems in the main admin buildings.

### 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>In-House Repairs and Maintenance</b> – Work requests are properly authorised, and checks are carried out to ensure the work is completed satisfactorily.	<b>M</b>
<b>Purchase and Storage of Supplies</b> – Payments to wholesale suppliers are properly authorised, certified for payment and paid promptly. Stock is held securely until it is used.	<b>M</b>
<b>Motor Vehicles</b> – Motor vehicles used by the in-house Building Maintenance team are well maintained and properly insured.	<b>M</b>
<b>Health and Safety</b> – The health and safety needs of Building Maintenance operatives are properly assessed, and suitable training and equipment is provided to enable them to carry out their duties safely.	<b>M</b>

<p><b>Use of External Contractors</b> – The use of contractors for building maintenance work is controlled, monitored and the work or service provided agreed prior to payment. Inspections are carried out in accordance with servicing contracts.</p>	<p><b>P</b></p>
<p><b>Budget</b> – The budget is monitored and controlled.</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.

The only issues found relate to:

- **Electrical Work** – All electrical work and some general building maintenance work is currently undertaken by an external contractor. The total value of this work exceeds £70,000 per annum but has never been subject to a tendering process as individual jobs tend to be priced under £5,000. Given the many jobs carried out by this contractor each year, it is recommended that officers liaise with the East Sussex Procurement Hub with a view to carrying out a tendering exercise for this work.
- **Purchase Orders** – Financial Procedure Rules require that a purchase order is raised in advance of goods or services being requested. This is to ensure that the requested work has been approved and also helps to prevent duplicate payments. However, at present, requisitions for most building maintenance work are not raised until after the work has been completed and the contractor’s invoice has been received. Whilst it is recognised that there will be occasions when emergency work means that the standard process cannot be followed, this should be the exception rather than the rule. The audit therefore recommends requisitions should be raised and approved (and a purchase order produced) prior to work being carried out.

**Executive Summary**

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

Internal Audit Service  
September 2022

## REPROGRAPHICS SALES INCOME AUDIT

Service Manager: Graham McCallum

Officer(s) Responsible for Implementing Recommendations: Tony Riggs

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.

### Audit Scope and Limitations

The sole focus of this audit was to check that the income generated from the Reprographics unit's external print work is being correctly recorded, collected and accounted for. This includes all design and print work carried out for private customers and other councils.

The review does not cover internal work, and no assessment was made of how well the unit is performing overall.

### 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**).

All print jobs for external clients are authorised and costed.	<b>P</b>
All expected income is collected and promptly banked.	<b>P</b>

### Level of Assurance

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

The main issues found relate to:

- **Pricing** – The current prices have not been calculated with reference to actual Reprographics overheads. Management has therefore agreed to liaise with Finance to check that the current pricing is sufficient to cover operational costs whilst still remaining competitive.
- **VAT** – Customers paying in person (i.e. by cash or cheque) are not charged VAT at present. However, the VAT element still has to be accounted for in the Financial system and this effectively reduces the amount of income received. Management will therefore look to introduce VAT receipts so that VAT can be charged for all relevant supplies.

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- **Cash Reconciliation and Banking** – Whilst audit checks confirmed that most cash received over a recent two-year period could be accounted for, it was found that cash income is not being properly reconciled and checked by a second officer prior to banking nor securely transported to the bank. Management has therefore agreed to take immediate steps to improve control.

On a more positive note, the audit also highlighted that the demand for private work has steadily increased over the past three years despite the fact that the Council's external printing services are not actively marketed. This means that there may be potential to further increase the income generated once the pricing and VAT issues are satisfactorily resolved.

### **Executive Summary**

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

Internal Audit Service  
September 2022

## PROPERTY INVESTMENT AUDIT

Service Manager: Graham Burgess

Officer(s) Responsible for Implementing Recommendations: Graham Burgess

Overall Level of Assurance: **LIMITED**

### 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**).

<p><b>Strategy</b> – There is a property investment strategy which outlines the criteria for the procurement of property which has been approved by Members. The strategy is in accordance with the Department for Levelling Up, Housing and Communities and CIPFA guidelines.</p>	<p><b>P</b></p>
<p><b>Property Identification and Evaluation</b> – There are clearly defined procedures for the identification of suitable investment properties. A transparent SWOT analysis and risk assessment process is undertaken before property purchases are recommended to Members, and the ongoing financial viability of development sites is kept under review once they have been acquired.</p>	<p><b>N</b></p>
<p><b>Scrutiny</b> – Investment decisions are subject to the scrutiny of trained Members with the requisite skills and knowledge to appraise the recommendations made to them by officers, prior to formally recommending that the Head of Paid Service can proceed with any purchase.</p>	<p><b>M</b></p>
<p><b>Due Diligence</b> – There is sufficient due diligence prior to the purchase of properties.</p>	<p><b>M</b></p>
<p><b>Completion</b> – The Council has received all relevant legal documentation following the completed purchase of an acquisition including title deeds and land registry documents.</p>	<p><b>M</b></p>

