



Lewes District Council

To all Members of the Audit and Standards Committee

A meeting of the **Audit and Standards Committee** will be held in the **Telscombe Room, Southover House, Southover Road, Lewes** on **Monday, 22 June 2015** at **15:30** which you are requested to attend.

Please note the venue for this meeting which is wheelchair accessible and has an induction loop to help people who are hearing impaired.

This meeting may be filmed, recorded or broadcast by any person or organisation. Anyone wishing to film or record must notify the Chair prior to the start of the meeting. Members of the public attending the meeting are deemed to have consented to be filmed or recorded, as liability for this is not within the Council's control.

08/06/2015

Catherine Knight
Assistant Director - Corporate Services

Agenda

- 1 Minutes**
To confirm and sign the Minutes of the Meeting of the Council dated 16 March 2015 (copy previously circulated).
- 2 Apologies for Absence**
- 3 Declarations of Interest**
Disclosure by councillors of personal interests in matters on the agenda, the nature of any interest and whether the councillor regards the interest as prejudicial under the terms of the Code of Conduct
- 4 Urgent Items**
Items not on the agenda which the Chair of the meeting is of the opinion should be considered as a matter of urgency by reason of special circumstances as defined in Section 100B(4)(b) of the Local Government Act 1972
- 5 Written Questions from Councillors**

To deal with written questions which councillors may wish to put to the Chair of the Council, a Lead Councillor on the Cabinet or the Chair of any committee or sub-committee in accordance with Council Procedure Rule 11 (if any).

6 Remit of the Audit and Standards Committee

To receive the remit of the Audit and Standards Committee (page 4)

7 Standards Training 13 and 20 May 2015

To note on the 13 and 20 May 2015 Councillors were offered and received standards training from Lewes District Council Legal Department relating to ethics and the Code of Conduct for councillors as part of the induction programme following the Election. The following members received the appropriate training on the Code of Conduct, Councillors Botting, Carr, Carter Catlin, Cooper, Enever, Giles, Honeyman Linington, Loraine, Murray, Neave, Peterson, Rowell and Turner.

8 Annual Report on the work of the Audit and Standards Committee 2014-15

To receive the report of the Chair of the Audit and Standards Committee (page 7)

9 Annual Report on Internal Audit Performance and Effectiveness 2014-15

To receive the report of the Head of Audit, Fraud and Procurement (page 14)

10 Interim Report on the Council's Systems of Internal Control 2015-16

To receive the report of the Head of Audit, Fraud and Procurement (page 27)

11 Annual Report on the Council's Systems of Internal Control 2014-15

To receive the report of the Head of Audit, Fraud and Procurement (page 55)

12 Treasury Management

To receive the report of the Director of Corporate Services (page 61)

13 Statement of Accounts 2014-2015

To receive the report of the Director of Corporate Services (page 84)

14 Date of Next Meeting

To note that the next meeting of the Audit and Standards Committee is scheduled to be held on 28 September 2015 in the Telscombe Room, Southover House, Southover Road, Lewes commencing at 15:30pm

For further information about items appearing on this Agenda, please contact Ruby Brittle at Southover House, Southover Road, Lewes, East Sussex BN7 1AB Telephone 01273 471600

Distribution: Councillors M Chartier (Chair), N Enever, I Linington, A Loraine, R Robertson, B Giles, A Rowell

(Members of the Committee who are unable to attend this meeting or find a substitute councillor to attend on their behalf should notify Michaela Frost or Ruby Brittle, at michaela.frost@lewes.gov.uk or ruby.brittle@lewes.gov.uk)

Remit of the Audit and Standards Committee

1 Statement of Purpose

- 1.1** Provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.
- 1.2** Promote and maintain high standards of conduct by Members and Co-opted Members of the Council.

2 Membership

- 2.1** The Audit and Standards Committee shall consist of seven members of the District Council. The quorum shall be four.
- 2.2** Up to 3 additional co-opted non-voting Town/Parish members may participate in Standards, but not Audit, matters.
- 2.3** The terms served by Town/Parish members shall run concurrently with the term of office of the District Councillors.
- 2.4** The Chair shall be elected from a non-Cabinet member of the Minority Groups.
- 2.5** Duty to appoint one or more Independent Persons for the following purposes:-
 - (a) to give the Council views on any allegations it has decided to investigate, before a decision is reached;
 - (b) at the discretion of the Council, to give the Council views on any other allegations; and
 - (c) at the discretion of a Member, Co-opted Member or Member of Town/Parish Council, to give the Member views on any allegations relating to the behaviour of that Member.

3 Powers and Duties

The Committee is responsible for carrying out the following statutory Audit duties:

- 3.1** To review progress with the External Auditor on audit systems and final audits and respond to any matters raised by the External Auditor. A meeting between the External Auditor and members of the Audit and Standards Committee can be held at the request of either party;

- 3.2 To review the External Auditor's Management Letter and the conclusions of Value for Money Studies and make recommendations to the Cabinet;
- 3.3 To keep under review the probity and the effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk;
- 3.4 To keep the effectiveness of management arrangements under review to ensure legal and regulatory compliance;
- 3.5 To review the effectiveness of corporate governance arrangements and to oversee production of the Annual Governance Statement and recommend its adoption;
- 3.6 To agree a three year strategic audit programme and annual programme and keep them under review:
 - to ensure co-ordination between internal and external auditors, and
 - to make recommendations to the Cabinet to ensure that the internal audit function is adequately resourced and is able to discharge its functions effectively;
- 3.7 To consider the Head of Audit and Performance's Annual Report and to report annually to the Cabinet on the adequacy and effectiveness of internal controls within the Council;
- 3.8 To review the annual statement of accounts, and consider whether the appropriate accounting policies have been followed and whether there are any concerns that need to be brought to the attention of the Council; and to approve the Council's annual accounting statements

In addition, the Committee is responsible for exercising the following Audit powers:

- 3.9 To consider the significant findings of internal audit investigations, the responses of Chief Officers to those findings and any matters the Head of Audit and Performance may wish to discuss (in the absence of Chief Officers if necessary);
- 3.10 To commission work from internal and external audit;
- 3.11 To maintain an overview of the Council's Constitution in terms of contract procedure rules, financial regulations and codes of conduct and behaviour;
- 3.12 To monitor Council policies on Whistleblowing and Anti-Fraud and Corruption;
- 3.13 To review Treasury Management Policies and the Treasury Strategy and to recommend any changes to those documents to Cabinet for consideration.

The Committee is responsible for carrying out the following statutory Standards duties:

- 3.14** To recommend to Council the adoption of a Code of Conduct dealing with the conduct expected of Members and Co-opted Members of the Council when acting in that capacity [s27(2)] and including provision in respect of the registration and disclosure of (a) pecuniary interests and (b) interests other than pecuniary interests; and to revise the existing Code of Conduct or adopt a replacement Code of Conduct and make recommendations on the Code of Conduct to Council.
- 3.15** To put in place arrangements to investigate and make decisions on written allegations that a Member or Co-opted Member of the Council has failed to comply with the Code of Conduct.

In addition, the Committee is responsible for exercising the following Standards powers:

- 3.16** To have regard to a Member's or Co-opted Member's failure in complying with the Code of Conduct, in deciding whether to take action in relation to that Member and what action to take.
- 3.17** To grant a Member or Co-opted Member a dispensation from the restriction on speaking and/or voting when any matter in which that person has a disclosable pecuniary interest is to be considered at a meeting of the Council or any of its committees, sub-committees, joint committees or joint sub-committees.
- 3.18** To consider the Monitoring Officer's Annual Report on the establishment and maintenance of a register of interests of Members and Co-opted Members of the Council.

Agenda Item No: 8

Report 73/15

Report Title: Annual Report on the work of the Audit and Standards Committee 2014/15

Report To: Audit and Standards Committee Date: 22 June 2015

Ward(s) Affected: All

Report By: Chair of the Audit and Standards Committee

Contact

Name: Cllr Mike Chartier
Title: Chair of the Audit and Standards Committee
Email: michael.chartier@lewes.gov.uk
Tel no: 01273 472019

Purpose of Report:

To present to Councillors the annual report on the work of the Audit and Standards Committee, which summarises activity in this key area of corporate governance and provides assurance that the oversight of governance, risk and internal control is operating effectively?

Chair's Recommendation(s):

- 1** To receive and consider the report.
- 2** To endorse the conclusions on the effectiveness of Internal Audit (see paragraph 16).
- 3** To endorse the opinion on the Council's Internal Control Environment, Assurance Framework, and Risk Management Framework (see paragraphs 17 and 18).
- 4** To note that the Committee has discharged all of the duties outlined and complied with the Terms of Reference in all respects (see paragraph 19).
- 5** To thank former Councillor Ian Eiloart for his work as Chair of the Committee since May 2009 (see paragraph 7).

Reasons for Recommendations

- 1** At its meeting on 19 March 2009, the Committee resolved that the Chair should produce an annual report. The Council's external auditors PKF (now BDO) had recommended this approach as one of a series of best practice developments arising from the Use of Resources assessment for 2007/08.

Annual Report on the work of the Audit and Standards Committee 2014/15

Background

- 2** The Audit Committee was established in 2001 to provide independent assurance as to the adequacy of the Council's arrangements for internal control, risk management and corporate governance. A key role for the Committee has been the monitoring of the plans, work and effectiveness of the Council's Internal Audit service.
- 3** In 2012, the Audit Committee was merged with the Standards Committee to form the Audit and Standards Committee. This report covers the work of the Audit and Standards Committee in the five meetings of the Committee that were held during the financial year 2014/15.
- 4** The Committee conforms to best practice set out in CIPFA's Audit Committees – Practical Guidance for Local Authorities, and operates in accordance with the Remit of the Audit and Standards Committee which is shown in Part 11, Section 4 of the Council's Constitution.
- 5** The Council adopted the CIPFA Code of Practice on Treasury Management. In December 2009, CIPFA updated the Code of Practice with one of the key changes being an emphasis on the need for every local authority to nominate a body to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. Cabinet decided that this scrutiny role should be performed by the Audit Committee, and the Audit and Standards Committee now receives regular reports on treasury management.

Membership of the Committee

- 6** The Audit and Standards Committee comprises seven Councillors, with the quorum set at four. Up to three additional co-opted non voting Town/Parish members may participate in Standards, but not Audit, matters. The Chair of the Audit and Standards Committee is elected from the Council's minority group.
- 7** During 2014/15, the Chair of the Committee was Councillor Ian Eiloart, except on the two occasions when Councillors Chartier and Gauntlett were elected as Chair. Councillor Eiloart did not stand for re-election in May 2015, and Councillor Mike Chartier has been elected as Chair of the Committee from that time.
- 8** During 2014/15, Councillors Eiloart, Chartier, Allen, Gauntlett and Gardiner from the minority group served on the Committee. Councillors Nicholson, Harris, Russell, and Sugarman from the majority group served on the Committee.
- 9** The Committee maintains a pool of Members who have expressed willingness to serve as substitutes by any member of the Council who is not a member of Cabinet may do so.
- 10** To be effective it is important that members of the Audit and Standards Committee have a broad understanding of the financial risk, control and governance issues facing the Council. To this end the Council provides

Committee members with general induction training and guidance on specific topics based on a Training Needs Self-Assessment.

Meetings of the Committee

- 11 The Committee normally meets five times per year. During 2014/15, Committee meetings were held on 23 June 2014, 22 September 2014, 1 December 2014, 26 January 2015 and 16 March 2015.
- 12 The Committee meeting on 16 March 2015 was not quorate. Therefore, the recommendations made in the minutes were those of the three Councillors who were present for that part of the meeting, namely Eiloart, Gauntlett and Nicholson. The Committee meeting scheduled for 22 June 2015 will decide on how to progress these recommendations.
- 13 Each Committee meeting is attended by the Head of Audit, Fraud and Procurement and the Head of Finance, with other Council officers attending as appropriate to report of financial or control issues. An Audit Partner and/or an Audit Manager from the Council's external auditors BDO attend most meetings. Each meeting of the Committee is also attended by a Committee Officer to record the meetings and outcomes.
- 14 At each meeting the Committee receives an Interim Report on the Council's Systems of Internal Control, with the June meeting also receiving the annual report on internal control for the financial year ending the preceding March. At each June meeting there is also an annual report on Internal Audit Performance and Effectiveness. The January meeting receives the Annual Treasury Management Statement and Investment strategy report. Other reports are presented to cover regular items in the financial and control cycle, or to deal with specific current issues. Reports to the Committee for the five meetings in 2014/15 are detailed at Appendix A.
- 15 During 2014/15, the Committee received 28 reports; this is slightly up on the number of reports in 2013/14.

Statement of the Audit and Standards Committee's opinion on the effectiveness of Internal Audit

- 16 The Audit and Standards Committee has noted the separate report on Internal Audit Performance and Effectiveness. The Committee endorses the conclusions of the report that the Internal Audit service achieves its aims, objectives and expected outcomes, operates in accordance with the Internal Audit strategy that was approved by the Committee, and meets best practice standards including compliance with the Public Sector Internal Audit Standards (PSIAS).

Statement of the Audit and Standards Committee's opinion on the Council's Internal Control Environment and Risk Management arrangements

- 17 As noted above, the Committee receives regular interim and annual reports that include detailed assessments of the Council's internal control environment and the arrangements for risk management and corporate governance. These reports, supported by regular briefings from the Head of Audit, Fraud and

Procurement, enabled the Committee to maintain proper oversight of the arrangements for internal control.

- 18** The Committee endorses the opinion of the Head of Audit, Fraud and Procurement that the overall standards of internal control and risk management are satisfactory. This opinion is based on the work of Internal Audit, external audit and other external assurance bodies, and the Council's work on risk management. The risk management process has identified that most risks are mitigated by the effective operation of controls or other measures. Whilst recommendations have been made to improve procedures and controls in some areas, there were no instances in which internal control problems created significant risks for Council activities or services. In most cases managers have addressed the control issues since the respective audits, and within those recommendations not yet implemented there are no issues that create significant risks for the Council.

Terms of Reference

- 19** I have examined the Committee's Terms of Reference. I believe that the Committee has discharged all of the duties outlined and complied with the Terms of Reference in all respects. In addition, the Committee has used its powers to raise questions with officers and representatives of BDO to seek assurance and clarification on matters of control and governance.

Audit and Standards Committee Activities for 2015/16

- 20** It is anticipated that the scope and content of the Committee's activities will remain broadly similar to those in 2014/15.

Financial Appraisal

- 21** There are no additional financial implications from this report.

Sustainability Implications

- 22** I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is an internal monitoring report.

Risk Management Implications

- 23** If the Audit and Standards Committee does not ensure proper oversight of the adequacy and effectiveness of the Council's systems of internal control there is a risk that key aspects of the Council's control arrangements may not comply with best practice.

Equalities Screening

- 24** This report is for information only and involves no key decisions. Therefore, screening for equality impacts is not required.

Background Papers

- 25** None

Appendices

26 Appendix A – Reports presented to the Audit and Standards Committee

Appendix A: Reports presented to the Audit and Standards Committee

Report	June	Sept	Dec	Jan	March	Source
Annual Report on Internal Audit Performance and Effectiveness 2013/14	xx					HAFP
Annual Report on the Council's Systems of Internal Control 2013/14	xx					HAFP
Interim Report on the Council's Systems of Internal Control 2014/15	xx	xx	xx	xx	xx	HAFP
Strategic Audit Plan 2015 - 2018					xx	HAFP
Statement of Accounts 2013/14	xx	xx				HF
Treasury Management Report	xx	xx	xx	xx	xx	HF
Annual Treasury Management Strategy Statement and Investment Strategy 2015/16 to 2017/18				xx		HF
Annual Governance Statement 2014		xx				HAFP
Code of Corporate Governance Update				xx		HAFP
Annual report on the establishment and maintenance of a Register of Interests 2014/15		x				ADCS
BDO Report to the Audit and Standards Committee		xx				BDO
LDC 2013/14 Audit Plan	x					BDO
LDC 2014/15 Audit Plan					x	BDO

Report	June	Sept	Dec	Jan	March	Source
LDC Annual Audit Letter			xx			BDO
LDC Grant Claim Report 2013/14					xx	BDO
LDC Planning Letter March 2015					x	BDO
Internal Audit Benchmarking 2013/14		xx				HAFP
Summary Audit Report – Investigation into the relationship between the Council and Seaford and District Constitutional Club as to possible development opportunities at the site			x			HAFP
Annual Report on the Council's work to combat Fraud and Corruption 2013/14		xx				HAFP

Key

HAFP – Head of Audit, Fraud and Performance

HF – Head of Finance

ADCS – Assistant Director of Corporate Services

BDO – Council's external auditors BDO

xx – report was received at meetings in both 2014/15 and 2013/14, even if they were not the corresponding meeting in each year.

x - report was received at a meeting in 2014/15 but was not received during 2013/14

Item No: 9

Report No: 74/15

Report Title: Annual Report on Internal Audit Performance and Effectiveness 2014/15

Report To: Audit and Standards Committee Date: 22 June 2015

Ward(s) Affected: All

Report By: Head of Audit, Fraud and Procurement

Contact Officer

Name: David Heath

Post Title: Head of Audit, Fraud and Procurement

E-mail: David.Heath@lewes.gov.uk

Tel no: 01273 484157

Purpose of Report:

To inform Councillors of the Internal Audit work of the Audit and Performance Division for 2014/15.

To inform Councillors on the outcome of the review of the effectiveness of Internal Audit for 2014/15.

Officers Recommendation(s):

- 1** To note that the Internal Audit coverage in 2014/15 has been sufficient to enable the Head of Audit, Fraud and Procurement (HAFP) to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment (see Section 3.1).
 - 2** To note the satisfactory outcome of the review of the effectiveness of Internal Audit for 2014/15 (see Section 3.3).
-

Reasons for Recommendations

- 1** The remit of the Audit and Standards Committee includes a duty to consider the annual report by the HAFP, and to keep the work of Internal Audit under review to ensure that it is able to discharge its functions effectively.

2 Background

- 2.1** The Internal Audit function at Lewes previously operated in accordance with the Code of Practice for Internal Audit published by the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA has, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that have applied from 1 April 2013. The HAFP advised the Audit and Standards Committee of the effect of the new standards at its March 2013 meeting.

2.2 The requirements of the PSIAS overlap with those of the Accounts and Audit (England) Regulations 2011, which require that the organisation conducts a review of the effectiveness of Internal Audit at least annually. This requirement has been met by an internal study carried out by the HAFP, with the results reviewed by the Director of Corporate Services and now reported to the Audit and Standards Committee. The review has drawn on the results of the quality review processes that form part of the PSIAS and the associated Local Government Application Note (LGAN) issued by CIPFA.

