

# Audit and Standards Committee

21 January 2019



**Time and venue:**

10.00am in the Ditchling Room, Southover House, Southover Road, Lewes, BN7 1AB

**Membership:**

Councillor Mike Chartier (Chair); Councillors Stephen Catlin, Johnny Denis, Nigel Enever, Stephen Gauntlett, Andy Loraine and Julian Peterson

**Quorum: 4**

*Published: Thursday, 10 January 2019*

## Agenda

**1 Minutes (Pages 1 - 6)**

To confirm and sign the minutes of the previous meeting held on 19 November 2018 (attached herewith).

**2 Apologies for absence/declaration of substitute members**

**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 from councillors pursuant to Council Procedure Rule 12.3 (page D8 of the Constitution).

**6 Interim Report on the Council's Systems of Internal Control 2018/19  
(Pages 7 - 20)**

Report of Head of Audit and Counter Fraud

**7 Statement of Accounts 2017/18**

Verbal update by Head of Finance

**8 Treasury Management (Pages 21 - 26)**

Report of Chief Finance Officer

**9 Date of next meeting**

To note that the next meeting of the Audit and Standards Committee is scheduled to be held on Monday, 18 March 2019, in the Ditchling Room, Southover House, Southover Road, Lewes, BN7 1AB, commencing at 10.00am.

## Information for the public

**Accessibility:** Please note that the venue for this meeting is wheelchair accessible and has an induction loop to help people who are hearing impaired. This agenda and accompanying reports are published on the Council's website in PDF format which means you can use the "read out loud" facility of Adobe Acrobat Reader.

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**Public participation:** Please contact Democratic Services (see end of agenda) for the relevant deadlines for registering to speak on a matter which is listed on the agenda if applicable.

## Information for councillors

**Disclosure of interests:** Members should declare their interest in a matter at the beginning of the meeting.

In the case of a disclosable pecuniary interest (DPI), if the interest is not registered (nor the subject of a pending notification) details of the nature of the interest must be reported to the meeting by the member and subsequently notified in writing to the Monitoring Officer within 28 days.

If a member has a DPI or other prejudicial interest he/she must leave the room when the matter is being considered (unless he/she has obtained a dispensation).

**Councillor right of address:** A member of the Council may ask the Leader, a Cabinet Member or the Chair of a committee or sub-committee any question without notice upon an item of the report of the Cabinet or a committee or subcommittee when that item is being received or under consideration by the Council.

A member of the Council may ask the Chair of a committee or sub-committee a question on any matter in relation to which the Council has powers or duties or which affect the District and which falls within the terms of reference of that committee or subcommittee.

A member must give notice of the question to the Head of Democratic Services in writing or by electronic mail no later than close of business on the fourth working day before the meeting at which the question is to be asked.

# Democratic Services

For any further queries regarding this agenda or notification of apologies please contact Democratic Services.

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## **Audit and Standards Committee**

**Minutes of meeting held in Telscombe Room - Southover House, Lewes on 19 November 2018 at 10.00 am**

**Present:**

Councillor Chartier (Chair)

Councillors Stephen Catlin, Johnny Denis, Vic lent, Julian Peterson and Jim Sheppard

**Officers in attendance:**

Pauline Adams (Head of Finance), Oliver Dixon (Deputy Monitoring Officer), David Heath (Head of Audit and Counter Fraud), Catherine Knight (Monitoring Officer) and Jazmin Victory (Committee Officer)

**Also in attendance:**

Councillor Robbie Robertson, Janine Combrink (Engagement Lead, BDO), Chris Gape (Director, Cobb PR), Vic Kempner (Independent Person) and Huw Oxburgh (Sussex Express)

### **26 Minutes**

The minutes of the meeting held on 24 September 2018 were submitted and approved, and the Chair was authorised to sign them as a correct record.

### **27 Apologies for absence/declaration of substitute members**

Apologies for absence had been received from Councillors N Enever and S Gauntlett.

Councillor J Shephard declared that he was acting as substitute for Councillor N Enever for the duration of the meeting.

Councillor V lent declared that he was acting as substitute for Councillor S Gauntlett for the duration of the meeting.

### **28 Declarations of interest**

There were none.

### **29 Urgent items**

There were none.

**30 Written questions from councillors**

There were none.