### Level of Assurance

Based on the findings from the audit we have determined that only limited assurance can be given on the overall governance arrangements due to the issue outlined below. It should however be acknowledged that the many control issues highlighted by the



previous audit review (which also received a limited assurance rating) have since been resolved.

The main issue found during this audit concerns the inadequacy of existing controls for monitoring the ongoing financial viability of development sites purchased under the Property Investment Strategy.

For example, the Barnhorn Green site was acquired in 2019 but build costs have risen significantly since the initial (pre-acquisition) financial appraisal was carried out and the cost of borrowing has also increased over the same period. As at July 2022, Internal Audit calculate that rent receipts would need to be at least 50% to 60% higher than the 2019 estimates for the scheme to remain viable. Financial viability is flagged as high risk in the risk registers for this project, but no evidence could be provided that the stated mitigations of “robust financial appraisals and ongoing viability reviews” are being undertaken on a regular basis. Financial Procedure Rule G36 also states that the estimated final costs for all capital projects should be reported to the Corporate Management Team (now Senior Leadership Team) on a quarterly basis. In order to determine the estimated final costs, factors such as inflationary costs and changes to interest rates would need to be taken into account.

Given that we are in a period of high inflation, rising interest rates and there are known supply issues within the building industry, it is now more important than ever that regular re-appraisals of financial viability take place.

Whilst it is acknowledged that all development projects are subject to a final affordability check by the Chief Finance Officer and Member approval before they are allowed to proceed, regular re-appraisals would enable the Council to promptly identify if the viability has reached a critical point so that an early decision can be made to halt the project, if necessary. Failure to do so risks increasing the financial impact of abortive work, ongoing professional fees/payments to consultants and officer time if a project does not then proceed

The audit report therefore recommends that an urgent and detailed review of financial viability for the Barnhorn Green site and all other property investment development sites should be carried out.

### **Executive Summary**

Overall, the control objectives are considered to have only been partially met. We have made one high and one low risk recommendation to management in order to improve the governance arrangements and reduce the risk of financial loss. The high risk recommendation and management's response to it will be included in the quarterly report to the Audit and Standards Committee.

Internal Audit Service  
August 2022

### **Management Comment**

This ‘Limited Assurance’ rating is based upon the scheme being high risk and misunderstands the risk management and governance systems already in place related to property and asset development. Whilst it is recognised that regular financial appraisals are required to ensure continued viability of schemes, recommending quarterly reappraisals is nonsensical and will lead to improper decision making.

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Property development programmes are best described through the RIBA phase process outlined below:

### **RIBA Plan of Work and Interior Designers**

Stage 0 - Strategic Definition.

Stage 1 - Preparation and Briefing.

Stage 2 - Concept Design.

Stage 3 - Spatial Coordination.

Stage 4 - Technical Design.

Stage 5 - Manufacturing and Construction.

Stage 6 - Handover.

Stage 7 - Use.


For clarity, planning permission is usually granted at the end of phase three. The current risk management approach conducts viability assessments at each of the ends of stages 1-3. Additional viability testing would be undertaken at stage 4 if a traditional, rather than design and build, approach was opted for. Quarterly viability assessments, as recommended by the auditor, would apply generic inflationary increases against an ever-evolving spatial design rather than recognising a dynamic process and the existence of a complex supply chain in which prices move up and down dependent on a variety of economic circumstances. This blunt instrument runs the risk of decisions being made on poor quality information, could make schemes appear more viable as well as less viable than they are, and is contrary to industry best practice. It is agreed that robust and clear financial viability assessments should be undertaken at regular intervals, but it is my recommendation that these intervals remain stage based rather than time based.

Director – Place and Climate Change  
October 2022

**PROPERTY INVESTMENT AUDIT**

**High Risk Recommendations and Management Responses**

The recommendations below arise from audit findings which carry a **High** risk and which have resulted in the control objective not being met (**N**). Management's response to the recommendation is also included and where the recommendation or an alternative action which will satisfy the control objective is agreed, an implementation date is shown. Progress against these recommendations will be included in the quarterly report to Audit and Standards Committee.