3 Overall conclusions on Internal Audit Performance and Effectiveness 2014/15

3.1 The work carried out by Internal Audit during 2014/15 is outlined in Section 4 of this report. The audit coverage has been sufficient to enable the HAFP to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment. This opinion is included in the Annual Report on the Council's Systems of Internal Control 2014/15 that is presented separately to this meeting of the Committee.

3.2 In the past year Internal Audit has continued to focus on the Council's main financial systems and the HB subsidy grant claim, whilst at the same time providing resources to assist in the projects that form part of the Council's work on restructuring and regeneration. This approach helps to ensure the adequacy of internal control in key areas, safeguards the Council's subsidy payments, ensures that the work of internal audit is integrated with the work of the external auditors (BDO), and helps to provide assurance on quality and controls in key Council developments. The HAFP believes that these are necessary priorities, which also assist in the Council's management and control of risk.

3.3 The review of the effectiveness of Internal Audit has taken into account the work carried out by the section during 2014/15 and the results of the performance and quality assurance processes that are outlined in Sections 5 to 7 of this report. The results of the review enable the HAFP to report that the Internal Audit service at Lewes is fully effective, is subject to satisfactory management oversight and has complied with the PSIAS in all major areas.

4 Work of Internal Audit 2014/15

4.1 This section of the report informs Councillors of the work undertaken by Internal Audit during the year, compared against the annual programme that was agreed by the Audit and Standards Committee in March 2014.

Use of Internal Audit resources

4.2 Table 1 shows the total planned audit days compared to the actual audit days spent. As requested by Councillors, Table 1 includes comparative data for 2013/14.

4.3 Table 1 shows that for 2014/15 a total of 683 audit days have been undertaken compared to the budget of 653 days. The variance of 30 days is largely due to the investigation carried out by HAFP (see paragraph 4.16) that was not planned at the start of the year.

Table 1: Plan audit days compared to actual audit days for 2014/15

Audit Area	Actual audit days for 2013/14	Plan audit days for 2014/15	Actual audit days for 2014/15
Main Systems	260	285	336
Central Systems	31	65	25
Departmental Systems	178	100	79
Performance and Management Scrutiny	64	40	39
Computer Audit	11	65	28
Environmental Audit	65	-	-
Management Responsibilities/Unplanned Audits	132	98	176
Days Total	741	653	683

4.4 As was anticipated when the Audit Plan 2014/15 was prepared, the ongoing restructuring of the Council has necessitated a review of the annual plan. The results of this review exercise were reported to the January 2015 meeting of the Committee. The appropriate sections of that report are included below to provide new Committee members with an overall view of the changes that were agreed.

Review of the 2014/15 Audit Plan (reported January 2015)

4.5 The review has taken place at the nine month stage, and the results of the review are now presented to the Committee. The review was scheduled to take account of a range of issues, in particular the ongoing restructuring and the impact of the significant extra work on the Benefits subsidy claim with BDO. The HAFP plans the following adaptations to the programme of work in the Audit Plan for 2014/15.

- The issue of the updated Business Continuity Plan in December 2014 means that further audit work is not necessary during 2014/15. The next audit of this subject will be scheduled for a future date in the audit cycle.
- The audit of Communications that was begun in 2013/14 was halted in agreement with the Director of Business Strategy and Development in recognition of the major restructuring that was taking place in the department. The restructuring has been ongoing during 2014/15 and further audit work is not yet appropriate. The next audit of this subject will be scheduled for a future date in the audit cycle.
- The audit of Estates Management was halted to enable resources to be directed to the investigation requested by the Chief Executive. A summary of key conclusions on Estates Management is being prepared to inform the ongoing restructuring of the Facilities function. No further work is planned in 2014/15 and the next audit of this subject will be scheduled for a future date in the audit cycle.
- The audit of Trade Waste reached the fieldwork stage before being suspended because resources had to be re-assigned to the completion of the work on the HB subsidy claim. There is now no time to reschedule this audit in 2014/15 because of higher priority work on the key financial systems, and the audit of Trade Waste will be a priority task in the programme of audits for early 2015/16.

- The planned audit of Internet/Intranet has been postponed because of the ongoing work on the redesign of the Council's website. The next audit of this subject will be scheduled for a future date in the audit cycle.

Other audits in the programme for 2014/15 that are planned or underway will continue to a normal conclusion.

Audit Work Undertaken

- 4.6** The paragraphs below summarise the main functional areas reviewed in the year and the key audits undertaken and completed. More detailed information on the audits completed in 2014/15 has been provided to each meeting of the Audit and Standards Committee.
- 4.7 *Main Systems:*** The initial work was on completing the testing of the major financial systems in order to gain assurance on the adequacy of internal controls for the Annual Governance Statement (AGS) and to inform BDO's work on the Council's accounts for 2013/14. The audit did not identify any significant control issues that would have an impact on the Council's main accounts. A summary report was finally issued. The corresponding work for the accounts for 2014/15 is largely completed, and the audit is at the draft report stage.
- 4.8** The initial work on behalf of BDO to test the Council's subsidy claim for Benefits for 2013/14 was completed to plan. The work identified errors in the processing of claims and, at the request of BDO, this required additional testing to determine the extent and impact of the issues noted. During October 2014, BDO checks identified further issues that required additional testing, and this process of further check and testing meant that it was not possible to submit the claim by the due date of 30 November 2014.
- 4.9** After a series of further checks, BDO issued a letter of qualification on 11 February 2015 that contained agreed estimates of the impacts of the issues noted. The claim for £35.6m was then submitted to DWP. The BDO report on the results of this work was presented to the March 2015 meeting of the Committee. During May 2015, DWP advised the Council that the full amount of the subsidy claim would be paid with no conditions applied. A summary report by Internal Audit on the Benefits subsidy claim work is at the draft stage, but will be completed shortly to include the final outcome from DWP.
- 4.10** It has not been necessary to carry out the anticipated work to verify the Council's subsidy claim for NDR. This follows a decision by DCLG and the Audit Commission that there need not be verification of the NDR claim return for 2013/14.
- 4.11 *Central Systems:*** An initial outline study for the audit of Business Continuity Planning resulted in a summary report being issued to the Director of Corporate Services; an updated Business Continuity Plan for the Council's services was issued in December 2014. A final report was issued for the audit of Safeguarding. A summary of findings from the work on Estates Management was issued to assist managers in re-organising the functions. The audit of Health and Safety is underway.
- 4.12** Final reports were issued for the 2013 and 2014 annual audits of Ethics. These audits are required to ensure compliance with the PSIAS. To date the audits have not been planned as part of the coverage of Central Systems although

they cover key aspects of the Council's corporate governance arrangements. This planning issue will be rectified in the preparation for the Strategic Audit Plan 2016/19 that will be presented to the Committee in March 2016. The work on the 2014 Ethics audit has meant that the planned audit of Building Maintenance had to be moved to 2016/17.

- 4.13 *Departmental Systems:*** Final reports were issued for the audits of Cemeteries, Planning and Development Control, and Building Control. Findings from a review of selected aspects of the procedures for the maintenance of Council housing will be made available to assist managers in reorganising the function. An audit of Sheltered Housing was divided into two parts at the request on Housing managers, with the second element now underway – the audit report will summarise the results from both sections. The audit of the Trade Waste that was moved to 2015/16 is at the draft report stage.
- 4.14 *Performance and Management Scrutiny:*** As part of planned work on Programme Nexus, Internal Audit has examined the internal control aspects of the new service delivery model for Council services. HAFP has been regularly involved as part of the procurement team for the project, and PAM has been part of the officer group that has been evaluating the tenders submitted by suppliers. Internal Audit involvement in four regeneration projects, and the project to develop the North Street Quarter of Lewes, has been less than originally planned.
- 4.15 *Computer Audit:*** Internal Audit completed the IT aspects of the testing of the main financial systems, and a report on the audit of IT Security was finally issued. As noted at 4.5 above, the audit of Internet/Intranet was postponed because of the work on the redesign of the Council's website. With the Council's focus on the development of the new service delivery model (see above) there have been no new individual IT systems that have needed Internal Audit review as part of the Computer Audit coverage.
- 4.16 *Management Responsibilities and Unplanned Audits:*** This category provides resources for activities such as support for the Audit and Standards Committee, managing the Fraud Investigations Team, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.
- 4.17** Internal Audit has been coordinating the Council's response to the 2014/15 NFI data matching exercise. The base data was forwarded to the Audit Commission in October 2014 and the reported matches for LDC were received on 29 January 2015. There are 1,526 matches detailed across 49 reports, each report setting out different types of potential frauds among HB claimants, housing tenants, and anyone receiving payment from the Council. The review and investigation of the matches is underway, with the initial work being to analyse and assess the matches to weed out those that are the result of error, coincidence or entirely proper activity.
- 4.18** At the request of the Chief Executive, Internal Audit investigated the relationship between the Council and Seaford and District Constitutional Club in respect of possible development opportunities at the site. A final summary report was issued and was presented to the December 2014 meeting of the Committee.

Follow Up of Audit Recommendations

- 4.19** As part of the control procedures detailed in the Internal Audit Manual all audit recommendations are followed up. The purpose of this is to check whether all accepted recommendations have been implemented. The early focus for follow up in 2014/15 was on confirming the implementation of the recommendations that had been agreed in the previous year. The results of this work were reported to the June 2014 meeting of this Committee. Since then the follow up procedures have concentrated on the recommendations due to be actioned during 2014/15.
- 4.20** Eight of the recommendations due to be implemented during the year have been actioned. This represents an implementation rate of 67% which is lower than the target of 90%. The factors behind the shortfall are organisational and staffing changes which have required a focus on other priorities. The major impact has been on the implementation of the recommendations from the investigation of the relationship between the Council and Seaford and District Constitutional Club in that not all of the recommendations had been implemented at the year-end (see also Section 9 and Appendix A).

5 Review of the Internal Audit Service against its aims, strategy and objectives

- 5.1** The LGAN requires that the Internal Audit service is periodically reviewed against its aims, strategy and objectives. The aim, objectives and strategy for the service for 2014/15 were set out in the Strategic Audit Plan 2014/17 that was presented to the March 2014 meeting of the Audit and Standards Committee, as outlined below.

Service Aim

Internal Audit 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.

Service Objectives

- To provide an efficient and effective Internal Audit function which achieves its service standards, and improves performance where possible.
- To deliver the Council's Annual Audit Plan and Strategic Audit Plan.

The following additional service objective was added to reflect the move of the Fraud Investigations Team to Internal Audit in November 2014.

- To provide an efficient and effective Investigations Team that supports the Council's Anti-Fraud and Corruption Strategy by carrying out a planned programme of work to help prevent and detect fraud, and provide resources to investigate suspected fraud cases.

Expected Outcome

The Council is able to demonstrate an effective control environment with no significant control issues, and to provide a satisfactory and unqualified audit opinion in its Annual Governance Statement (AGS).

The Council's AGS reports on the effectiveness of the governance framework, and is approved by the Audit and Standards Committee at its September meeting. The AGS is based upon the results from the Council's assurance arrangements, and the work by Internal Audit and the Council's external auditors, BDO.

Internal Audit Strategy

The Internal Audit service is provided internally. The staffing is set at the level necessary to ensure audit coverage of the key areas within the three year audit cycle based on a detailed risk assessment. From February 2014 the staffing of Internal Audit has been set at 3.2 FTE. From November 2014 the staffing has been enhanced by 1.5 FTE with the addition of the Fraud Investigations Team (see Section 10).

- 5.2** The HAFP has compared the performance of the Internal Audit service with the aim, objectives and strategy, and has examined the organisation, working methods, performance and quality standards of the service. The review results, together with the details given in the Annual Report on the Council's Systems of Internal Control 2014/15, demonstrate that the Internal Audit service achieves its service aim, objectives and expected outcome, and operates in accordance with the Internal Audit Strategy as approved by the Audit and Standards Committee.

6 Review of Internal Audit Charter

- 6.1** The PSIAS require that HAFP periodically reviews the Charter and present it to senior management and the Audit and Standards Committee for approval. The Charter for Internal Audit and Internal Audit Code of Ethics were updated to comply with the PSIAS in March 2013, and the revised documents were approved by the Audit and Standards Committee and circulated to senior managers.
- 6.2** HAFP reviews the documents annually to confirm that they remain valid and up to date, and that Internal Audit activities are operated in accordance with the requirements of the documents. HAFP has confirmed that the documents remain largely as approved in March 2013, except for minor changes made in May 2015 to reflect new job titles for some senior positions. If there is a need for more significant changes to the documents they will be presented to the Audit and Standards Committee for approval, and circulated to senior managers. If no significant changes are required, the full Charter for Internal Audit and Internal Audit Code of Ethics will be referred to the Audit and Standards Committee for approval every three years, and so it is anticipated that the next referral to the Committee will be in March 2016.

7 Quality Assurance and Improvement Programme (QAIP)

- 7.1** The PSIAS require that HAFP develops and maintains a QAIP that covers all aspects of Internal Audit activity, and which includes periodic assessments of quality, performance and conformance with the standards. The main elements of the QAIP are set out below.
- 7.2** The results of the quality reviews and assessments have been considered by HAFP, who confirms that the standards of Internal Audit work comply with the audit manual and the PSIAS. [Page 20 of 86](#)

Review by external auditors BDO

- 7.3 BDO make use of Internal Audit's work for their audits of key financial systems and the audits of the grant subsidy claim for HB, and use Internal Audit results to inform their opinion of the Council's control environment.

Quality reviews by Internal Audit

- 7.4 Each audit assignment is subject to quality reviews by the Principal Audit Manager (PAM) to establish that the field work and audit reports have been prepared and completed in accordance with audit manual procedures, quality standards and the objectives of the audit.

External assessment

- 7.5 The PSIAS set new requirements in terms of external assessments, which must be conducted at least every five years by a qualified, independent assessor (or assessment team) from outside the organisation. LDC has until March 2018 to have carried out an external assessment.
- 7.6 HAFP has previously agreed with the Audit and Standards Committee that he will put in place suitable arrangements for an external assessment, and will report the arrangements to the Committee. As anticipated the most economic arrangements will involve the internal audit services in neighbouring authorities in a shared assessment process. During March 2015, the outline arrangements for the assessments were agreed with the authorities comprising the Sussex Audit Group. Following a pilot assessment at a neighbouring authority that is planned for later in 2015/16, Lewes is scheduled to be assessed during 2016/17.

Internal assessment

- 7.7 The PSIAS require that there are annual internal assessments that are carried out by people external to Internal Audit, but with a sufficient knowledge of internal audit practices, including knowledge of the PSIAS, the LGAN and/or IIA practice guidance.
- 7.8 The PAM has carried out the internal assessment for 2014/15, comparing Internal Audit processes and procedures with the requirements of the PSIAS and LGAN. The PAM is not external to internal audit but has the necessary knowledge of internal audit practices, PSIAS, LGAN and IIA practice guidance.
- 7.9 HAFP has reviewed the results of the internal assessment, and confirms that Internal Audit works in accordance with the detailed requirements of the PSIAS and LGAN in the planning, management, conduct and reporting of engagements.

8 Feedback from Users

- 8.1 Customer satisfaction surveys have been part of Internal Audit's quality assurance measures since 2001. The PSIAS and LGAN require that performance monitoring arrangements include obtaining feedback from stakeholders.
- 8.2 During May 2015, feedback questionnaires were sent to the Chief Executive and members of the Corporate Management Team (CMT), and to those service managers who have had direct contact with Internal Audit during 2014/15. All

comments from that exercise were reported as Very Good, Good or Satisfactory.

9 Performance Indicators (PIs)

- 9.1** Proposals for a revised set of PIs for Internal Audit were agreed at the September 2013 meeting of the Committee, and the new PIs formed the framework for the report on Internal Audit Benchmarking that was presented to the December 2013 meeting of the Committee.
- 9.2** The Performance Indicator (PI) results for 2013/14, 2014/15 and the targets for 2015/16 are detailed at Appendix A. The main factors leading to variances from the performance targets can be summarised as:
- The unplanned work by HAFP on the investigation of the relationship between the Council and Seaford and District Constitutional Club has added to the effective staffing of Internal Audit, increased the number of chargeable days, and increased staffing costs.
 - Total costs are higher than target because of the increased staff costs and increases in the internal recharges for accommodation and other support costs.
 - The number of non-chargeable days is higher than target mainly because of additional training, and time spent on Health and Safety that was not originally planned.
 - Not all the recommendations from the investigation of the relationship between the Council and Seaford and District Constitutional Club had been implemented by the end of 2014/15. Internal Audit is advised that the recommendations have since been actioned as part of the arrangements for inducting new Councillors after the May 2015 elections.

10 Fraud Investigation Team

- 10.1** During the early months of 2014/15 there was some uncertainty over the future of the Benefit Fraud Investigations Team following the set up a national Single Fraud Investigation Service (SFIS) within DWP to manage the investigation of Benefit fraud.
- 10.2** CMT agreed a business case for the Investigations Team to work as part of Internal Audit from 1 November 2014, and from that date the team has been working on the prevention and detection of fraud across additional areas of Council services including tenancy fraud and business rates (NDR) fraud. Every meeting of the Audit and Standards Committee receives a progress report on the work of the Investigations Team.
- 10.3** The Investigation Team is a member of the East Sussex Fraud Officers Group (ESFOG), a body that enables information sharing and joint initiatives with neighbouring authorities on a wide range of counter fraud work. In response to offers of funding from DCLG for counter fraud initiatives, a sub group of six authorities within ESFOG submitted a successful funding bid for the development of a 'Hub' approach to coordinating new anti-fraud initiatives across East Sussex.
- 10.4** The Hub is managed by officers at Eastbourne BC in accordance with the corporate governance arrangements of that authority, with input from ESFOG

partners as appropriate. The early months of the Hub arrangement have seen a programme of standardised training and planning, the testing of case management and data sharing systems, and a pilot scheme (at Eastbourne BC) for a tenancy management application. All these developments have been funded from the DCLG grant. Work on cases in the separate authorities will take priority until there is a fully coordinated Hub joint exercise.

10.5 Since November 2014, the work on developing the team's approach to counter tenancy fraud has included attendance at the national Tenancy Fraud Conference, obtaining best practice guidance from other authorities, and establishing referral arrangements with LDC officers in Housing. A total of 14 suspected cases of tenancy fraud have been being investigated, and eight of these cases are still underway. Four cases have been closed as the investigations have established that there has been no fraud. Two properties have been returned to the Council's housing stock after the team had proved abandonment by the tenant.