**31 Outcome of Code of Conduct Investigation at Peacehaven Town Council**

The committee considered the report which sought endorsement of a proposed resolution for alleged failures to comply with Peacehaven Town Council's Code of Conduct for Members.

The Monitoring Officer explained to the committee that, following consultation with the Independent Person (Vic Kempner), it was recommended that the most effective resolution would not consist of a Standards Panel to determine whether each of the subject members breached their code of conduct, but an action plan adopted by the Town Council as set out in paragraph 4.1 of the report. Justification for this approach included taking into account that two of the three councillors complained of had since resigned, as well as the very limited range of sanctions that a Standards Panel could impose on individual members found to have breached the Code of Conduct.

Vic Kempner commented that based on his professional opinion, the recommendations in the report were fair, balanced and that he endorsed them entirely. The committee thanked Vic Kempner for his help throughout this investigation.

**Resolved:**

- 1) That the committee endorse the Monitoring Officer's proposed informal resolution, set out in paragraph 4.1, of the complainants' code of conduct allegations; and
- 2) That the committee seek updates after 3 and 6 months from the Peacehaven Town Manager as specified in paragraph 5.2, by way of a follow-up report by the Monitoring Officer at the relevant time.

**Reason:**

To ensure that the investigation outcome of the alleged failures to comply with Peacehaven Town Council's Code of Conduct for Members is dealt with in the most effective manner.

**32 Interim Report on the Council's Systems of Internal Control 2018/19**

The committee received the report which informed councillors on the adequacy and effectiveness of the Council's systems of internal control during the first seven months of 2018/2019, and which summarised the work on which that opinion was based.

The Head of Audit and Counter Fraud (HACF) informed members that he would be leading the peer review for Arun District Council.

Members were pleased to note that five properties had been returned to stock after joint action by officers in Housing, Legal Services and Counter Fraud to address cases of abandonment or anti-social behaviour. Members requested that at a future meeting a report be presented to the committee which summarised how many properties had been regained during the last four years.

Members questioned why the Internal Audit service complying with 43% of the statements of good practice was viewed as satisfactory and were informed that the remainder complied with the PSIAS requirements in all material respects. The HACF confirmed that this percentage was broadly consistent with the results from other local authorities in Sussex.

**Resolved:**

That it be noted that the overall standards of internal control during the first seven months of 2018/2019 were generally satisfactory.

**Reason:**

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.

### 33 Internal Audit Key Performance Indicators (KPIs)

The committee considered the report which informed members of the results of research into performance indicators for internal audit functions, and included proposals for a revised set of indicators for the shared internal audit service for both Councils. Members noted that the KPIs would cover the shared service in total, and that there would not be separate results for staff working at Eastbourne and Lewes.

The HACF explained to the committee that, although a lot of Council's do not have KPIs for internal auditors (including Eastbourne before the shared service); the Council felt that they were an important tool for measuring and making comparisons.

**Resolved:**

- 1) That members noted the results of the research and the proposals for change; and
- 2) That members approved the proposed set of performance indicators, noting that they included some of the previous set of indicators at LDC and selected items from the annual benchmarking exercise with other internal audit services at local authorities in East Sussex.

**Reason:**

The remit of the Audit and Standards Committee includes a duty to review whether the Audit and Counter Fraud service is adequately resourced and is able to discharge its functions effectively.

**34 Lewes District Council Grants Report 2016/17**

The committee considered the report which summarised the main issues arising from the Council's certification of grant claims and returns for the financial year ended 31 March 2017, following audit by the Council's external auditors, BDO.

Following this item, the Chair explained to the BDO representative that the committee were dismayed at the delay regarding the Statement of Accounts report. The committee were informed that there had been some changes in the valuations which required an explanation before BDO could sign off the report and that they were continuing to chase for this information. Members commented that such a delay was damaging to the Council and its residents, and requested that this message be passed on to further emphasise the urgency of receiving this information.

**Resolved:**

That the report be noted.

**Reason:**

It is essential that the Council's external auditors engage with the Audit and Standards Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

**35 Treasury Management**

The committee considered the report which presented details of recent Treasury Management activity between 1 September 2018 and 31 October 2018.

Members questioned why the interest rates lent to Eastbourne Borough Council were lower than the other Councils, and if there was any restriction regarding the lending between joint authorities. The Head of Finance responded that there was no restriction, and that interest rates were set by the Council based using the standard at that day as a benchmark. Members requested that an explanation is included in future reports, to reiterate what the Head of Finance had explained regarding interest rates.

