

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

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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).
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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

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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
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					<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	✓		✓	<p>Major changes in legislation</p> <p>Chief Executive</p>	<p>Changes in Government policies or legislation creating new or increased demands on Council services, or materially changing service requirements and standards.</p>	<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
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					<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
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					<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