10.6 Internal Audit has in place an agreement with DWP for the management of cases of HB fraud. The team works with local DWP officers to help ensure efficient operation of the processes covered by the agreement. The major work on each HB case will be the responsibility of the national Single Fraud Investigation Service (SFIS). LDC retains a role in referring cases of suspected HB fraud to SFIS and handling requests for information, dealing with the cases of suspected CT Reduction Scheme (CTRS) fraud that are often linked to HB cases, and administering the penalties for cases that are not subject to prosecution. A total of 90 HB cases have been passed to SFIS, and 45 information requests have been actioned. There are currently 42 cases of suspected CTRS fraud under review.

10.7 NDR is the next priority area for the team, based upon some initial research and a small pilot study. In early June 2015 the team attended training on counter fraud work for NDR in an exercise organised by the Hub, and is working with LDC officers in the Revenues team to set up a referrals process.

11 Financial Appraisal

11.1 There are no additional financial implications arising from this report.

12 Sustainability Implications

12.1 I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is a progress report.

13 Risk Management Implications

13.1 The risk assessment shows that if the Audit and Standards Committee does not ensure that Internal Audit is able to discharge its functions effectively there is a risk that a key aspect of the Council's internal control arrangements will not comply fully with best practice. At present, this risk is mitigated by an effective Internal Audit service that is subject to proper management oversight and monitoring by the Audit and Standards Committee.

14 Equality Screening

14.1 I have given due regard to equalities issues and, as this is an internal progress monitoring report with no key decisions, screening for equalities is not required.

15 Background Papers

[Audit Plan 2014/15](#)

16 Appendices

Appendix A: Performance Indicators (PIs) for Internal Audit.

APPENDIX A PERFORMANCE INDICATORS (PIs) FOR INTERNAL AUDIT

Performance Indicator	Actual 2013/14	Target 2014/15	Actual 2014/15	Target 2015/16
Input of resources				
1 Staffing FTE	3.80	3.20	3.38	3.25
2 Employee costs	£167,539	£153,003	£164,592	£154,662
3 Total costs	£200,167	£184,126	£191,750	£187,962
4 Cost per chargeable day	£270.13	£281.97	£280.75	£281.80
Productivity and Efficiency				
5 Number of core systems audits carried out in the year	14	14	14	14
6 Number of days spent on core systems audits	260	285	336	285
7 Number of audits/reviews in original plan	48	37	33	39
8 % of original plan carried out	79%	90%	89%	90%
9 Number of audits/reviews in revised plan	59	-	39	-
10 % of revised plan carried out	83%	90%	90%	90%
11 Number of chargeable days	741	653	683	667
12 Number of non-chargeable days	225	168	178	171
13 % of draft reports issued within 15 days of the end of the audit	100%	95%	90%	95%
Compliance with professional standards				
14 Positive opinion from BDO review of Internal Audit as per Management Letter.	Positive opinion	Positive opinion	TBC	TBC
15 Total external audit fee	£72,872	£70,520	TBC	TBC
Outcome and degree of influence of the service				
16 % of recommendations implemented by the agreed date.	61%	90%	67%	90%
17 All comments from client satisfaction questionnaires in Categories 1 (Very Good), 2 (Good) or 3 (Satisfactory).	100%	100%	100%	100%

Notes

All the PIs are for the Internal Audit service. There are no PIs for the Fraud Investigations Team.

Item 1 (Actual 2014/15 and Target 2015/16) reflect the additional time spent by HAFP on Internal Audit work in 2014/15 and the coming year. The authorised complement for the Division has not changed and the budget is as originally approved.

Items 3 and 4 (Target 2014/15) have been adjusted to include planned recharges for IT and accommodation facilities that were not included when the target was set. Target and actual results are on a consistent basis.

Item 9 reflects the position by the end of the year, with audits having been added to/taken from the plan. No target or forecast is appropriate.

Item 16 (Actual) reflects the position at the year-end in that not all the recommendations from the investigation of the relationship between the Council and Seaford and District Constitutional Club had then been implemented. Internal Audit is advised that the recommendations have since been actioned as part of the arrangements for inducting new Councillors after the May 2015 elections.

Item 17 includes results from questionnaires sent to audit clients, and members of the Corporate Management Team.

Agenda Item No: 10 **Report No:** 75/15

Report Title: Interim Report on the Council's Systems of Internal Control 2015/16

Report To: Audit and Standards Committee **Date:** 22 June 2015

Ward(s) Affected: All

Report By: Head of Audit, Fraud and Procurement

Contact Officer

Name: David Heath

Post Title: Head of Audit, Fraud and Procurement

E-mail: David.Heath@lewes.gov.uk

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Purpose of Report:

To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control during the first two months of 2015/16, and to summarise the work on which this opinion is based.

Officers Recommendation(s):

- 1 To note that the overall standards of internal control were satisfactory during the first two months of 2015/16 (as shown in Section 3).
-

Reasons for Recommendations

- 1 The remit of the Audit and Standards Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk.

Information

2 Background

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that apply from 1 April 2013. The Head of Audit, Fraud and Procurement (HAFP) advised the Audit and Standards Committee of the effect of the new standards at its March 2013 meeting.
- 2.2 The PSIAS 2013 specify the requirements for the reporting to the Audit and Standards Committee and senior management by HAFP. These requirements are met via a series of reports, including interim reports to each meeting of the Committee. Each interim report includes a review of the work undertaken by

Internal Audit compared to the annual programme, an opinion of HAFP on the internal control, risk management and governance environment at the Council, together with any significant risk exposures and control issues, in the period since the beginning of the financial year. Each interim report will contain an appendix that includes an outline of each of the final audit reports issued since the previous meeting of the Committee, and an appendix that outlines any significant recommendations that have not yet been implemented.

3 Internal Control Environment at Lewes District Council

3.1 The Annual Report on the Council's Systems of Internal Control for 2014/15 included the opinion of HAFP that the overall standards of internal control are satisfactory. This opinion was based on the work of Internal Audit and the Council's external auditors, BDO, and the Council's work on risk management. In the two months since the start of the financial year there has been nothing to cause that opinion to change and there have been no instances in which internal control issues created significant risks for Council activities or services.

4 Internal Audit work 2015/16

4.1 This section of the report summarises the work undertaken by Internal Audit during the first two months of the year, compared to the annual plan that was presented to the Audit and Standards Committee in March 2015. The plan is subject to approval at this meeting of the Committee because the March 2015 meeting was not quorate. Further information on each of the audits completed since the previous meeting of the Committee is given at Appendix A.

4.2 Table 1 shows that a total of 92 audit days have been undertaken compared to 102 planned. The variance of 10 days has arisen from unplanned involvement on the May 2015 elections and HAFP's focus on procurement issues in the first two months. The variance is not significant at this stage, and it is estimated that the audit days will be at or close to plan by the year end.

Table 1: Plan audit days compared to actual audit days for April to May 2015

Audit Area	Actual audit days for the year 2014/15	Plan audit days for the year 2015/16	Actual audit days to date	Pro rata plan audit days to date
Main Systems	336	285	47	
Central Systems	25	50	2	
Departmental Systems	79	105	29	
Performance and Management Scrutiny	39	45	1	
Computer Audit	28	55	1	
Management Responsibilities/Unplanned Audits	176	127	12	
Total	683	667	92	102

Note: The 'Pro rata plan audit days to date' provides a broad guide to the resources required to carry out planned audits. The actual timing of the individual audits will depend on a variety of factors, including the workloads and other commitments in the departments to be audited.

4.3 **Main Systems:** The initial work has been on completing the testing of the major financial systems in order to gain assurance on the adequacy of internal controls for the Annual Governance Statement (AGS) and to inform BDO's work on the Council's accounts for 2014/15. A draft report has been prepared.

- 4.4 The priority work on behalf of BDO to test the Council's subsidy claims for Benefits for 2014/15 is at the planning stage, with detailed preparations for the testing now underway.
- 4.5 **Central Systems:** Final reports have been issued for the audits of Ethics and Building Control. Work on the audit of Health and Safety from the 2014/15 programme is underway.
- 4.6 **Departmental Systems:** Work on the audit of Housing Management from the 2014/15 programme is underway. The audit of Trade Waste is at the draft report stage.
- 4.7 **Performance and Management Scrutiny:** As part of planned work on Programme Nexus, the Principal Audit Manager (PAM) is part of the officer group that has been evaluating the tenders submitted by suppliers. HAFP has been regularly involved as part of the procurement team for the project.
- 4.8 **Computer Audit:** Internal Audit completed the IT aspects of the testing of the main financial systems.
- 4.9 **Management Responsibilities/Unplanned Audits:** This category provides resources for activities such as support for the Audit and Standards Committee, managing the Fraud Investigations Team, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.
- 4.10 Internal Audit continues to coordinate the Council's work on the 2014/15 NFI data matching exercise. The base data was forwarded to the Audit Commission in October 2014 and the reported matches for LDC were received on 29 January 2015. There are 1,526 matches detailed across 49 reports, each report setting out different types of potential frauds among HB claimants, housing tenants, and anyone receiving payment from the Council. The review and investigation of the matches continues, with the initial work having been to analyse and assess the matches to weed out those that are the result of error, coincidence or entirely proper activity.

5 Follow up of Audit Recommendations

- 5.1 All audit recommendations are followed up to determine whether control issues noted by the original audits have been resolved. The early focus for follow up in 2015/16 has been on confirming the implementation of the recommendations that had been agreed in the previous year. The results of this work are reported separately to this meeting of the Committee.

6 Quality Reviews/Customer Satisfaction Surveys/Performance Indicators (PIs)

- 6.1 The results of the Internal Audit quality reviews, customer satisfaction surveys and PIs for 2015/16 are reported separately to this meeting of the Audit and Standards Committee. The results enabled the HAFP to report that the Internal Audit service at Lewes is fully effective, is subject to satisfactory management oversight, achieves its aims, and objectives, and operates in accordance with the Internal Audit Strategy as approved by the Audit and Standards Committee.
- 6.2 Proposals for a revised set of PIs for Internal Audit were agreed at the September 2013 meeting of the Committee. The new PIs form the framework for the reporting on Internal Audit Benchmarking, and the results for 2014/15 will be reported to the September 2015 meeting of the Committee.

7 Combatting Fraud and Corruption

National reporting

- 7.1 The Annual Report on the Council's work to combat Fraud and Corruption 2013/14 was presented to the September 2014 meeting of the Committee. The report advised that the numbers and values of the fraud cases at LDC had been submitted to the Audit Commission in May 2014 as part of the fraud and corruption survey that all Local Authorities are required to complete.

Local developments

- 7.2 There had been some uncertainty over the future of the Benefit Fraud Investigations Team. CMT agreed a business case for the Investigations Team to work as part of Internal Audit from 1 November 2014 and from that date the team has been working on the prevention and detection of fraud across additional areas of Council services including tenancy fraud and business rates (NDR) fraud. Each interim report to the Committee contains a summary of the team's work (see 7.5 -7.7).
- 7.3 The Investigation Team will maintain its memberships of the East Sussex Fraud Officers Group (ESFOG) and the Sussex Tenancy Fraud Forum (TFF), bodies that enable information sharing and joint initiatives with neighbouring authorities on a wide range of counter fraud work.
- 7.4 A sub group of six authorities within ESFOG is developing a 'Hub' approach to coordinating new anti-fraud initiatives across East Sussex and Brighton. The Hub is managed by officers at Eastbourne BC with input from ESFOG partners, and the initial stages have seen a programme of standardised training and planning, and trials of case management systems. Work on cases in the separate authorities will take priority until there is a fully coordinated Hub joint exercise.

LDC Investigations Team

- 7.5 Since November 2014, the work on developing the team's approach to counter tenancy fraud has included attendance at the national Tenancy Fraud Conference, obtaining best practice guidance from other authorities, and establishing referral arrangements with LDC officers in Housing. Eight suspected cases of tenancy fraud are currently being investigated. Two properties have been returned to the housing stock as a result of successful investigations. Four other cases were closed as the investigations established that there was no tenancy fraud.
- 7.6 Internal Audit has in place an agreement with DWP for the management of cases of HB fraud. The team works with local DWP officers to help ensure efficient operation of the processes covered by the agreement. The major work on each HB case will be the responsibility of the national Single Fraud Investigation Service (SFIS). LDC retains a role in referring cases of suspected HB fraud to SFIS and handling requests for information, dealing with the cases of suspected CT Reduction Scheme (CTRS) fraud that are often linked to HB cases, and administering the penalties for cases that are not subject to prosecution. A total of 90 HB cases have been passed to SFIS, and 45 information requests have been actioned. There are currently 42 cases of suspected CTRS fraud under review.
- 7.7 NDR fraud is the next priority area for the team, based upon some initial research and a small pilot study. In early June 2015, the team attended training on counter fraud work for NDR in an exercise organised by the Hub, and is working with LDC officers in the Revenues team to set up a referrals process. The team is liaising

with officers from Eastbourne BC to establish the first stages of a coordinated Hub joint exercise on NDR.

8 Risk Management

- 8.1** Cabinet approved the Risk Management Strategy in September 2003. Since then risk management at the Council has been developed via a series of action plans, with the result that all the elements of the risk management framework set out in the strategy are in place and are maintained at best practice standards.
- 8.2** The risk management process has identified that most risks are mitigated by the effective operation of controls or other measures. However, there are some risks that are beyond its control, for example a major incident, a 'flu' pandemic, a downturn in the national economy or a major change in government policy or legislation. The Council has sound planning and response measures to mitigate the effects of such events, and continues to monitor risks and the effectiveness of controls. The overall satisfactory situation for risk management has helped to inform the opinion on the internal control environment.
- 8.3** In response to the Government's national deficit reduction plan, the Corporate Management Team (CMT) put in place a phased programme to make savings in the Council's budgets. The programme commenced in 2011/12 and has achieved each of its annual savings targets including that for the current year 2013/14. The savings target for the next two years is £1.146m, with £596,000 in 2014/15 and £550,000 in the year after. The source of savings from this point forward will continue to come from structural change rather than incremental change. The savings target for 2014/15 will mainly derive from efficiencies in procurement and the new Agile Working environment.
- 8.4** The system of management assurance (see Section 9) has confirmed the proper operation of controls and the absence of significant control issues during the period of the savings programme so far. HAFP will monitor the impact on the control environment of the planned savings, and this exercise will be ongoing while the programme of savings continues. It will be necessary to consider any potential risks arising from the savings programme in the Annual Governance Statement (AGS) that will be presented to the September 2015 meeting of the Committee (see Section 10).
- 8.5** The Annual Report on Risk Management was presented to Cabinet at its March 2015 meeting. This report confirmed the strategic risks identified by CMT and the action plan for risk management for the year ahead. This report is presented to the Audit and Standards Committee for information (see Appendix B).

9 System of management assurance

- 9.1** The Council operates a management assurance system, which enabled senior officers to confirm the proper operation of internal controls, including compliance with the Constitution, in those services for which they were responsible in 2014/15. A joint statement by the Chief Finance Officer (Section 151) and Monitoring Officer confirmed that there were no significant governance issues for the Council in 2014/15 and there has been nothing in the first two months of the financial year to change these assessments.

10 Corporate governance

10.1 In January 2015, HAFP reviewed the Council's Local Code of Corporate Governance, and concluded that the arrangements remain satisfactory and fit for purpose. These results were reported to the January 2015 meeting of the Committee.

10.2 The Council is required to produce an Annual Governance Statement (AGS), which outlines the main elements of the Council's governance arrangements and the results of the annual review of the governance framework including the system of internal control. The AGS for 2014/15 is to be reported to the September 2015 meeting of the Audit and Standards Committee.

11 External assurance

11.1 The Government relies on external auditors to periodically review the work of the Council to make sure it is meeting its statutory obligations and performing well in its services. The results of these external reviews have helped inform the opinion on the internal control environment. The recent results are summarised below.

11.2 Annual Audit Letter for 2013/14 (October 2014) – This report summarises the key issues from the work carried out by BDO during the year, and was presented to the December 2014 meeting of the Committee. The key issues were:

- BDO issued an unqualified true and fair opinion on the financial statements for 2013/14.
- BDO identified three misstatements in relation to revaluations of land and buildings and the accounting for the value of additions to HRA Council dwellings. Appropriate amendments were made to the financial statements. As these corrections relate to capital transactions and valuations there was no impact on the General Fund or HRA balance.
- BDO did not identify any significant deficiencies in internal controls but, working with Internal Audit, BDO observed instances where purchase orders were either in excess of the officer's formal authorisation limits or were placed by officers not on the authorised signatory list. Management has agreed to review and strengthen this control.
- BDO were satisfied that the Council has robust systems and processes to manage financial risks and opportunities effectively and to secure a stable financial position that enables it to continue to operate for the foreseeable future, and BDO therefore issued an unqualified value for money conclusion.
- BDO noted that the Council maintains healthy levels of earmarked reserves and balances, and Members have agreed a policy to use reserves to fund investments and non-recurring expenditure.
- BDO were satisfied that the Annual Governance Statement (AGS) was not inconsistent or misleading with other information they were aware of from the audit of the financial statements and complies with '*Delivering Good Governance in Local Government*' (CIPFA/Solace).
- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for audit and they were required only to review the total amounts in the Data Collection Tool for property, plant and equipment and for the net pension liability. BDO reported that the values in the Data Collection Tool were consistent with the audited financial statements.
- The Medium Term Financial Strategy was updated during the year and Members continue to consider options for achieving additional savings, with

these likely to arise from the continued organisational development process and Programme Nexus.

- BDO have completed their review of the Housing Pooled Capital Receipts 2013/14 and have no matters to report.
- BDO reported on the results of the most recent grant claims and returns certification report that covered three returns for 2012/13 amounting to £67 million. The Housing Pooled Capital Receipts return and National Non Domestic Rates returns were certified without amendment or qualification. The BDO audit of the Housing and Council Tax Benefits subsidy claim for 2012/13 found a number of errors in processing. Following further discussion and the provision of additional supporting information by the Council, DWP amended its assessment of the impact on the claim and made a deduction of approximately £4,000 from the final settlement.

11.3 Grant Claims and Returns Certification for year ended 31 March 2014 (March 2015). The report was presented to the March 2015 meeting of the Committee. The key points were:

- The audit found errors in the administration of benefits involving non-HRA rent rebates, HRA rent rebates and rent allowances. The Council had already recognised the issues in the administration of benefits, and a review of the management and control structures was carried out in the summer of 2014. The Council believes that the results for the second half of 2014/15 will show material improvements from those that were the subject of the BDO report.
- The audit identified deficiencies in the Council's systems and controls around the identification of uncashed payments, and the writing back of these within the subsidy form. The Council will work with BDO to identify and put in place systems and processes that alleviate the weaknesses identified.
- As a result of the errors found in administering benefits, BDO qualified the claim across all benefit expenditure types. The additional work required to be completed by the Council and BDO meant that the audited claim was submitted to DWP two months after the deadline date.
- BDO and the Council will agree a timetable for completing the work on the next subsidy claim to assist both parties in planning and completing the audit on a timely basis.
- The certification of the returns for the Pooling of Housing Capital Receipts was completed satisfactorily, and the claim was submitted as unqualified and without amendment.