Members questioned the Council's use of Santander considering that European banks were in a vulnerable state. Officers responded that although Santander was a Spanish bank, it had UK credit ratings and many local authorities used Santander. However, the Head of Finance assured members that they would check and report back at the next meeting.

**Resolved:**



That the committee confirm to Cabinet that Treasury Management activity between 1 September and 31 October 2018 has been in accordance with the approved Treasury Strategy for the period.

**Reason:**

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.

**36 Date of next meeting**

Resolved that that the next meeting of the Audit and Standards Committee is scheduled to be held on Monday, 21 January 2019 in the Ditchling Room, Southover House, Southover Road, Lewes, BN7 1AB, commencing at 10:00am.

The meeting ended at 11.00 am

Councillor Chartier

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<b>Report To:</b>	<b>Audit and Standards Committee</b>
<b>Date:</b>	<b>21 January 2019</b>
<b>Report Title:</b>	<b>Interim Report on the Council's Systems of Internal Control 2018/19</b>
<b>Report of:</b>	<b>David Heath, Head of Audit and Counter Fraud</b>
<b>Ward(s) Affected:</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control during the first nine months of 2018/19, and to summarise the work on which this opinion is based.</b>
<b>Officer recommendation(s):</b>	<b>To note that the overall standards of internal control were generally satisfactory during the first nine months of 2018/19 (as shown in Section 2).</b>
<b>Reasons for recommendations:</b>	<b>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.</b>
<b>Contact Officer(s)</b>	<b>Name: David Heath Post title: Head of Audit and Counter Fraud E mail: <a href="mailto:David.Heath@lewes-eastbourne.gov.uk">David.Heath@lewes-eastbourne.gov.uk</a> Telephone number: 01273 085157</b>

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## **1 Introduction**

- 1.1** 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 were first applied from 1 April 2013. The PSIAS were updated in March 2017. The updated standards are not materially different from the previous version, and so have not been separately reported to the Committee.
- 1.2** The PSIAS 2017 continue to specify the requirements for the reporting to the Audit and Standards Committee and senior management by the Head of Audit and Counter Fraud (HACF). These requirements are met via a series of reports, including interim reports to each meeting of the Committee.
- 1.3** Each interim report includes a review of the work undertaken by Internal Audit compared to the annual programme, an opinion of HACF 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 contains 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.

- 1.4 In September 2015, Cabinet approved a strategy for the development of shared services between Lewes District Council (LDC) and Eastbourne Borough Council (EBC) based on the integration of the majority of council services via a Joint Transformation Programme (JTP). The formal integration of the Internal Audit and Counter Fraud Teams in both councils took place on 1 July 2017.

## 2 Internal Control Environment at Lewes District Council

- 2.1 The Annual Report on the Council's Systems of Internal Control for 2017/18 was presented to the July meeting of the Committee. The report included the opinion of HACF that the overall standards of internal control are generally satisfactory. This opinion is based on the work of Internal Audit, the internal assurance framework, external reviews, and the Council's work on risk management. In the nine 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.

## 3 Internal Audit work 2018/19

- 3.1 Table 1 shows that a total of 499 audit days have been undertaken compared to 497 days planned in the first nine months of the year.

Table 1: Plan audit days compared to actual audit days for April to December 2018

Audit Area	Actual audit days for the year 2017/18	Plan audit days for the year 2018/19	Actual audit days to date	Pro rata plan audit days to date
Main Systems	347	308	341	
Central Systems	67	65	56	
Departmental Systems	3	87	7	
Performance and Management Scrutiny	34	30	11	
Computer Audit	5	25	10	
Management Responsibilities/Unplanned Audits	101	158	74	
Total	557	673	499	497

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.

The variance of two days is not material, and it is estimated that the audit days will remain close to plan by the year end.

- 3.2 This section of the report summarises the work undertaken by Internal Audit, compared to the annual plan that was presented to the Audit and Standards Committee in March 2018. Further information on each of the audits completed since the previous meeting of the Committee is given at Appendix A1.
- 3.3 **Main Systems:** The key work has been on 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 2017/18. The testing was completed and a final report issued. The results contributed to the overall opinion given by HACF (see Section 2 above). The corresponding work for 2018/19 is underway.