Audit Ref	Finding/Risk	Recommendation	Risk	Management Response
2.5	<p><b>Finding</b></p> <p>An audit reworking of the financial viability calculation for the Barnhorn Green development was carried out. This factored in both cost increases calculated by the Council's employer's agent for the project and prevailing PWLB interest rates, but no other variables.</p> <p>These calculations brought into question whether future rental income would deliver the yields anticipated at the start of the project.</p> <p>A risk register produced by the Council's external project manager already highlights the viability risks in relation to this project, and a significant proportion of these are marked as high risk.</p> <p>The Council's own internal risk register also flags financial viability as an ongoing high risk and states that mitigating action will include "robust financial appraisals and ongoing viability reviews" but no evidence could be provided that these actions are being taken on a regular basis. Financial</p>	<p>An urgent and detailed review of financial viability for the Barnhorn Green site and all other property investment development sites should be carried out. Projected inflationary costs and margins for interest rate rises should be factored in and the Chief Finance Officer should be consulted as part of this process.</p>	<p>High</p> 	<p>The Property Investment &amp; Regeneration Manager will liaise with Finance and the Project Manager for the Barnhorn Green site to determine the viability. This will be carried out before a Cabinet report on funding for this scheme is submitted in October 2022.</p> <p>Viability may be dependent on the doctor's practice being prepared to pay rent that would make the scheme viable under current economic conditions.</p> <p>The viability for other property investment development sites will also be reviewed and monitored in liaison with Finance.</p> <p><b>Agreed Implementation Date</b></p> <p>October 2022</p> <p><b>Responsible Officer</b></p> <p>Graham Burgess</p>

Audit Ref	Finding/Risk	Recommendation	Risk	Management Response
	<p>Procedure Rule G36 also states that the estimated final costs for all capital projects should be reported to the Corporate Management Team (now Senior Leadership Team) on a quarterly basis.</p> <p>All of the above factors therefore indicate that the situation now needs to be urgently reviewed.</p> <p>The Council should also consider the interest rate risks and inflation risks that could negatively impact on the viability of other development sites.</p> <p><b>Risk</b></p> <p>Financial loss to the Council if rental income does not sufficiently cover the costs of servicing loan interest and repayments.</p>			

## Summary of Progress on Recommendations Made up to 30 June 2022

### Old Years: Audit recommendations made in 2018/19 (2) and 2021/22 (6)

Previous quarter's performance shown in brackets

Risk	Issued	Implemented	Work-in-Progress	Not Started
High	4	4 (4)	0 (0)	0 (0)
Medium	64	58 (56)	4 (8)	2 (0)
Low	46	44 (43)	1 (3)	1 (0)
<b>Total</b>	<b>114</b>	<b>106 (103)</b>	<b>5 (11)</b>	<b>3 (0)</b>
		<b>93.0%</b> (90.4%)	<b>4.4%</b> (9.6%)	<b>2.6%</b> (0%)

Note – All audit recommendations made in 2019/20 and 2020/21 have been resolved.

Breakdown of outstanding audit recommendations by Service Manager:

#### Antony Baden (Chief Finance Officer)

- Procurement (2018/19) – issued 05/10/18. Recommendation to formalise an SLA for the service provided by the East Sussex Procurement Hub (Medium).
- Creditors (2021/22) – issued 01/02/22 (1 Medium)

#### Graham Burgess (Property Investment & Regeneration Manager)

- Estates Income (2021/22) – issued 30/06/21 (1 Medium)

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

- ICT Governance (2018/19) – issued 12/04/19. Recommendation to produce a new ICT Disaster Recovery Plan (Medium)
- Data Protection (2021/22) – issued 25/06/21 (2 Medium & 1 Low)

#### Joe Powell (Head of Housing & Community)

- Housing Temporary Accommodation (2021/22) – issued 20/09/21 (1 Low)

### Current Year: Audit recommendations made in 2022/23 (up to 30 June 2022)

Risk	Issued	Implemented	Work-in-Progress	Not Started
High	1	1	0	0
Medium	9	6	3	0
Low	3	2	1	0
<b>Total</b>	<b>13</b>	<b>9</b>	<b>4</b>	<b>0</b>
		<b>69.2%</b>	<b>30.8%</b>	<b>0%</b>

## 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 Senior Leadership 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, 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:
- 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, Heads of Service and Service Managers 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 Deputy Chief Executive’s directorate and the Audit Manager reports direct to the Deputy Chief Executive.

### 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 Senior Leadership 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 and Opinion on the Control Environment
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**

44. 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 2025

Gary Angell  
Audit Manager  
November 2022