12 Financial Appraisal

12.1 There are no additional financial implications from this report.

13 Sustainability Implications

13.1 I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is an internal monitoring report.

14 Risk Management Implications

14.1 If the Audit and Standards Committee does not ensure proper oversight of the adequacy and effectiveness of the Council's systems of internal control there is a

risk that key aspects of the Council's control arrangements may not comply with best practice.

15 Legal Implications

15.1 There are no legal implications arising from this report.

16 Equality Screening

16.1 This report is for information only and involves no key decisions. Therefore, screening for equality impacts is not required.

17 Background Papers

[Strategic Audit Plan 2015 to 2018](#)

18 Appendices

18.1 Appendix A: Statement of Internal Audit work and key issues.

18.2 There is no Log of Significant Outstanding Recommendations (normally Appendix B) for this report.

18.3 Appendix B: Risk Management – Annual Report to Cabinet

APPENDIX A

Statement of Internal Audit work and key issues

Audit report: Ethics

Date of final issue: 20 May 2015

Overall opinion:

From the work carried out as part of this review, Internal Audit had obtained substantial assurance that the Council has an adequate framework of policies and procedures governing ethical standards at the Council. The framework is set out in the Council's Local Code of Corporate Governance, which includes the responsibilities for monitoring and review. In all significant respects, the framework is operating as intended and provides reasonable control over the ethics related objectives, programmes and activities of the Council. The report contains no recommendations.

Main points:

Codes of Conduct

The Council's Constitution includes appropriate Codes of Conduct for Members and officers that are aligned with national standards. The Council provides appropriate and readily available guidance to Members and staff on their responsibilities and duties, and undertakes suitable training and follow up to determine whether Members and staff understand what is required of them. There are reasonable procedures in place to maintain records of Members' interests and the declarations of gifts/hospitality by Members and officers. The current arrangements meet the requirements of the Council's Constitution and, in respect of Members' interests, meet the requirements of the Localism Act 2011. The recommendation from the 2014 audit to remind Members of their responsibility to declare interests was implemented in July 2014.

A major issue during 2014/15 has been the investigation carried out by Internal Audit into concerns raised by Liberal Democrat Councillors, and a member of the public, in respect of a purported relationship between the Council and Seaford and District Constitutional Club as to development opportunities at the Club site. The investigation found no evidence of improper conduct by Councillors or officers, but the report included a number of recommendations to assist officers and Councillors understand their respective roles, in particular in the context of future development projects.

At the time of the Ethics audit not all the recommendations had been implemented because of other priorities and the Council elections in May 2015. Internal Audit is advised that the arrangements for inducting new Councillors after the May 2015 elections have included guidance to all Councillors to help prevent a recurrence of the issues highlighted by the investigation.

Complaints

The Council has in place appropriate complaints procedures to enable residents and customers to report service issues and concerns, with corresponding grievance, anti-fraud and corruption, and whistleblowing procedures to enable staff to report problems. There is regular reporting of the number and type of the issues highlighted by the anti-fraud and corruption procedures, and of the service issues and concerns

raised by customers.

Risk Management

The Council includes ethical risks within its standard risk management methodology. As a result, there is evidence of the consideration and mitigation of ethical risks, with high visibility given to governance and reputational risks in the Strategic Risk Register. The risk management methodology has been updated during 2014/15 and the new version emphasises the scope for managers to consider a wider range of governance and reputational risks, particularly in areas such as service planning and project management.

Feedback from staff

The Council arranges for regular feedback from staff via a Staff Survey that includes questions to measure staff perceptions of the values and ethics culture at the Council, and takes appropriate action to address any issues raised.

Audit report: Building Control

Date of final issue: 28 May 2015

Overall opinion:

From the audit work carried out during this review Internal Audit has obtained substantial assurance that there is a sound system of internal control covering Building Control. On the whole, compliance with controls is satisfactory, with the majority of applications processed within target times, and fee payments received and accounted for correctly and promptly. Fees have been set at a level to achieve adequate cost recovery over recent years, and financial performance is monitored via annual Trading Accounts. Controls over access to the Uniform system are satisfactory. There are a small number of issues that indicate there is scope to strengthen the way some controls are operated. The report contains three recommendations.

Main points:

Processing of applications

Records of completion times for local plan checks show that 86% of applications are processed within the 15 day target. The audit tests noted that there is no material difference between the time taken to process applications for local and partnership work, and therefore neither type of work is favoured at the expense of the other. The records and audit test results suggest that there may be scope for improving processing times.

Charging for processing applications

The charging for the processing of local Building Control applications is on the basis of the standard fees that are agreed by Cabinet and published on the Council's website. The Council agrees the fees for partnership work with the partner authorities, and the majority of these fees are set at the same standard rates that are applied to local applications. When non-standard rates are quoted for partnership work, it is not clear that they are based on up to date assessments of the costs that

need to be recovered or the time taken to carry out the work.

Monitoring of financial performance

The overall position is that the service has more than achieved the necessary break even position over a five year period. However, recent Trading Accounts show variations in fee income leading to a lower than budgeted financial surplus for 2012/13, a deficit for the year 2013/14, and probably a small deficit for 2014/15. These trends may indicate a need to amend pricing and marketing policies to generate additional income to achieve the necessary recovery of costs, and to plan for the possible impact on fee income of reduced staffing levels that the Section is currently experiencing.

Appendix B

Agenda Item No: 9.6 **Report No:** 52/15

Report Title: Risk Management – Annual Report to Cabinet

Report To: Cabinet **Date:** 19 March 2015

Lead Councillor: Councillor Andy Smith

Ward(s) Affected: All

Report By: Alan Osborne, Director of Corporate Services

Contact Officer

Name: David Heath

Post Title: Head of Audit, Fraud and Procurement

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Tel no: 01273 484157

Purpose of Report:

To present the annual report on risk management confirming the Council's Risk Management Strategy and the strategic risks faced by the Council.

Officers Recommendation(s):

That Cabinet:

- 1 Receives and endorses the annual report on risk management, and notes the Council's Risk Management Strategy (Appendix 1).
 - 2 Notes the strategic risks identified by the Corporate Management Team (CMT) and the associated mitigating controls (Appendix 2).
 - 3 Notes the action plan for the coming year (Appendix 3).
-

Reasons for Recommendations

- 1 The Council is committed to the proper management of risk. This report forms part of the annual reporting cycle on risk as set out in the Risk Management Strategy, and proceeds to the Audit and Standards Committee after being endorsed by Cabinet. This report is also one of the key elements in the Council's submissions to the external auditor, BDO, and will provide data for the Annual Governance Statement (AGS).

Introduction to Risk Management

- 2 Risk management is about using common sense to take effective action to prevent or limit the impact of risks so as to help the Council meet its priorities and deliver

services effectively. In September 2003 Cabinet adopted a Risk Management Strategy that sets out the responsibilities for risk management at the Council, and which is supported by a framework of procedures and guidance for the assessment of risks and the development of mitigating controls.

- 3 The Risk Management Strategy includes provision for an annual review of the strategy by CMT. The strategy was reviewed in February 2015 and has been updated with minor changes to reflect opportunities associated with risks (see Appendix 1).
- 4 To support this strategy the Council has a standard approach for assessing risk which is applied to service planning, the management of major projects and decision making. The methodology has been updated to reflect the need to manage the different aspects of the uncertainty that is inevitable when making changes in how the Council works and taking new approaches to regeneration and investment. The methodology now recognises both the uncertainty that could have an adverse impact leading to loss, harm or damage (ie a risk) and the uncertainty that could have a positive effect leading to benefits or rewards (ie an opportunity).

Strategic risks

- 5 Strategic risks are those that are likely to have a significant impact across the Council, in that if they occur they are likely to prevent it from achieving its strategic objectives.
- 6 The compilation of a Strategic Risk Register provides evidence of a risk aware and risk managed organisation. Generally, the register reflects the risks that will be common to comparable local authorities in this current period of change and financial challenge for Local Government.
- 7 Appendix 2 shows the strategic risk register that has been compiled by CMT for the year 2015/16. This register shows the:
 - 8 Risk ranking - the order of importance that is placed on each strategic risk.
 - 9 Council priorities which are relevant to the risk.
 - 10 High level description of the risk and the officer/s who are responsible for monitoring the risk and managing its mitigation.
 - 11 Detailed background to the risk and the likely risk scenario if it is not mitigated.
 - 12 Mitigating controls that are put in place to reduce the risk or prevent it from occurring.
- 13 CMT is responsible for ensuring that the strategic risks have mitigating controls in place. It should be noted that the Council is entering into the delivery stage of two major commercial partnerships which seek to increase regeneration and affordable housing and will last for five to ten years. These are shown as the 49 sites and North Street Quarter in Appendix 2. Both these projects have been undertaken to address specific risks that the authority faces. Without them there is a risk that affordable housing targets will not be achieved and key opportunities for regeneration will not be created. The 49 sites project will also help the Council's finances through the potential to generate a financial return and dispose of the maintenance liability of underperforming assets.

- 14 For 2015/16 CMT will be reviewing the strategic risks of the Council on a quarterly basis. Any new risks identified will be reported to Cabinet.

Training

- 15 The Council's insurers Zurich Municipal provide the Council with an annual allowance of £6,000 for risk management support. A key element of the Council's risk management strategy is the provision of training. This includes training for councillors and senior managers so that they can consider the implications of risks and opportunities in their work for the Council. Zurich Municipal will be undertaking a workshop with Cabinet Members, the Leader of the Opposition, Committee Chairs and CMT to support their roles in considering risk.

Financial Appraisal

- 16 There are no financial implications arising from the recommendations to this report other than those already contained within existing budgets. However, if a strategic risk is not subject to effective mitigation there could be significant financial impact on the Council.

Equalities Screening

- 17 An equalities impact assessment is not considered necessary because the report is seeking endorsement of risk arrangements at the Council including the strategic risks identified by CMT.

Risk Management Implications

- 18 If the Council does not have an effective risk management framework that is subject to proper oversight by Councillors it will not be able to demonstrate that it has in place adequate means to safeguard Council assets and services, and it could be subject to criticism from the Council's external auditor or the public.

Legal Implications

- 19 There are no direct legal implications arising from this report.

Sustainability Implications

- 20 I have not completed the Sustainability Implications Questionnaire as there are no significant effects as a result of these recommendations.

Background Papers

None

Appendices

Appendix 1: Lewes District Council – Risk Management Strategy

Appendix 2: Lewes District Council – Strategic Risk Register for 2015/16

Appendix 3: Action Plan for risk management for the year ahead.

Appendix 1

LEWES DISTRICT COUNCIL - RISK MANAGEMENT STRATEGY

1.0 Policy

- 1.1 We define risk as uncertainty that could have a detrimental impact on the achievement of the Council's objectives or service delivery. Uncertainty that could have a positive effect is an opportunity.
- 1.2 The appraisal and management of risk and opportunity will be part of our business planning and project management.
- 1.3 We will use risk management to promote innovation, and work proactively with stakeholders to minimise risks and maximise the opportunities associated with project and service decisions.

2.0 Organisation

- 2.1 This risk management strategy will be subject to approval by the Cabinet.
- 2.2 The Chief Executive is responsible for risk management. The Corporate Management Team (CMT) will support the Chief Executive in assessing and mitigating risks likely to have a significant impact on the achievement of the Council's objectives.
- 2.3 Heads of Service will implement risk management within their services and ensure that;
 - annual service plans contain an appraisal of risks to service delivery
 - managers carry out risk assessments as a routine part of service planning and project management activities
 - managers put in place appropriate controls to mitigate risks
 - managers will notify the Director of Finance of any significant risks that will require additional insurance and/or financing measures
- 2.4 The Head of Audit, Fraud and Procurement is responsible for providing advice and guidance and coordinating the Council's approach to risk management. Internal Audit is responsible for monitoring the implementation and effectiveness of

this risk management strategy and for reviewing compliance with controls introduced by CMT and their managers to manage risks.

- 2.5 The Audit and Standards Committee is responsible for reviewing the effectiveness of the systems and processes in place for managing risk, and can make recommendations to Cabinet if changes are needed to improve risk management.
- 2.6 Cabinet is responsible for considering overall risk and receives the annual report on risk management that includes the strategic risks of the Council. The Portfolio Holder for Corporate Services has responsibility for risk management.

3.0 Arrangements

- 3.1 Annual service plans support achievement of the Council Plan. Service plans will include an assessment of risk which will be reviewed and updated by service managers.
- 3.2 Reports to Cabinet will include risk management implications.
- 3.3 Risk management training will be provided to senior managers with the aim of ensuring that they have the skills necessary to identify, appraise and control the risks and opportunities associated with the services they provide. Councillors will receive training/information on risk management so that they can consider the implications of risks and opportunities in their work for the Council.
- 3.4 Project managers will be responsible for appraising risks and opportunities associated with their projects and make provision for dealing with them.
- 3.5 This strategy will be communicated to Councillors and staff via the website and will be reviewed annually by CMT.

February 2015

Appendix 2: Lewes District Council – Strategic Risk Register 2015/16

Risk Rank	Council Priorities			Risk and Owner/s	Background and Risk Scenario	Mitigating controls
	Customer	Contribution	Saving Money			
1	✓	✓	✓	Loss of IT services Head of IT	Long or short term loss of IT and telephone systems through equipment failure, loss of key premises, and data corruption or loss.	<p>Partial mitigation through:</p> <ul style="list-style-type: none"> • preventative measures including effective security, fire prevention, and alarm systems for water ingress and overheating, • server virtualisation & improved back-up facilities providing additional resilience and redundancy (ie. failsafe capability) above and beyond what already exists, • introduction of new network infrastructure to prevent network outages providing resilience and redundancy for IT users at all LDC sites, • providing resilience and redundancy for remote workers connected to our IT systems, • Wide area network now joined into a Public Service Network (PSN) compliant network service, and • telephony to a hosted Voice Over Internet Protocol (VOIP) service, with Survivable Remote Site Telephony (SRST) capability. <p>Larger satellite sites e.g. Fort Road & Robinson Rd offices now incorporated to have equivalent resilience to Southover House. Smaller satellites will still continue to have a slightly higher risk profile than Southover House but much has been done in network infrastructure to provide increased resilience.</p> <p>The development of the Council's IT Strategy will also help to inform the future Disaster Recovery requirements.</p>

Risk Rank	Council Priorities			Risk and Owner/s	Background and Risk Scenario	Mitigating controls
	Customer	Contribution	Saving Money			
2	✓	✓	✓	<p>Failure to achieve transformation of the Council Chief Executive</p>	<p>Inability to adapt and work in new and innovative ways to be more efficient, cost effective and customer focused. High level risks include:</p> <ul style="list-style-type: none"> • Failure to deliver “One District One Council”. • Failure to achieve change in the necessary timescale. • Not having the necessary resource, capacity or skills to deliver the change. • Inability to ensure the right skills, people and employee capacity to meet changing demand for services. Loss of key staff working on corporate priority projects. • Nexus Transformation Programme projects not achieving their desired effect or taking longer for benefits to materialise than expected. • Changes in national, regional and/or local policy or priorities could require changes to or stopping of some or the entire programme. 	<p>Comprehensive change management programme put in place by senior management to deliver our vision “One District, One Council”. includes:</p> <ul style="list-style-type: none"> • Communication - Briefings to managers and staff with cascading of information, updated information on the Council’s intranet. • Engagement – involving public and staff in projects to support chances of programme success. Includes establishment of a Change Champions group to support change processes. • Providing ongoing training for managers building on the Leadership Development Programme. • External human resources brought in to support change. • Succession planning, training and reprioritisation of work. • Investing in staff at time of significant including through training (as above). • Temporary cover when there is a loss of key staff. • Strong governance arrangements for the Nexus Board including clear arrangement for the management and monitoring of projects. • Monitoring of legislation, policies and priorities, and redirection of Council activities using existing governance arrangements. • Mitigation by a) widespread consultation on making a customer focus model work well for people of Lewes District and b) a programme of staff meetings and discussions and, and good internal communications, as the process of change unfolds.

Risk Rank	Council Priorities			Risk and Owner/s	Background and Risk Scenario	Mitigating controls
	Customer	Contribution	Saving Money			
					<p>To support the transformation of the Council a procurement exercise is being undertaken as part of the Nexus Transformation Programme to select a supplier to deliver technology and business change management to implement the Council's Organisational Development Strategy. This is a highly complex project and there is a risk that the selected supplier working with Council officers may fail to deliver these changes. Key risks include the following:</p> <ul style="list-style-type: none"> • Reputational damage to the Council if the project fails to deliver the recurring savings estimated to be £1.2m. Furthermore if the savings are not achieved they will have to be found from other areas of Council activity. • The specification for procurement was not adequate and key requirements missed resulting in additional unaccounted for financial costs for further work by chosen contractor. • Failure to effectively migrate data from old to new systems that are chosen to be included within the specification. • Significant performance dips in responding to customers when new systems are being put in place. • Major IT failure during the migration process. 	<p>Overall mitigation through effective project management and governance, oversight via Nexus arrangements, financial and performance monitoring.</p> <ul style="list-style-type: none"> • Carefully scoped specification which fully takes account of the requirements/ needs of the Council. Adequate staff resources from the supplier and from the Council to be able to effectively implement the new systems being implemented. Monitoring of savings against the baseline budget for 2014/15. • Carefully scoped specification which fully takes account of the requirements/ needs of the Council and identifies system integration requirements. • Clear process agreed with the supplier to effectively migrate data. • Effective monitoring by lead officer/s to prevent performance dips and use of additional staff resources in the event of predicted or actual performance dips. • Carefully scoped specification which fully takes account of the requirements/ needs of The Council. Rigorous oversight and monitoring of the contract in its implementation.