- 3.4** The work on behalf of BDO to test the Council's HB subsidy claim 2016/17 has been the other main priority and is now complete. BDO had identified the need for significant additional testing to address the issues noted in the 2015/16 claim and other errors noted in the current claim. The timetabled date for BDO to sign off and submit the audited claim was the end of November 2017 but, because of the significant extra work required and BDO's other commitments, the claim was submitted in the last week of September 2018.
- 3.5** The corresponding exercise to test the Council's HB subsidy claim 2017/18 is now the main priority and the work is underway. The results from the initial sample testing have helped to inform BDO's work on the Council's 2017/18 accounts. BDO have identified the need for significant additional testing to address the issues noted in the 2016/17 claim, but BDO are looking at ways to try to shorten the timetable for this exercise.
- 3.6** **Central Systems:** An audit of Safeguarding at both councils has been completed by audit personnel in Eastbourne, and a final report has been issued. A final report has been issued for the annual audit of Ethics. The review of joint ventures and Council owned companies has been completed and a draft report has been issued.
- 3.7** **Departmental Systems:** The audit of Estates Management, incorporating work on the corresponding function at EBC, began in 2017 but was put on hold to free resources for the work on the HB subsidy claim and the testing of the main financial systems - the audit has been completed by audit personnel in Eastbourne and a final report has been issued. An audit of the Licensing of Houses in Multiple Occupation (HMO) has been carried out by personnel in Eastbourne, and a draft report has been issued. An audit of the other aspects of Licensing is underway.
- 3.8** **Performance and Management Scrutiny:** The initial work in this category was the review of the data that supports the Annual Governance Statement (AGS) for 2018, with the main task being the examination of the revised Strategic Risk Register.
- 3.9** **Computer Audit:** Internal Audit has examined the IT aspects of the main financial systems, and is examining the controls over the implementation of the CX Housing Management system. An audit of Cyber Security is at the planning stage.
- 3.10** **Management Responsibilities/Unplanned Audits:** This category provides resources for activities such as support for the Audit and Standards Committee, managing the Counter Fraud Team, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.
- 3.11** CMT requested Internal Audit to carry out an assurance review to support the establishment of the newly configured Health and Safety (H&S) service. The review includes site visits to two key service areas – the Eastbourne Crematorium and the Waste and Recycling (W&R) service for LDC. A final interim report was issued on the W&R aspects of the review, and the results of the H&S review of the crematorium have been included in a draft report that also covers other aspects of the Bereavement Services at the location. Internal Audit has also carried out a

review of the management of statutory building compliance at both councils; an interim report was issued in June 2018, with a final report issued during October 2018.

- 3.12** Internal Audit has coordinated the Council's work on the NFI data matching exercise that began in 2016. The Council received over 2,000 separate matches detailed across 93 reports, each report setting out different types of potential frauds among benefit claimants, housing tenants, and anyone receiving payments or discounts from the Council. The exercise has involved analysis of the matches to identify those that are the result of error or coincidence, and then the examination of the remaining matches to assess the likelihood of fraud - 335 matches have been examined, with no fraud or error noted. Because the work is resource intensive and services have experienced staffing issues during the JTP process, the investigation of matches was being done in Internal Audit but not as a priority task. That work has now ceased.
- 3.13** The preparations for the 2018 NFI exercise are underway, with the Counter Fraud Investigations Manager in Eastbourne taking the coordination role for both councils. The necessary data downloads have been submitted and a targeted approach to the examination of reported matches will be in place when the matches are received in February 2019.

#### **4 Follow up of Audit Recommendations**

- 4.1** All audit recommendations are followed up to determine whether control issues noted by the original audits have been resolved. The focus for follow up in 2018/19 has been on confirming the implementation of the recommendations that had been agreed in the previous year.

#### **5 Quality Reviews/Customer Satisfaction Surveys/Performance Indicators (PIs)**

- 5.1** The results of the Internal Audit quality reviews and customer satisfaction surveys for 2017/18 were reported to the July meeting of the Committee. The results enabled the HACF to report that the Internal Audit service at Lewes achieves its aims, and objectives, and operates in accordance with the Internal Audit Strategy as approved by the Audit and Standards Committee.
- 5.2** The November 2018 meeting of the Committee received HACF's recommendations for a revised set of Key Performance Indicators (KPIs) that will cover the Internal Audit service at both Lewes and Eastbourne. The results of the KPIs will be included in the annual performance report for 2018/19, together with the results from the client questionnaires.