Risk Rank	Council Priorities			Risk and Owner/s	Background and Risk Scenario	Mitigating controls
	Customer	Contribution	Saving Money			
					<ul style="list-style-type: none"> • New systems do not meet the needs of the Council or its customers. • Loss of new homes bonus money if a change of Government after May 2015. • Insufficient staff resources to implement the changes with the selected supplier. • Supplier failure in the implementation phase. • The procurement process fails to attract suitable tenders. 	<ul style="list-style-type: none"> • Carefully scoped specification which fully takes account of the requirements/ needs of the Council and its customers. • This risk is unlikely however in the event that this happens Council reserves or additional borrowing will have to be used to finance the costs of the project. • Key staff allocated to the implementation of the project. Additional external resources brought in the event of a staff shortfall. • Adequate technical and financial vetting during the procurement process. Rigorous oversight and monitoring of the contract in its implementation. • Market consultation process undertaken in January 2015 and feedback from the market taken into account in procurement.
3	✓			Loss of premises Director of Corporate Services	Long term or short term loss of key office buildings or depots due to fire, flood or other damage.	Partial mitigation through preventative measures e.g. fire safety arrangements, planned and responsive maintenance of buildings. If the event occurs then Business Continuity arrangements would be activated to reduce the impact on service delivery.
4	✓	✓		Major incident or emergency affecting the District or Region Director of Service Delivery	Major incident caused by fire, flood or other disaster resulting in homelessness, disruption to Council services and local business community. Major infectious disease outbreak.	Mitigation through the Council's use of emergency powers under the Civil Contingency Act 2004 to provide temporary shelter for displaced residents and using the Council's Business Continuity arrangements to relocate to other buildings to be able to continue delivering key services. Mitigation by implementing the Lewes District Council Emergency Plan and Flu Business Continuity Plan.

Risk Rank	Council Priorities			Risk and Owner/s	Background and Risk Scenario	Mitigating controls
	Customer	Contribution	Saving Money			
5	✓	✓	✓	Failure to achieve the Council's budget realignment target in the Medium Term Finance Strategy Chief Executive	Inability to achieve planned level of efficiency savings or manage the income streams for those areas where government funding and other income has reduced.	Mitigation through effective financial planning, monitoring, forecasting and delivery of efficiencies and savings to meet required target. Balances held at a level which gives the capacity to meet short term demands. The Director of Finance is confident that the 2015/16 target will be delivered. Unlike many councils Lewes District Council has not used any of its New Homes Bonus income stream to fund day to day services. It has however committed this income stream for 2015/16 and 2016/17 to fund investment in technology that will generate £1.2m of efficiency savings. The underlying recurring New Homes Bonus income stream is estimated at £1.4m and would cover the savings target in both 2016/17 and 2017/18 in the worst case scenario, leaving the final £640,000 to be delivered by 31 March 2019.
6	✓		✓	Major failure in financial systems Director of Corporate Services	Loss of key IT financial systems with immediate impact on Council's ability to process priority transactions e.g. payment of benefits, collection of local taxation revenues and payments to precepting authorities.	Mitigation through preventative measures e.g. system security, robust and supported software, training and performance monitoring. Documentation increasingly held electronically, rather than paper (with inherent risk of loss and destruction), and subject to IT continuity arrangements. If the event occurs the Council's Business Continuity arrangements would be activated. For example back up/ historic records would be used to generate payment records which would be processed by other means.

Risk Rank	Council Priorities			Risk and Owner/s	Background and Risk Scenario	Mitigating controls
	Customer	Contribution	Saving Money			
7	✓		✓	Loss of plant and equipment Director of Service Delivery	Loss, damage, breakdown or theft of vehicles and equipment that are key to the provision of Council services. This risk relates mainly to: <ul style="list-style-type: none"> the vehicle fleet maintained by District Services, and the emergency generator in Southover House which is the responsibility of the Director of Corporate Services. 	Mitigation through effective security, inspection, maintenance, insurance and support arrangements. In addition moving premises/depots at risk of flooding to new locations.
8	✓	✓	✓	Failure of significant contractor Director of Corporate Services (finance, IT and corporate buildings contracts) Director of Service Delivery (planning, recycling and waste, grounds maintenance environment and housing)	Loss of contractor due to insolvency, contractor not meeting contracted service standards or breakdown in the supply chain. Significant contracts include: <ul style="list-style-type: none"> Financial systems IT contracts – in particular Academy Business Systems Wave Leisure Trust Grounds maintenance Council housing maintenance Public convenience cleaning Insurance Electricity and gas Recycling of glass and paper Plant maintenance 	Mitigation through proper set up and monitoring of contracts. If the event occurs then mitigation would be through the emergency appointment of an alternative contractor or, where possible, undertaking the service in house.

Risk Rank	Council Priorities			Risk and Owner/s	Background and Risk Scenario	Mitigating controls
	Customer	Contribution	Saving Money			
				<p>related contracts)</p> <p>Director of Business Strategy and Development (regeneration related contracts)</p> <p>Assistant Director Corporate Services and Head of Audit, Fraud and Procurement (procurement standards)</p>		
9	✓		✓	Major changes in legislation Chief Executive	Changes in Government policies or legislation creating new or increased demands on Council services, or materially changing service requirements and standards.	<p>Mitigation through:</p> <ul style="list-style-type: none"> • Assistant Director Corporate Services alerting officers in a timely manner. • CMT members flagging up significant changes affecting their services areas for discussion and consideration at CMT. • Staff training in new legislation, monitoring of government proposals for policy changes and reassigning resources to meet new priorities.

Risk Rank	Council Priorities			Risk and Owner/s	Background and Risk Scenario	Mitigating controls
	Customer	Contribution	Saving Money			
10	✓		✓	<p>Economic factors outside the Council's control Chief Executive takes overall responsibility. Director of Corporate Services (for financial control and services within his remit) Assistant Director of Corporate Services, (for services within her remit)</p>	<p>Changes in national economic climate and/or local demographics affecting demand for Council services.</p> <p>Significant fluctuations in costs of inputs (e.g. fuel) and price of commodities sold (e.g. recyclables).</p> <p>A prolonged period of deflation.</p> <p>Fewer safe havens to invest day to day cash flow.</p>	<p>Mitigation through:</p> <ul style="list-style-type: none"> • The Director of Corporate Services monitoring trends closely and examining possible requests for additional funding. • Holding a healthy level of working balances. Budget monitoring procedures are in place to identify material fluctuations in prices. • CMT members examining alternative arrangements for their services. • Modelling the impact on the Council's Medium Term Budget Outlook including a range of sensitivity tests. • Consider increasing the level of internal funding to reduce the need for cash to be invested. • Consider paying precepts in advance of agreed payment dates. • Model the cost of aiming to be slightly overdrawn on a day to day basis.
11			✓	<p>Governance and regulatory failure Assistant Director Corporate Services</p>	<p>Inability to meet adequate governance standards.</p>	<p>Mitigation through the preventative measures in the Council's Code of Corporate Governance. These include:</p> <ul style="list-style-type: none"> • Internal controls and Internal Audit service. • Audit and Standards and Scrutiny committees. • Risk management and partnership governance arrangements. • Contract and Financial Procedure Rules. • Training and guidance in regulatory requirements, and performance monitoring.

Risk Rank	Council Priorities			Risk and Owner/s	Background and Risk Scenario	Mitigating controls
	Customer	Contribution	Saving Money			
12	✓			Damage to reputation Assistant Director Corporate Services	Reputational damage from failure to meet statutory duties and service standards, litigation by the Council, actions by councillors and officers which bring the Council into disrepute and failure to deliver contracts e.g. contract for Council to provide services to the South Downs National Park	Mitigation through a range of measures including effective communications, clear codes of conduct for councillors and staff, and performance monitoring.
13	✓	✓		Major project – 49 sites Director of Service Delivery	<p>The Council has tendered to enter into a development agreement with a private sector developer to bring forward a range of Council owned surplus sites for development to provide community benefit, regeneration and financial return. Negotiations are being undertaken to proceed to contract award.</p> <p>With a project of this size and duration there is a risk of reputational damage from failure to meet project objectives and safeguard Council interests; financial risks arising from not achieving planned returns and costs of involvement not representing Value For Money and insufficient capacity to meet project timetables. Key risks include:</p> <ul style="list-style-type: none"> • Failure to sign the development agreement. • Failure to achieve the required level of affordable homes. • The National Park designations act as a planning constraint to the delivery of housing on certain key sites. • Complexity of the planning process could delay receipts from sites. 	<p>Overall mitigation through effective project management and governance, oversight via Nexus arrangements, financial and performance monitoring.</p> <ul style="list-style-type: none"> • Specialist legal support and support from finance and housing experts. • Effective planning and liaison with all parties including the South Downs National Park Authority to identify and address shortfalls, and employ appropriate external resources where necessary. • Effective financial modelling, strong negotiating and detailed legal work to protect the Council's interests.

Risk Rank	Council Priorities			Risk and Owner/s	Background and Risk Scenario	Mitigating controls
	Customer	Contribution	Saving Money			
					<ul style="list-style-type: none"> The Council cannot afford to pay for new Council homes due to Government changes to the Housing Revenue Account headroom or general fund. The chosen partner/ and or their joint venture partner goes into administration. Adverse reaction to the statutory notice to dispose of each parcel of open space. 	<ul style="list-style-type: none"> Developer to work with stakeholders and adjust designs in response to the challenges. The Council to work closely with the developer to all applications to be agreed with the council before submission Robust Development Agreement to be agreed able to deal with different scenarios Project being flexibly designed to support a range of viability options. Robust project and risk management throughout implementation to ensure constant viability and provide detailed oversight. Thorough communication on the community benefits and full consultation with communities before planning applications are submitted.
14	✓	✓		<p>Major project – North St Quarter Director of Business Strategy and Development</p>	<p>A large site in Lewes by the River Ouse including the former Phoenix Industrial Estate owned by the Santon Group, Lewes District Council and other interested parties. The Council working with the South Downs National Park Authority has produced a Core Strategy which has been formally submitted for examination. The Core Strategy provides for the redevelopment of the North Street area. The Director of Business Strategy and Development is to agree a joint planning application on behalf of the Santon Group and the District Council and has entered into an interim agreement with the Santon Group and then to enter a Joint Venture agreement. With a significant project of this size there is a</p>	<p>Overall mitigation through effective project management and governance, oversight via Nexus arrangements, financial and performance monitoring.</p>

Risk Rank	Council Priorities			Risk and Owner/s	Background and Risk Scenario	Mitigating controls
	Customer	Contribution	Saving Money			
					<p>risk of reputational damage from failure to meet project objectives and safeguard Council interests; financial risks arising from not achieving planned returns and costs of involvement not representing sound Value for Money; insufficient capacity to meet project timetables. Key risks include:</p> <ul style="list-style-type: none"> • Insufficient capacity within the Council to meet requirements for effective governance, professional standards and timely action at key stages in the project with result that the development is delayed. • Loss of control over quality, management and timing of the development with the result that capital receipts are reduced delayed and the Council does not obtain best value for the land assets. • South Downs National Park Authority does not approve the planning application because of local objection, legal challenge or environmental issues and the development is delayed or cancelled as a result. • Development delayed by failure to complete site assembly because of disputes over title, and/or inability to achieve agreements with interested parties. • Employment benefits of the project are not fully realised. • The Council decide not to enter into a joint 	<ul style="list-style-type: none"> • Effective planning and liaison with the project team to identify and address shortfalls, and employ appropriate external resources where necessary. • Effective financial modelling, strong negotiating and detailed legal work to protect the Council's interests. • Developer to work with stakeholders and adjust designs in response to the challenges. The Council to work closely with the developer to ensure that the application is technically sound. • Employ specialist legal resources to resolve questions of title, and consider use of compulsory purchase orders where appropriate. • Regeneration Team to work with existing businesses and the developer on an effective relocation strategy. • The Council has underwritten a proportion of the planning costs

Risk Rank	Council Priorities			Risk and Owner/s	Background and Risk Scenario	Mitigating controls
	Customer	Contribution	Saving Money			
					<p>venture with Santon.</p> <ul style="list-style-type: none"> • There is no demand for developers to build on the consented scheme. • Loss of Non Domestic Rates taxbase and a reduction in the level of Lewes District council retained rates income. 	<p>and agreed a capped maximum contribution.</p> <ul style="list-style-type: none"> • A soft market testing will be undertaken to establish the level of developer interest in the scheme. • During the 2015/16 budget round the Scrutiny Committee recommended and Cabinet approved the principle that any net loss of retained rates income arising from a large regeneration project, could be made up by assigning additional New Homes Bonus generated from housing on a former non domestic site.
15	✓	✓	✓	Partnerships All of Corporate Management Team	Reputational damage from failure to achieve partnership objectives and safeguard Council interests; financial risks arising from not achieving planned savings and costs of involvement not representing sound Value for Money; inability to maintain service standards due to conflicting objectives, insufficient capacity, poor management oversight and governance.	Mitigation through effective management oversight, governance and accountability, financial and performance monitoring, establishment of clear objectives.

Council Priorities Key:

Customer = Unswerving commitment to customer service

Contribution = To connect with our workforce and partners to inspire exceptional contribution

Saving Money = To save money and where possible and put money back into our residents' and business pockets where we can

Appendix 3 Action Plan for risk management for the year ahead.

Key Tasks	Timescale	Officer/s responsible
Risk in decision making		
Monitoring of risk assessments in Cabinet reports.	Ongoing	Head of Audit, Fraud and Procurement
Reporting to Audit and Standards Committee		
Updates on risk management to each meeting of the Audit and Standards Committee.	Ongoing	Head of Audit, Fraud and Procurement
Training on risk management		
Refresher training sessions with key managers on risk in their roles.	May 2015	Head of Audit, Fraud and Procurement
Risk training for key Councillors and CMT to be undertaken by Zurich Municipal.	June 2015	Head of Audit, Fraud and Procurement
Recording of risk		
Record service risks on Covalent.	April 2015	Service Managers
Quarterly review of the Council's strategic risks by CMT	Ongoing	CMT
Review of risk arrangements		
Annual review of the Risk Management Strategy.	February 2016	CMT
Annual Risk Management report to Cabinet.	March 2016	Director of Corporate Services

Agenda Item No: 11 **Report No:** 76/15

Report Title: Annual Report on the Council's Systems of Internal Control 2014/15

Report To: Audit and Standards Committee **Date:** 22 June 2015

Ward(s) Affected: All

Report By: Head of Audit, Fraud and Procurement

Contact Officer

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Post Title: Head of Audit, Fraud and Procurement

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Tel no: 01273 484157

Purpose of Report:

To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control for 2014/15.

Officers Recommendation(s):

- 1** To receive the annual report by the Head of Audit, Fraud and Procurement (HAFP).
 - 2** To note that the overall standards of internal control were satisfactory during 2014/15 (as shown in Section 3).
 - 3** To note that the satisfactory opinion on internal control is taken forward into the Council's Annual Governance Statement 2014/15 that is to be published with the Statement of Accounts 2014/15 and presented to the September 2015 meeting of the Committee.
 - 4** To report to the Cabinet on the Council's systems of internal control.
-

Reasons for Recommendations

- 1** The remit of the Audit and Standards Committee includes a duty to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk. There is a further duty to consider the annual report by the HAFP, and to report annually to the Cabinet on the adequacy and effectiveness of internal controls within the Council.

2 Background

- 2.1** The Chartered Institute of Public Finance and Accountancy (CIPFA) has, with the other governing bodies that set auditing standards for the various parts of

the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that have applied since 1 April 2013. HAFP advised the Audit and Standards Committee of the effect of the new standards at its March 2013 meeting.

- 2.2** The requirements of the PSIAS overlap with those of the Accounts and Audit Regulations, which require that there be an annual report on the internal control environment. This requirement has been met by an internal study carried out by HAFP, with the results independently reviewed by the Director of Corporate Services and now reported to the Audit and Standards Committee.

3 Opinion of the Head of Audit, Fraud and Procurement on the Internal Control Environment at Lewes District Council for the year ended 31 March 2015

- 3.1** The overall standards of internal control are satisfactory. This opinion is based on the work of Internal Audit, other internal reviews and external assurance bodies, and the Council's work on risk management. The risk management process has identified that most risks are mitigated by the effective operation of controls or other measures. Whilst recommendations have been made to improve procedures and controls in some areas, there were no instances in which internal control problems created significant risks for Council activities or services. In most cases managers have addressed the control issues since the respective audits, and within those recommendations not yet implemented there are no issues that create significant risks for the Council.
- 3.2** This report outlines the work on which the above opinion is based, including high level summaries of the external review processes and their results.

4 Internal Audit Work 2014/15

- 4.1** The work carried out by Internal Audit has been sufficient to enable HAFP to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment. The work carried out by Internal Audit is summarised in the Annual Report on Internal Audit Performance and Effectiveness 2014/15 that is presented separately to this meeting of the Committee.

5 Risk Management

- 5.1** Cabinet approved the Risk Management Strategy in September 2003. Since then risk management at the Council has been developed via a series of action plans, with the result that all the elements of the risk management framework set out in the strategy are in place and are maintained at best practice standards.
- 5.2** The risk management process has identified that most risks are mitigated by the effective operation of controls or other measures. However, there are some risks that are beyond its control, for example a major incident, a 'flu' pandemic, a downturn in the national economy or a major change in government policy or legislation. The Council has sound planning and response measures to

mitigate the effects of such events, and continues to monitor risks and the effectiveness of controls.

- 5.3** In response to the Government's national deficit reduction plan, the Corporate Management Team (CMT) put in place a phased programme to make savings in the Council's budgets. The programme commenced in 2011/12 and has achieved each of its annual savings targets including that for the year 2013/14. The savings target for the next two years is £1.146m, with £596,000 in 2014/15 and £550,000 in the year after. The source of savings from this point forward will continue to come from structural change rather than incremental change. The savings target for 2014/15 will mainly derive from efficiencies in procurement and the new Agile Working environment.
- 5.4** The system of management assurance (see Section 6) has confirmed the proper operation of controls, and the absence of significant control issues, during the period of the savings programme so far. HAFP will monitor the impact on the control environment of the planned savings, and this exercise will be ongoing while the programme of savings continues. It will be necessary to consider any potential risks arising from the savings programme in the Annual Governance Statement (AGS) that will be presented to the September 2015 meeting of the Committee (see Section 7).
- 5.5** The Annual Report on Risk Management was presented to Cabinet at its March 2015 meeting. This report confirmed the strategic risks identified by CMT and the action plan for risk management for the year ahead. This report is presented separately to this meeting of the Audit and Standards Committee for information.
- 5.6** The overall satisfactory situation in respect of risk management has helped to inform the opinion on the internal control environment.

6 System of Management Assurance

- 6.1** The Council operates a management assurance framework. The framework has enabled senior officers to confirm the proper operation of internal controls, including compliance with the Constitution, in those services for which they were responsible in 2014/15.
- 6.2** A joint statement by the Chief Finance Officer (Section 151) and Monitoring Officer has confirmed that there were no significant governance issues for the Council in 2014/15.

7 Corporate Governance

- 7.1** In January 2015, the HAFP reviewed the Council's Local Code of Corporate Governance, and concluded that the arrangements remain satisfactory and fit for purpose. These results were reported to the January 2015 meeting of the Committee. .
- 7.2** The Council is required to produce an Annual Governance Statement (AGS), which outlines the main elements of the Council's governance arrangements and the results of the annual review of the governance framework including the system of internal control. The AGS for 2014/15 will be reported to the

September 2015 meeting of the Audit and Standards Committee with the statement of accounts for 2014/15.

8 External assurance

8.1 The Government relies on external auditors to periodically review the work of the Council to make sure it is meeting its statutory obligations and performing well in its services. The results of these external reviews have helped inform the opinion on the internal control environment. The recent results are summarised below.

8.2 Annual Audit Letter for 2013/14 (October 2014) – This report summarises the key issues from the work carried out by BDO during the year, and was presented to the December 2014 meeting of the Committee. The key issues were:

- BDO issued an unqualified true and fair opinion on the financial statements for 2013/14.
- BDO identified three misstatements in relation to revaluations of land and buildings and the accounting for the value of additions to HRA Council dwellings. Appropriate amendments were made to the financial statements. As these corrections relate to capital transactions and valuations there was no impact on the General Fund or HRA balance.
- BDO did not identify any significant deficiencies in internal controls but, working with Internal Audit, BDO observed instances where purchase orders were either in excess of the officer's formal authorisation limits or were placed by officers not on the authorised signatory list. Management has agreed to review and strengthen this control.
- BDO were satisfied that the Council has robust systems and processes to manage financial risks and opportunities effectively and to secure a stable financial position that enables it to continue to operate for the foreseeable future, and BDO therefore issued an unqualified value for money conclusion.
- BDO noted that the Council maintains healthy levels of earmarked reserves and balances, and Members have agreed a policy to use reserves to fund investments and non-recurring expenditure.
- BDO were satisfied that the Annual Governance Statement (AGS) was not inconsistent or misleading with other information they were aware of from the audit of the financial statements and complies with '*Delivering Good Governance in Local Government*' (CIPFA/Solace).
- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for audit and they were required only to review the total amounts in the Data Collection Tool for property, plant and equipment and for the net pension liability. BDO reported that the values in the Data Collection Tool were consistent with the audited financial statements.
- The Medium Term Financial Strategy was updated during the year and Members continue to consider options for achieving additional savings, with these likely to arise from the continued organisational development process and Programme Nexus.

- BDO have completed their review of the Housing Pooled Capital Receipts 2013/14 and have no matters to report.
- BDO reported on the results of the most recent grant claims and returns certification report that covered three returns for 2012/13 amounting to £67 million. The Housing Pooled Capital Receipts return and National Non Domestic Rates returns were certified without amendment or qualification. The BDO audit of the Housing and Council Tax Benefits subsidy claim for 2012/13 found a number of errors in processing. Following further discussion and the provision of additional supporting information by the Council, DWP amended its assessment of the impact on the claim and made a deduction of approximately £4,000 from the final settlement.

8.3 Grant Claims and Returns Certification for year ended 31 March 2014 (March 2015). The report was presented to the March 2015 meeting of the Committee. The key points were:

- The audit found errors in the administration of benefits involving non-HRA rent rebates, HRA rent rebates and rent allowances. The Council had already recognised the issues in the administration of benefits, and a review of the management and control structures was carried out in the summer of 2014. The Council believes that the results for the second half of 2014/15 will show material improvements from those that were the subject of the BDO report.
- The audit identified deficiencies in the Council's systems and controls around the identification of uncashed payments, and the writing back of these within the subsidy form. The Council will work with BDO to identify and put in place systems and processes that alleviate the weaknesses identified.
- As a result of the errors found in administering benefits, BDO qualified the claim across all benefit expenditure types. The additional work required to be completed by the Council and BDO meant that the audited claim was submitted to DWP two months after the deadline date.
- BDO and the Council will agree a timetable for completing the work on the next subsidy claim to assist both parties in planning and completing the audit on a timely basis.
- The certification of the returns for the Pooling of Housing Capital Receipts was completed satisfactorily, and the claim was submitted as unqualified and without amendment.

8.4 The results of these external reviews have helped inform the opinion on the internal control environment.

9 Financial Appraisal

9.1 There are no additional financial implications arising from this report.

10 Sustainability Implications

10.1 I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is an internal monitoring report.

11 Risk Management Implications

11.1 The risk assessment shows that if the Audit and Standards Committee does not ensure proper oversight of the adequacy and effectiveness of the Council's systems of internal control there is a risk that a key aspect of the Council's control arrangements will not comply fully with best practice.

12 Equality Screening

12.1 I have given due regard to equalities issues and, as this is an internal monitoring report with no key decisions, screening for equalities is not required.

13 Background Papers

None.

14 Appendices

None.

Agenda Item No: 12 **Report No:** 77/15

Report Title: Treasury Management

Report To: Audit and Standards Committee **Date:** 22 June 2015

Ward(s) Affected: All

Report By: Alan Osborne, Director of Corporate Services

Contact Officer(s)-

Name(s): Stephen Jump
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Purpose of Report:

To present details of recent Treasury Management activity and the Annual Treasury Management Report 2014/2015.

Officers Recommendation:

1. To confirm to Cabinet that Treasury Management activity between 1 March and 31 May 2015 has been in accordance with the approved Treasury Strategy for that period.
 2. To review the Annual Treasury Management Report for 2014/2015.
 3. To note the contents of this report.
-

Reasons for Recommendations

- 1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury transactions and make observations to Cabinet.
- 2 **Treasury Management Activity**
 - 2.1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.
 - 2.2 The timetable for reporting Treasury Management activity in 2015/2016 is shown in the table overleaf. This takes into account the timescale for the publication of each Committee agenda and is on the basis that it is preferable to report on activity for complete months. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Standards Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
22 June 2015	1 March to 31 May 2015
28 September 2015	1 June to 31 August 2015
30 November 2015	1 September to 31 October 2015
25 January 2016	1 November to 31 December 2015
14 March 2016	1 January to 29 February 2016

2.3 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 May 2015 and identifies the long-term credit rating of each counterparty at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. The minimum rating required for deposits made are long term minimum A (Fitch). All of the deposits met the necessary criteria.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
220714	Barclays Bank plc	13 Aug 14	13 Aug 15	365	1,000,000	1.000	A
222915	Nationwide Building Society	08 Apr 15	08 Jul 15	91	1,000,000	0.500	A
223215	Nationwide Building Society	06 May 15	06 Aug 15	92	1,000,000	0.500	A
					3,000,000		

2.4 Fixed Term Deposits which have matured in the reporting period

The table overleaf shows the fixed term deposits which have matured since 1 March 2015, in maturity date order. It is important to note that the table includes sums reinvested and that in total the Council's investments have not increased by £24.5m over this period. Further information is given in paragraph 2.8.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
220914	Nationwide Building Society	01 Sep 14	02 Mar 15	182	1,000,000	0.640	A
222514	Telford & Wrekin Council	06 Feb 15	15 Apr 15	68	3,000,000	0.400	*
222614	Debt Management Office	02 Mar 15	13 Mar 15	11	6,000,000	0.250	*
222714	Debt Management Office	16 Mar 15	23 Mar 15	7	2,000,000	0.250	*
222815	Debt Management Office	01 Apr 15	07 Apr 15	6	2,000,000	0.250	*
223015	Debt Management Office	15 Apr 15	20 Apr 15	5	1,000,000	0.250	*
223115	Debt Management Office	06 May 15	21 May 15	15	2,000,000	0.250	*
223315	Debt Management Office	07 May 15	08 May 15	1	2,500,000	0.250	*
223415	Debt Management Office	08 May 15	11 May 15	3	1,000,000	0.250	*
223515	Debt Management Office	08 May 15	18 May 15	10	1,000,000	0.250	*
223615	Debt Management Office	15 May 15	19 May 15	6	1,500,000	0.250	*
223715	Debt Management Office	15 May 15	21 May 15	6	1,500,000	0.250	*
	Total				24,500,000		

*UK Government body and therefore not subject to credit rating

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits

held in the period 1 March to 31 May 2015 was 0.62%, above the average bank base rate for the period of 0.50%. Those made during the period averaged 0.47%.

2.5 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £2,647,000 generating interest of approximately £1,500.

	Balance at 31 May '15 £'000	Average balance £'000	Average interest rate %
Santander Business Reserve Account	Nil	1,606	0.20
Lloyds Bank Corporate Account	1,231	1,041	0.40

2.6 Use of Money Market Funds

Details of the amounts held in the two Money Market Fund (MMF) accounts used by the Council are shown overleaf. The approved Investment Strategy allows a maximum investment of £3m in each fund, and at no time was this limit exceeded.

	Balance at 31 May '15 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	2,250	1,976	0.58
Deutsche Managed Sterling Fund	1,500	2,034	0.56

2.7 Purchase of Treasury Bills (T-Bills)

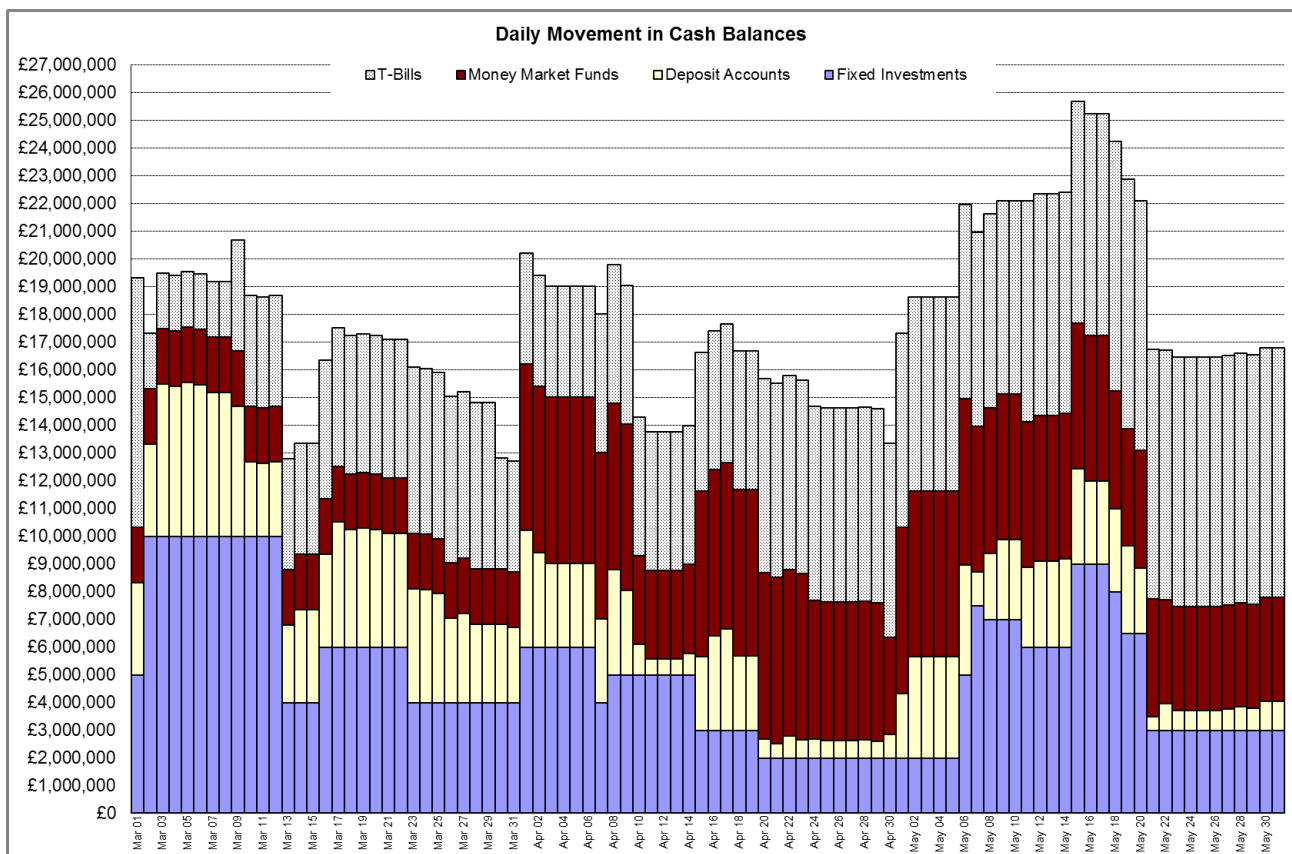
The table below shows the T-Bills held at 31 May 2015 and activity in the period. It is the Council's intention to hold T-Bills until maturity.

		Purchased in period	Purchase date	£'000	Average return %
Held at 31 May 2015					
UK Treasury Bill 0%	22 Jun 15	√	20 Mar 15	1,000	0.439
UK Treasury Bill 0%	06 Jul 15	√	07 Apr 15	1,000	0.449
UK Treasury Bill 0%	01 Jun 15	√	20 Apr 15	2,000	0.410
UK Treasury Bill 0%	03 Aug 15	√	05 May 15	1,000	0.440
UK Treasury Bill 0%	01 Jun 15	√	05 May 15	1,000	0.420
UK Treasury Bill 0%	08 Jun 15	√	11 May 15	1,000	0.428
UK Treasury Bill 0%	08 Jun 15	√	11 May 15	1,000	0.439
UK Treasury Bill 0%	15 Jun 15	√	18 May 15	1,000	0.449

	Purchased in period	Purchase date	£'000	Average return %
Matured since last report				
UK Treasury Bill 0%	30 Mar 15	29 Sep 14	2,000	0.570
UK Treasury Bill 0%	02 Mar 15	01 Dec 14	1,000	0.415
UK Treasury Bill 0%	02 Mar 15	01 Dec 14	1,000	0.419
UK Treasury Bill 0%	02 Mar 15	✓ 02 Feb 15	1,000	0.320
UK Treasury Bill 0%	02 Mar 15	✓ 02 Feb 15	3,000	0.300
UK Treasury Bill 0%	02 Mar 15	✓ 02 Feb 15	1,000	0.310
UK Treasury Bill 0%	07 Apr 15	✓ 09 Mar 15	1,000	0.475
UK Treasury Bill 0%	07 Apr 15	✓ 09 Mar 15	1,000	0.429
UK Treasury Bill 0%	13 Apr 15	✓ 16 Mar 15	1,000	0.439
UK Treasury Bill 0%	05 May 15	✓ 07 Apr 15	1,000	0.349
UK Treasury Bill 0%	05 May 15	✓ 07 Apr 15	1,000	0.389
UK Treasury Bill 0%	11 May 15	✓ 13 Apr 15	1,000	0.399

2.8 Overall investment position

The chart below summarises the Council's investment position over the period 1 March 2015 to 31 May 2015. It shows the total sums invested each day as Fixed Term deposits, T-Bills, or amounts held in Deposit accounts or MMF's.



2.9 Borrowing

There has been no change to the Council's long term borrowing in the reporting period, which remains at £56.673m. No temporary borrowing has been undertaken.

3 Annual Treasury Management Report

- 3.1** As well as reviewing details of Treasury transactions during the course of the year, the Audit and Standards Committee is required to review a formal summary report after the year end before it is considered by Council in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.
- 3.2** The Annual Report is attached at Appendix 1. It should be noted that this report has been drafted prior to the final closure of the Council's accounts and, as a result, some minor changes may be necessary. If so, the changes will be reported verbally at the meeting. Any comments that the Audit and Standards Committee may wish to make will be passed on to Cabinet, which is also required to review the Annual Report and will do so on 6 July 2015.

Financial Implications

- 4** All relevant implications are referred to in the above paragraphs.

Sustainability Implications

- 5** There are no sustainability implications arising from this report.

Risk Management Implications

- 6** The risk management implications associated with this activity are explained in the approved Treasury Management Strategy. No additional implications have arisen during the period covered by this report.

Equality Screening

- 7** There are no sustainability implications arising from this report

Legal Implications

- 8** None arising from this report.

Appendix – Appendix 1: Annual Treasury Management Report 2014/2015

Background Papers - Treasury Strategy Statement

<http://www.lewes.gov.uk/council/20987.asp>

Lewes District Council

Annual Treasury Management Report 2014/2015

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1. Background

1.1 The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury management report. The report must review treasury management activities and set out the final position of the Council's Treasury Prudential Indicators. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

1.2 The Council defines its Treasury Management activities as:

“the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

1.3 The Council agreed its Treasury Management Strategy Statement and Investment Strategy 2014/2015 to 2016/2017 at its meeting in February 2014.

2. Overall Summary of Activity 2014/2015

2.1 The table below lists the key elements of the 2014/2015 Strategy and records actual performance against each one of them.

Key Element	Required by Strategy	Actual Performance	
Borrowing			
Underlying need to borrow (CFR) at year end	£70.709 million	£69.979 million	✓
Internal borrowing at year end	£14.036 million	£13.306 million	✓
New external long-term borrowing in year	None anticipated	None undertaken	✓
Debt rescheduling in year	Review options but not anticipated	Options kept under review, none undertaken	✓
Interest payments on external borrowing	£1.730 million	£1.733 million	✓
Investments			
Minimum counterparty credit ratings for investments of up to 1 year	Long-term A/ Short-term F1 (does not apply to Government and other local authorities which have the highest ratings)	At least Long-term A/ Short-term F1 where required	✓
Sovereign status of counterparties	UK plus 10 specified nations	Only UK counterparties used	✓
Money Market Funds	AAA rated with Constant Net Asset Value	AAA rated with Constant Net Asset Value	✓

Key Element	Required by Strategy	Actual Performance	
Overnight exposure guideline for deposits with Cooperative	Maximum £1 million	Guideline not exceeded.	✓
Interest receipts from external investments	£0.050m	£0.088	✓
Appointment of Investment Consultants			
Independent Treasury Adviser to be retained	Arlingclose to be retained as Treasury Adviser	Arlingclose retained as Treasury Adviser	✓
Banking Arrangements			
Procurement of bank to replace The Cooperative following its withdrawal from the sector	Switch to new bank by April 2015	Lloyds Bank plc appointed as banker. Switch completed by 28 February 2015.	✓
Reporting and Training			
Reports to be made to Audit and Standards Committee and Cabinet	Every meeting	Every regular meeting.	✓
Briefing sessions for Councillors and Staff	Treasury Adviser to provide	Arlingclose met with Councillors and Staff September 2014	✓

2.2 For those who are looking for more than this overall confirmation that all treasury management and investment activity in 2014/2015 has been carried out in accordance with the Council's agreed Strategy, the remainder of this report explores each of the key elements in more depth. Appendix A gives details of the final position on each of the Prudential Indicators, and Appendix B explores the Economic Background to the year's activity. A Glossary appears at the end of the document to explain the technical terms which could not be avoided when writing this report.

3. Detailed Analysis – Borrowing

- 3.1 Other than for temporary cash flow purposes, local authorities are only allowed to borrow to finance capital expenditure (eg the purchase of property, vehicles or equipment which will last for more than one year, or the improvement of such assets).
- 3.2 In accounting terms, the underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). This, together with Balances and Reserves, are the core drivers of Treasury Management activity.
- 3.3 The CFR is, in simple terms, the amount of capital expenditure which has been incurred by the Council but which has not yet been paid for (by using, for example, grants, capital receipts, reserves or revenue income) and in the meantime is covered by internal or external borrowing. External borrowing is where loans are raised from the Public Works Loans Board or banks. Alternatively it is possible to use the significant levels of cash which has been set aside in Balances and Reserves and which would otherwise need to be

invested with banks or other borrowers as a means to avoid taking on external loans. This is known as internal borrowing.

- 3.4 As noted above, the level of CFR increases each year by the amount of unfinanced capital expenditure and is reduced by the amount that the Council sets aside for the repayment of borrowing. The table below shows the original CFR projection for 2014/2015, the revised position reported at the time of producing the Treasury Strategy 2015/2016 and the final position for the year. The variation in capital expenditure (and financing) was anticipated given that the capital programme represents an allocation of funds to specific long-term projects many of which span financial years.

	2014/15 Original £m	2014/15 Revised £m	2014/15 Outturn £m
Opening CFR	71.880	71.448	71.448
Capital expenditure in year	7.746	16.594	10.006
Less financed	(7.473)	(15.472)	(9.613)
Less amount set aside for debt repayment	(1.862)	(1.861)	(1.862)
Closing CFR	70.291	70.709	69.979

- 3.5 The overall CFR can be split between the General Fund and Housing Revenue Account as follows:

CFR Component	2014/15 Revised £m	2014/15 Outturn £m
General Fund	5.919	4.505
Housing Revenue Account	64.790	65.474
Total	70.709	69.979

- 3.6 The following table compares the CFR with the amount that the Council holds in balances and reserves as well as working capital (day to day cash movements as well as grants, developer contributions and capital receipts held pending use). The total held in Balances and Reserves is higher than anticipated in the revised budget mainly because of expenditure on capital projects switching into 2015/2016.

	31/3/15 Revised £m	31/3/15 Outturn £m
(a) Capital Financing Requirement	70.709	69.979
(b) Actual external borrowing	(56.673)	(56.673)
(c) Use of Balances and Reserves as alternative to borrowing (a)–(b)	14.036	13.306
(d) Total Balances and Reserves	12.758	15.645
(e) Working capital	5.730	7.669
(f) Less Amount used as an alternative to borrowing (c) above	(14.036)	(13.306)
(g) Total investments (d)+(e)–(f)	4.452	10.008

3.7 The Council's loan portfolio at 31 March 2015 was:

Lender	Interest	Amount £m	Rate %	Maturity
PWLB	Fixed	4.00	2.7000	01/03/2024
PWLB	Fixed	5.00	3.3000	01/03/2032
PWLB	Fixed	2.00	3.0500	01/09/2027
PWLB	Fixed	2.00	2.7600	01/09/2024
PWLB	Fixed	4.00	2.9700	01/09/2026
PWLB	Fixed	5.00	3.2800	01/09/2031
PWLB	Fixed	4.00	2.6300	01/09/2023
PWLB	Fixed	5.00	3.4400	01/03/2037
PWLB	Fixed	6.67	3.5000	01/03/2042
PWLB	Fixed	5.00	3.4300	01/09/2036
PWLB	Variable	5.00	0.6200	28/03/2022
PWLB	Fixed	4.00	3.0100	01/03/2027
	Sub-total	<u>51.67</u>		
Barclays	LOBO	5.00	4.5000	06/04/2054
	Total	<u>56.67</u>		

3.8 In the table above the Lender's Options Borrower's Option (LOBO) loan was taken out in April 2004 with a term of 50 years. Every 4 years, the Lender has the option to increase the interest rate, and if it does so, the Council has the right to repay.

3.9 Total interest paid on external long-term borrowing in the year was £1.733m, which was consistent with the revised budget for the year. The debt portfolio was largely established in March 2012 on the introduction of self-financing for Housing, and no debt restructuring took place during the year. Internal borrowing continued to be used as an alternative to new external loans. The Council remained eligible to access the Government's 'Certainty Rate' allowing the Council to borrow at a reduction of 0.20% on the Standard Rate.

3.10 As noted in the Treasury Management Policy, two separate Loans Pools operated in 2014/2015, for the General Fund and HRA respectively. At 31 March 2015 the balance on internal loans from the General Fund to the HRA was £8.801m, a reduction of £1.323m compared with the previous year. Interest was charged on internal borrowing at 1.44% (equivalent to a one-year maturity loan from the PWLB at the start of the financial year).

4. Detailed Analysis - Investments

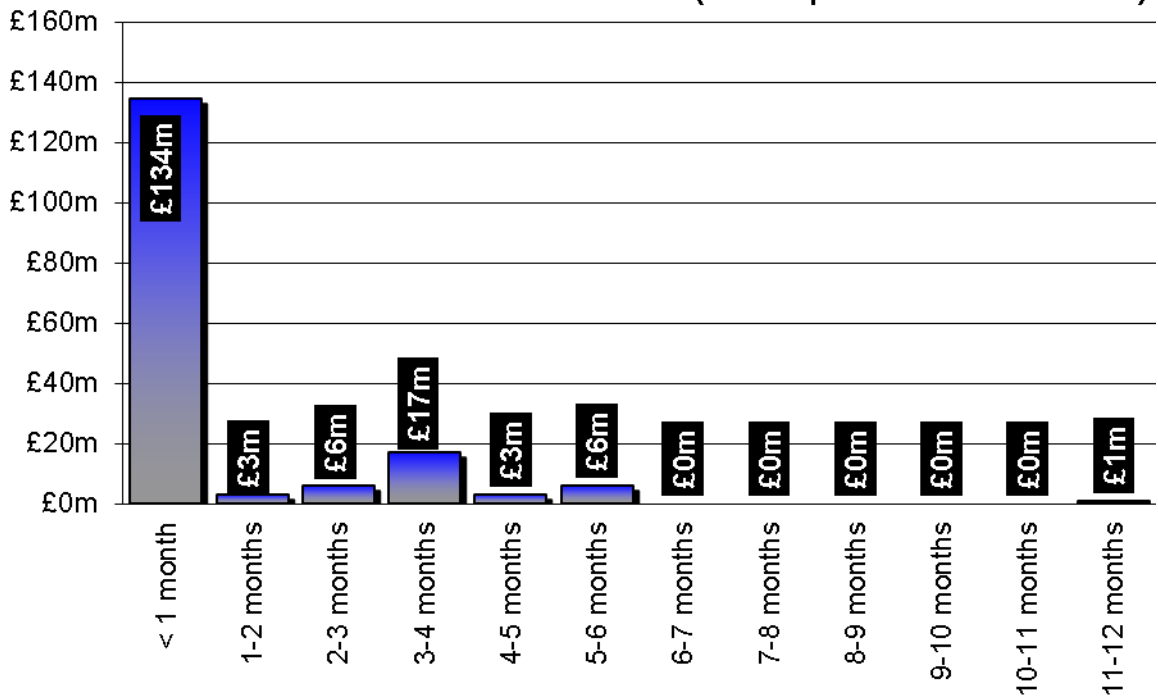
4.1 The Council held an average of £15.5m as cash during the year. This comprised working cash balances, capital receipts, earmarked reserves and developer contributions held pending use.

4.2 The Council's general policy objective is to invest its surplus funds prudently. Throughout 2014/2015, the Council's investment priorities were:

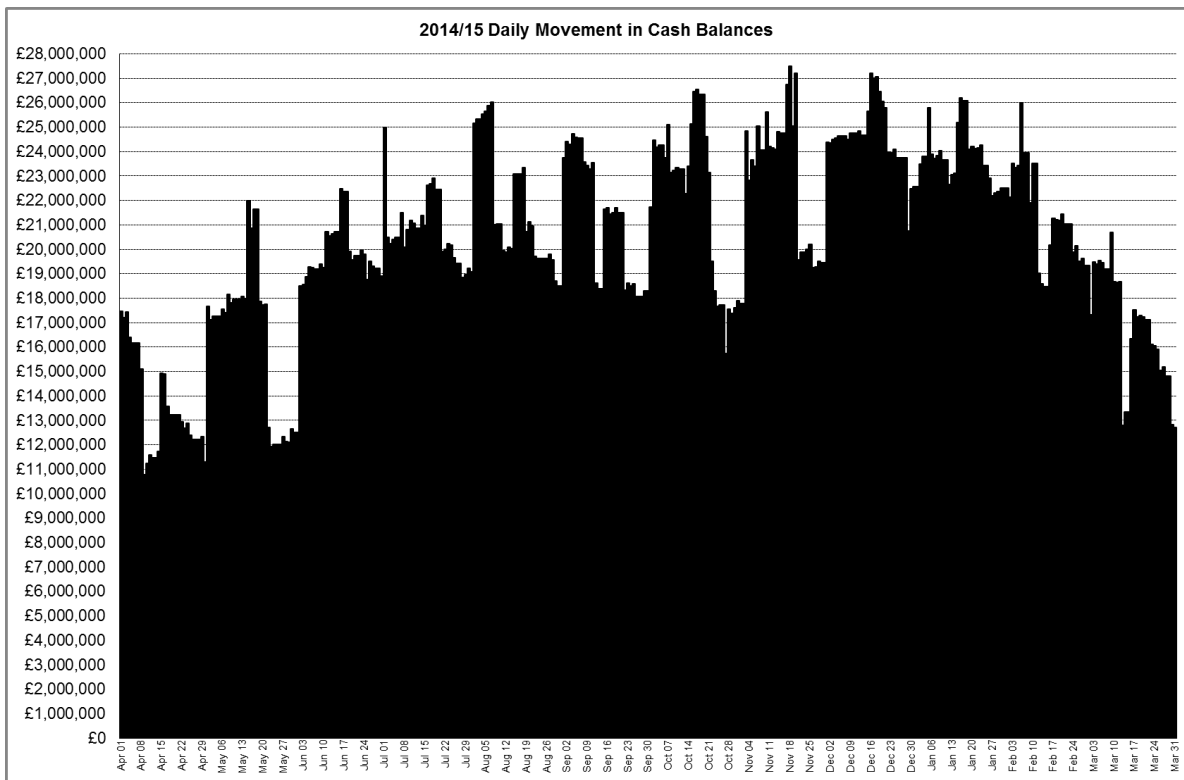
highest priority - security of the invested capital;
followed by - liquidity of the invested capital;
finally - an optimum yield commensurate with security and liquidity.

- 4.3 All of the Council's investments were managed in-house. Security of capital was maintained by following the counterparty policy set out in the Investment Strategy for 2014/2015. Investments during the year included:
- Term Deposits with the Debt Management Office (total £84.6m – 37 occasions)
 - Term Deposits with other Local Authorities (total £9.0m – 4 occasions)
 - Term Deposits with banks and building societies (total £13.0m – 13 occasions)
 - Purchase of UK Treasury Bills (total £68.5 – 45 occasions)
 - Investments in AAA-rated Constant Net Asset Value Money Market Funds (MMFs) (average balance held in year £1.357m)
 - Deposit accounts with UK Banks (average balance held in year £2.55m)
- 4.4 In response to market conditions, the Council's day to day approach was to hold an overdrawn balance at the Co-operative bank – the average daily overdrawn balance for the year was £0.172m.
- 4.5 Counterparty credit quality was assessed and monitored with reference to credit ratings (a minimum long-term counterparty rating of A across all three rating agencies Fitch, Standard and Poors, and Moody's applied); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price.
- 4.6 In keeping with Government guidance on investments, the Council maintained a sufficient level of liquidity through the use of MMFs, overnight deposits and the use of deposit accounts.
- 4.7 The Council sought to optimise returns commensurate with its objectives of security and liquidity. As expected when setting the investment income budget for 2014/2015, the UK Bank Rate was maintained at 0.5% through the year. As can be seen, the main type of investment made during 2014/2015 was with the Government's Debt Management Office, used in the absence of other counterparties which matched the Council's credit criteria. Deposits with the Debt Management Office attracted an interest rate of 0.25%, below the UK Bank Rate for the year.
- 4.8 A full list of temporary investments made in the year is given at Appendix C. All investments were made with UK institutions, and no new deposits were made for periods in excess of one year. The chart below gives an analysis of aggregate fixed term deposits by duration.

2014/15 Investment Profile (exc Deposit Accounts/MMFs)



4.9 The next chart shows how the total amount invested varied from day to day over the course of the year. The movement largely reflects the cycle of grant, council tax and business rate receipts and precept payments made.



4.10 The budget for income generated by external investments in 2014/2015 was £0.050 million. Actual interest generated was significantly higher at £0.088

million, reflecting higher than anticipated levels of cash being held pending expenditure on capital programme projects as well as higher levels of return achieved through the extended use of MMF's, Treasury Bills and Deposit accounts.

5. Banking Arrangements

5.1 In November 2013 the Co-operative Bank contacted all of the local authorities to which it provides banking services to explain that it would be withdrawing from this market sector. The Co-operative Bank's plan was to simplify and rebuild the Bank focusing on serving the needs of individuals and small and medium sized business customers.

5.2 The Council participated in a procurement exercise with other East Sussex District and Borough Councils to appoint a common bank. The outcome of the procurement was the appointment of Lloyds Bank plc as the Council's banker. Accounts at Lloyds Bank were operative from 1 September 2014 and accounts with the Co-operative Bank were closed on 28 February 2015.

6. Compliance with Prudential Indicators

The Council can confirm that it has complied with its Prudential Indicators for 2014/2015. A detailed review of each of the Prudential Indicators is at Appendix A.

7. Investment Consultants

In June 2012 Arlingclose had been reappointed as the Council's treasury management adviser, for a four year term. The reappointment followed a competitive tendering process. In 2014/2015, Arlingclose was the primary source of information, advice and assistance relating to investment activity, with individual investment decisions being made by the Council.

8. Reporting and Training

8.1 The Director of Finance reported the details of treasury management activity to each regular meeting of the Audit and Standards Committee and Cabinet held in 2014/2015. A mid-term summary report was issued in November 2014.

8.2 All councillors tasked with treasury management responsibilities, including scrutiny of the treasury management function, were offered the opportunity to attend a local briefing session led by Arlingclose on 23 September 2014.

8.3 The training needs of the Council's treasury management staff were reviewed as part of the annual corporate staff appraisal/training needs assessment process for all Council employees. Members of staff attended Arlingclose workshops alongside colleagues from other local authorities during 2014/2015.

Appendix A – Prudential Indicators 2014/2015

1. Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. Some of the Prudential Indicators relate directly to the Council's Capital Programme These Indicators are also included below for completeness of reporting.

2. Net Borrowing and the Capital Financing Requirement

2.1 This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

2.2 The Director of Corporate Services reports that the Council has had no difficulty meeting this requirement in 2014/2015, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the budget for 2015/2016

3. Estimates of Capital Expenditure (direct link to Capital Programme)

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

No.	Capital Expenditure	2014/15 Original £m	2014/15 Revised £m	2014/15 Actual £m
1a	Non-HRA	2.063	10.714	4.737
1b	HRA	5.683	5.880	5.164
	Total	7.746	16.594	9.901

4. Ratio of Financing Costs to Net Revenue Stream (direct link to Capital Programme)

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

4.2 The ratio is based on costs net of investment income. Where investment income exceeds interest payments, the indicator is negative.

No.	Ratio of Financing Costs to Net Revenue Stream	2014/15 Original %	2014/15 Revised %	2014/15 Actual %
2a	Non-HRA	0.95	0.95	0.66
2b	HRA	21.51	21.21	21.31

5. Capital Financing Requirement

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

No	Capital Financing Requirement	2014/15 Original £m	2014/15 Revised £m	2014/15 Actual £m
3a	Non-HRA	4.512	5.919	4.505
3b	HRA	65.779	64.790	65.474
	Total CFR	70.291	70.709	69.979

5.2 The year-on-year change in the CFR is set out below.

Capital Financing Requirement	2014/15 Original £m	2014/15 Revised £m	2014/15 Actual £m
Balance B/F	71.880	71.448	71.448
Capital expenditure financed from borrowing	0.273	1.122	0.393
Revenue provision for Debt Redemption.	(1.862)	(1.861)	(1.862)
Balance C/F	70.291	70.709	69.979

6. Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit (see 8 below).

No.	Actual External Debt as at 31/03/2015	Revised £m	Actual £m
4a	Borrowing	56.673	56.673
4b	Other Long-term Liabilities	0.000	0.071
4c	Total	56.673	56.744

7. Incremental Impact of Capital Investment Decisions Stream (direct link to Capital Programme)

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

No.	Incremental Impact of Capital Investment Decisions	2014/15 Original £	2014/15 Revised £	2014/15 Actual £
5a	Increase in Band D Council Tax	38.30	99.19	50.04
5b	Increase in Average Weekly Housing Rents	8.31	4.10	1.95

The increase in Band D council tax/average weekly rents reflects the funding of the capital programme: for example, new borrowing increases interest payable, and funding from reserves utilises resources which could have otherwise been used to fund revenue expenditure. The actual indicators are less than the revised as a result of capital projects being deferred from 2014/2015 into 2015/2016.

8. Authorised Limit and Operational Boundary for External Debt

- 8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.
- 8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases.
- 8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.
- 8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). The 2014/15 Actual values shown below are the maximum levels of borrowing experienced at any time during the year.

No.	Authorised Limit for External Debt	2014/15 Original £m	2014/15 Revised £m	2014/15 Actual £m
6a	Borrowing	72.00	72.00	56.67
6b	Other Long-term Liabilities	0.50	0.50	0.07
6c	Total	72.50	72.50	56.74

- 8.5 The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely,

prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

- 8.6 The Director of Finance has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the immediately following meeting of the Cabinet. The 2014/15 Actual values shown below are the maximum levels of borrowing experienced at any time during the year.

No.	Operational Boundary for External Debt	2014/15 Original £m	2014/15 Revised £m	2014/15 Actual £m
7a	Borrowing	66.50	66.50	56.67
7b	Other Long-term Liabilities	0.50	0.50	0.07
7c	Total	67.00	67.00	56.74

9. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Council has adopted best practice.

No.	Adoption of the CIPFA Code of Practice in Treasury Management
8	The Council approved the adoption of the CIPFA Treasury Management Code in 2002. Following revisions to the Code published in December 2009, reconfirmed its adoption of the Code in February 2010.

10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- 10.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums ie fixed rate debt net of fixed rate investments.
- 10.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget.

No.		2014/15 Original £m	2014/15 Revised £m	2014/15 Actual £m
9	Upper Limit for Fixed Interest Rate Exposure	72.5	72.5	51.7
10	Upper Limit for Variable Interest Rate Exposure	(27.5)	(27.5)	(22.7)

- 10.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's Treasury Management Strategy.

10.4 Because the Council's investments are substantially in excess of its variable rate borrowing, the Upper Limit for Variable Interest Rate exposure is shown as a negative figure.

11. Maturity Structure of Fixed Rate borrowing

11.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

11.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

No.	Maturity structure of fixed rate borrowing	Lower Limit %	Upper Limit %	Actual %
11a	under 12 months	0	70	0
11b	12 months and within 24 months	0	70	0
11c	24 months and within 5 years	0	75	0
11d	5 years and within 10 years	0	75	8
11e	10 years and above	0	100	92

12. Upper Limit for total principal sums invested over 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. No investments of more than 364 days were made during 2014/15.

No.	Upper Limit for total principal sums invested over 364 days	2014/15 Original %	2014/15 Revised %	2014/15 Actual %
12	Upper limit	50	50	0

13. HRA Limit on Indebtedness

This Prudential Indicator is associated with the introduction of self-financing for housing. It indicates the residual capacity to borrow for housing purposes, while remaining within the overall HRA Debt Cap specified by the Government.

No	Capital Financing Requirement	2014/15 Original £m	2014/15 Revised £m	2014/15 Actual £m
13a	HRA CFR	65.779	64.790	65.474
13b	HRA Debt Cap	72.931	72.931	72.931
	Difference	7.152	8.141	7.457

Appendix B – Economic Background explained by Arlingclose

Growth and Inflation: The robust pace of GDP growth of 3% in 2014 was underpinned by a buoyant services sector, supplemented by positive contributions from the production and construction sectors. Resurgent house prices, improved consumer confidence and healthy retail sales added to the positive outlook for the UK economy given the important role of the consumer in economic activity.

Annual CPI inflation fell to zero for the year to March 2015, down from 1.6% a year earlier. The key driver was the fall in the oil price (which fell to \$44.35 a barrel a level not seen since March 2009) and a steep drop in wholesale energy prices with extra downward momentum coming from supermarket competition resulting in lower food prices. Bank of England Governor Mark Carney wrote an open letter to the Chancellor in February, explaining that the Bank expected CPI to temporarily turn negative but rebound around the end of 2015 as the lower prices dropped out of the annual rate calculation.

Labour Market: The UK labour market continued to improve and remains resilient across a broad base of measures including real rates of wage growth. January 2015 showed a headline employment rate of 73.3%, while the rate of unemployment fell to 5.7% from 7.2% a year earlier. Comparing the three months to January 2015 with a year earlier, employee pay increased by 1.8% including bonuses and by 1.6% excluding bonuses.

UK Monetary Policy: The Bank of England's MPC maintained interest rates at 0.5% and asset purchases (QE) at £375bn. Its members held a wide range of views on the response to zero CPI inflation, but just as the MPC was prepared to look past the temporary spikes in inflation to nearly 5% a few years ago, they felt it appropriate not to get panicked into response to the current low rate of inflation. The minutes of the MPC meetings reiterated the Committee's stance that the economic headwinds for the UK economy and the legacy of the financial crisis meant that increases in the Bank Rate would be gradual and limited, and below average historical levels.

Political uncertainty had a large bearing on market confidence this year. The possibility of Scottish independence was of concern to the financial markets, however this dissipated following the outcome of September's referendum. The risk of upheaval (the pledge to devolve extensive new powers to the Scottish parliament; English MPs in turn demanding separate laws for England) lingers on. The highly politicised March Budget heralded the start of a closely contested general election campaign and markets braced for yet another hung parliament.

On the continent, the European Central Bank lowered its official benchmark interest rate from 0.15% to 0.05% in September and the rate paid on commercial bank balances held with it was from -0.10% to -0.20%. The much-anticipated quantitative easing, which will expand the ECB's balance sheet by €1.1 trillion

was finally announced by the central bank at its January meeting in an effort to steer the euro area away from deflation and invigorate its moribund economies. The size was at the high end of market expectations and it will involve buying €60bn of sovereign bonds, asset-backed securities and covered bonds a month commencing March 2015 through to September 2016. The possibility of a Greek exit from the Eurozone refused to subside given the clear frustrations that remained between its new government and its creditors.

The US economy rebounded strongly in 2014, employment growth was robust and there were early signs of wage pressures building, albeit from a low level. The Federal Reserve made no change to US policy rates. The central bank however continued with ‘tapering’, i.e. a reduction in asset purchases by \$10 billion per month, and ended them altogether in October 2014. With the US economy resilient enough the weather the weakness of key trading partners and a strong US dollar, in March 2015 the Fed removed the word “patient” from its statement accompanying its rates decisions, effectively leaving the door open for a rise in rates later in the year.

Market reaction: From July, gilt yields were driven lower by a combination of factors: geo-political risks emanating from the Middle East and Ukraine, the slide towards deflation within the Eurozone and the big slide in the price of oil and its transmission though into lower prices globally. 5-, 10- and 20-year gilt yields fell to their lows in January (0.88%, 1.33% and 1.86% respectively) before ending the year higher at 1.19%, 1.57% and 2.14% respectively.

Appendix C – List of Term Deposits made and/or maturing in 2014/2015

Deal	Counterparty	Principal	From	To	Rate
216013	Conwy County Borough Council	2000000	29 Nov 13	30 May 14	0.450%
216213	Nationwide Building Society	1000000	07 Nov 13	07 May 14	0.530%
217213	Nationwide Building Society	1000000	24 Jan 14	24 Apr 14	0.470%
217713	Nationwide Building Society	1000000	28 Mar 14	28 Apr 14	0.400%
217814	Debt Management Office	1750000	01 Apr 14	04 Apr 14	0.250%
217914	Debt Management Office	5000000	01 Apr 14	09 Apr 14	0.250%
218014	Debt Management Office	1500000	15 Apr 14	17 Apr 14	0.250%
218114	Debt Management Office	1500000	15 Apr 14	25 Apr 14	0.250%
218214	Debt Management Office	1000000	25 Apr 14	30 Apr 14	0.250%
218314	Nationwide Building Society	1000000	28 Apr 14	30 Jun 14	0.440%
218414	Debt Management Office	2000000	01 May 14	07 May 14	0.250%
218514	Debt Management Office	2000000	01 May 14	08 May 14	0.250%
218614	Debt Management Office	2250000	01 May 14	09 May 14	0.250%
218714	Barclays Bank plc	1000000	07 May 14	09 Jun 14	0.380%
218814	Barclays Bank plc	1000000	07 May 14	07 Jul 14	0.410%
218914	Barclays Bank plc	1000000	07 May 14	07 Aug 14	0.440%
219014	Debt Management Office	2500000	08 May 14	12 May 14	0.250%
219114	Debt Management Office	3000000	09 May 14	19 May 14	0.250%
219214	Debt Management Office	2500000	12 May 14	22 May 14	0.250%
219314	Debt Management Office	2600000	15 May 14	22 May 14	0.250%
219414	Nationwide Building Society	1000000	30 May 14	29 Aug 14	0.480%
219514	Debt Management Office	2500000	02 Jun 14	19 Jun 14	0.250%
219614	Debt Management Office	2500000	02 Jun 14	10 Jun 14	0.250%
219714	Debt Management Office	1000000	02 Jun 14	12 Jun 14	0.250%
219814	Debt Management Office	1000000	05 Jun 14	25 Jun 14	0.250%
219914	Debt Management Office	1500000	11 Jun 14	23 Jun 14	0.250%
220014	Barclays Bank plc	1000000	12 Jun 14	13 Oct 14	0.500%
220114	Debt Management Office	1750000	16 Jun 14	23 Jun 14	0.250%
220214	Debt Management Office	5000000	01 Jul 14	02 Jul 14	0.250%
220314	Nationwide Building Society	1000000	01 Jul 14	01 Sep 14	0.450%
220414	Debt Management Office	4000000	01 Aug 14	08 Aug 14	0.250%
220514	Debt Management Office	2000000	01 Aug 14	11 Aug 14	0.250%
220614	Debt Management Office	2000000	07 Aug 14	08 Sep 14	0.250%
220714	Barclays Bank plc	1000000	13 Aug 14	13 Aug 15	1.000%
220814	Debt Management Office	2000000	15 Aug 14	18 Aug 14	0.250%
220914	Nationwide Building Society	1000000	01 Sep 14	02 Mar 15	0.640%
221014	Nationwide Building Society	1000000	01 Sep 14	02 Feb 15	0.580%
221114	Debt Management Office	1000000	01 Sep 14	08 Sep 14	0.250%
221214	Debt Management Office	1000000	02 Sep 14	12 Sep 14	0.250%
221314	Debt Management Office	2000000	08 Sep 14	12 Sep 14	0.250%
221414	Debt Management Office	2250000	15 Sep 14	22 Sep 14	0.250%
221514	Debt Management Office	1500000	06 Oct 14	13 Oct 14	0.250%
221614	Cornwall County Council	2000000	07 Oct 14	12 Feb 15	0.430%
221714	Debt Management Office	4000000	13 Oct 14	22 Oct 14	0.250%
221814	Debt Management Office	3000000	15 Oct 14	20 Oct 14	0.250%
221914	Debt Management Office	2000000	03 Nov 14	19 Nov 14	0.250%
222014	Debt Management Office	1000000	07 Nov 14	10 Nov 14	0.250%
222114	Debt Management Office	1000000	20 Nov 14	21 Nov 14	0.250%
222214	Gloucester City Council	2000000	15 Dec 14	02 Jan 15	0.450%
222314	Debt Management Office	3000000	02 Jan 15	05 Jan 15	0.250%
222414	Debt Management Office	2000000	15 Jan 15	19 Jan 15	0.250%
222514	Telford and Wrekin Council	3000000	06 Feb 15	15 Apr 15	0.400%
222614	Debt Management Office	6000000	02 Mar 15	13 Mar 15	0.250%
222714	Debt Management Office	2000000	16 Mar 15	23 Mar 15	0.250%

Glossary of Terms

Affordable Borrowing Limit	Each local authority is required by statute to determine and keep under review how much money it can afford to borrow. The Prudential Code (see below) sets out how affordability is to be measured.
Base Rate	The main interest rate in the economy, set by the Bank Of England, upon which others rates are based.
Bonds	Debt instruments issued by government, multinational companies, banks and multilateral development banks. Interest is paid by the issuer to the bond holder at regular pre-agreed periods. The repayment date of the principal is also set at the outset.
Capital Expenditure	Spending on the purchase, major repair, or improvement of assets eg buildings and vehicles
Capital Financing Requirement (CFR)	Calculated in accordance with government regulations, the CFR represents the amount of Capital Expenditure that it has incurred over the years and which has not yet been funded from capital receipts, grants or other forms of income. It represents the Council's underlying need to borrow.
Chartered Institute of Public Finance and Accountancy (CIPFA)	CIPFA is one of the leading professional accountancy bodies in the UK and the only one that specialises in the public services. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government.
Counterparty	Organisation with which the Council makes an investment
Credit Default Swaps	CDS are a financial instrument for swapping the risk of debt default and are effectively an insurance premium. Local authorities do not trade in CDS but trends in CDS prices can be monitored as an indicator of relative confidence about the credit risk of counterparties.
Credit Rating	A credit rating is an independent assessment of the credit quality of an institution made by an organisation known as a rating agency. The rating agencies take many factors into consideration when forming their view of the likelihood that an institution will default on their obligations, including the institution's willingness and ability to repay. The ratings awarded typically cover the short term outlook, the long term outlook, as well as an assessment of the extent to which the parent company or the state will honour any obligations. At present, the three main agencies providing credit

	rating services are Fitch Ratings, Moody's and Standard and Poor's.
Fixed Deposits	Loans to institutions which are for a fixed period at a fixed rate of interest
Gilts	These are issued by the UK government in order to finance public expenditure. Gilts are generally issued for set periods and pay a fixed rate of interest. During the life of a gilt it will be traded at price decided in the market.
Housing Revenue Account (HRA)	There is a statutory requirement for local authorities to account separately for expenditure incurred and income received in respect of the dwellings that they own and manage.
Lenders' Option Borrower's Option (LOBO)	A long term loan with a fixed interest rate. On pre-determined dates (eg every five years) the lender can propose or impose a new fixed rate for the remaining term of the loan and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan.
LIBID	The rate of interest at which first-class banks in London will bid for deposit funds
Minimum Revenue Provision (MRP)	The minimum amount which must be charged to an authority's revenue account each year and set aside as provision for the repayment of debt.
Operational boundary	This is the most likely, prudent view of the level of gross external indebtedness. A temporary breach of the operational boundary is not significant.
Prudential Code/Prudential Indicators	The level of capital expenditure by local authorities is not rationed by central government. Instead the level is set by local authorities, providing it is within the limits of affordability and prudence they set themselves. The Prudential Code sets out the indicators to be used and the factors to be taken into account when setting these limits
Public Works Loan Board (PWLB)	A central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow.
Treasury Management Strategy Statement (TMSS)	Approved each year, this document sets out the strategy that the Council will follow in respect of investments and financing both in the forthcoming financial year and the following two years.
Treasury Bills (T-Bills)	These are issued by the UK Government as part of the Debt Management Office's cash management operations. They do not pay interest but are issued at a discount and are redeemed at par. T-Bills have up to 12 months maturity when first issued.

Agenda Item No: 13 **Report No:**78/15
Report Title: Statement of Accounts 2014/2015
Report To: Audit and Standards Committee **Date:** 22 June 2015
Ward(s) Affected: All
Report By: Alan Osborne, Director of Corporate Services
Contact Officer(s)-
Name(s): Stephen Jump
Post Title(s): Head of Finance
E-mail(s): steve.jump@lewes.gov.uk
Tel No(s): 01273 484043

Purpose of Report:

To provide assurance to the Audit and Standards Committee that the Council's Statement of Accounts for 2014/2015 has been prepared in accordance with statutory requirements and recommended accounting practice.

Officers Recommendation:

1. To note the contents of this report.
-

Reasons for Recommendations

- 1 The Council's constitution enables the Audit and Standards Committee to approve the Annual Statement of Accounts. The Accounts and Audit Regulations 2011 require the Director of Corporate Services to certify by 30 June that the Statement of Accounts presents fairly the financial position of the Council, in advance of the external audit of those Accounts taking place.

Information

2 Approval of the Accounts

- 2.1 The Audit and Standards Committee is required to approve the Council's annual formal Accounts, which include statements of its income and expenditure for the year and its balance sheet at the year end. The requirement stems from the Council's Constitution, the Accounts and Audit Regulations and the Code of Practice on Local Authority Accounting published each year by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 2.2 The Accounts and Audit Regulations 2011 specify the framework for the approval and auditing of local authority accounting statements. The requirement is for the responsible financial officer (the Director of Corporate Services) to certify the Accounts before 30 June, with no approval by councillors at that

stage. The external audit then takes place, with a final set of Accounts, including any necessary amendments, being brought to councillors to approve by 30 September, the final deadline for publication. The intended consequence of the Regulations is that, when approving the Accounts, councillors can be made aware of the findings of the audit and hence make a better informed decision.

- 2.3** At the time of writing this report, it is the intention that the Director of Corporate Services will certify the Statement of Accounts 2014/2015 on 29 June, maximising the time available for final 'quality checking'. It will then be sent to the Council's external auditor, BDO, triggering the start of their audit work. It will also be published on the Council's website.
- 2.4** Members of the public have the right to inspect the Council's accounts and supporting records. The period for public inspection will run from Monday 6 July to Friday 31 July 2015. From 3 August 2015 until the conclusion of the audit process, a local government elector for the area of the Council may ask BDO questions about the accounts.

3 Format of the Accounts

- 3.1** The Statement of Accounts comprises the following core elements:

Movement in Reserves Statement - this shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those the Council can apply to fund expenditure or reduce local taxation) and other reserves.

Comprehensive Income and Expenditure Statement - this records all of the spending and income used in the day to day provision of all services including Council housing and also includes any profit or loss from the use and disposal of assets within the period. The account also shows how much is received from council taxpayers, business ratepayers and from general government grants to help meet the cost of services.

Balance Sheet – this provides a snapshot of the Council's financial position as at 31 March 2015 and includes the General Fund and Housing Revenue Account balances. It sets out what the Council owns, owes and is owed at that point in time.

Cash Flow Statement – this summarises the total receipts and payments of cash arising from the Council's activities in the year ie it excludes amounts which the Council owes but has not yet paid and is owed but has not yet received.

Notes to the Financial Statements – these explain the significant items within each of the core elements along with an explanation of the accounting policies that were followed when compiling and presenting the Accounts.

Housing Revenue Account – this statutory 'ring-fenced' account reports for the year on the management of the Council's housing stock. It shows the major elements of housing running costs (maintenance, management and capital

financing costs) and how these are met by rents, service charges and other income.

Collection Fund – this shows the Council’s transactions in relation to the collection of non-domestic rates and council tax, and their payment over to the Government and ‘precepting authorities’ (East Sussex County Council, the Sussex Police and Crime Commissioner, East Sussex Fire Authority and Lewes District Council).

Statement of Responsibilities for the Statement of Accounts – this explains the relative responsibilities of the Council and Director of Corporate Services in terms of making arrangements for the administration of the Council’s financial affairs, keeping financial records, etc. Before publication of the audited Accounts in September, the Chair of the Audit and Standards Committee and the Director of Corporate Services will sign this Statement.

- 3.2** In 2013, CIPFA published a good practice guide for local authorities’ financial statements. This looks at how presentation can be improved and clutter cut from the accounts. CIPFA consider that too often, organisations play safe by including in the accounts every disclosure required by standards, in case an omission is questioned, and that, also too often, auditors question the omission of non-material disclosures, encouraging this behaviour.
- 3.3** Drawing on CIPFA’s guide, the Statement of Accounts 2014/2015 has been produced with a focus on materiality and the exclusion of information that contributes little to the understanding of the accounts or the Council’s overall financial position.

Financial Implications

- 4** There are no additional financial implications arising from this report.

Sustainability Implications

- 5** The Sustainability Screening process for this Report took place in June 2015. There are no implications for sustainability.

Risk Management Implications

- 6** I have completed the Risk Management Questionnaire. The issues covered by the recommendations are not significant in terms of risk.

Equality Screening

- 7** The Equality Screening process for this Report took place in June 2015. There are no implications for equality.

Background Papers - Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and Guidance Notes for Practitioners.