#### **6 Peer Review**

- 6.1** The External Peer Review of LDC Internal Audit has been completed. The review was carried out by the Principal Auditor at Chichester District Council. The overall results of the review are that the LDC Internal Audit service generally conforms to the standards set by PSIAS 2017.
- 6.2** The Peer Review examined the service in four key sections – Purpose and positioning; Structure and resources; Audit execution; Impacts – comparing service activities to the statements of good practice contained within the PSIAS. The

review also took account of the results from the client questionnaires sent to CMT, Heads of Service and the Chair of the Audit and Standards Committee.

- 6.3** The review found that the Internal Audit service fully complies with 43% of the statements of good practice and, for the remainder, complies with the PSIAS requirements in all material respects. The exceptions were in areas such as annual appraisals, succession planning, and the rotation and technical development of audit staff who are not professionally qualified. No remedial action is planned because the service complies with Council policies in these areas, but these do not meet PSIAS requirements in all respects.
- 6.4** Where the service is planning remedial action is in completing the audit manual which is in the processing of being re-worked following the merger with Eastbourne Borough Council. The work is underway, and includes the recent procurement of the Pentana audit management system, but no target date for completion has been set. In another area, the service commits to more regular team meetings to facilitate the transfer of knowledge between team members.

## **7 Review of 2017/18 Audit Plan**

- 7.1** As part of the report to the March 2018 meeting of the Committee that detailed the Annual Audit Plan, HACF advised that there would be a nine month review of the Audit Plan for 2018/19 to assess whether any significant changes are necessary.
- 7.2** That review has taken place and the results of the review are now presented to the Committee. The review takes account of a range of issues, in particular the staffing changes arising from the Joint Transformation Programme (JTP), the impact of the significant extra work on the HB subsidy claim, the loss of audit days due to sickness, and the extra days worked by HACF. There has been a significant impact on the number of days available to complete the audit programme for 2018/19, and there has been a need to re-assign some tasks.
- 7.3** HACF advises that the significant aspects of the annual audit plan will be covered. The exceptions are:
- The audit of Legal Services (in Central Systems) will be scheduled into the Annual Plan for 2019/20.
  - The planned audits of Arrears Collection and Customer Services (in Departmental Systems) will be scheduled into the Annual Plan for 2018/19.

Other audits in the programme for 2018/19 that are planned or underway will continue to a normal conclusion. A number of these audits may run on into the early months of 2019/20.

## **8 Combatting Fraud and Corruption**

### **Local initiatives**

- 8.1** 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. Since 2014/15, a

sub group of authorities within ESFOG, including LDC and EBC, have been working as a 'Hub' to coordinate new counter fraud initiatives across East Sussex.

- 8.2** The Hub has been administered by officers at Eastbourne, with input from ESFOG partners as appropriate. Lewes and Eastbourne Counter Fraud activities have benefitted from Hub funding in the provision of training, the introduction of a shared case management system, a shared approach to publicity for Hub activities, and the set-up of an on-line system to allow the public to report suspected frauds.
- 8.3** Hub partners have agreed to wind down Hub activities and for it to no longer exist as a formal entity. Hub funds have been set aside to cover known future commitments, with the balance divided among members to fund local Counter Fraud initiatives. Counter Fraud staff in the member authorities continue to share information and liaise on individual cases.

### **Counter Fraud Team**

- 8.4** At present, countering housing tenancy fraud and abandonment, and preventing RTB fraud, are the main operational priorities for the Counter Fraud Team at Lewes because of the evidence of this being a high risk area for the Council. There are 20 cases of suspected abandonment and/or subletting under investigation, plus two of suspected housing application fraud. Six properties have been returned to stock after joint action by officers in Housing, Legal Services and Counter Fraud to address cases of abandonment or anti-social behaviour. Further property returns are anticipated in current cases where evidence gives a strong indication that the tenant no longer lives at the property.
- 8.5** Since April 2018, 27 new RTB applications have been received for checking to prevent fraud and protect the Council against money laundering. In the same period, 19 RTB applications have been approved and passed for processing, and nine applications are currently under review. In the same period, seven RTB applications have been withdrawn or closed after intervention by the team. The team will assess these applications to determine whether the cases indicate potential fraud. Three cases of suspected RTB fraud are under investigation.
- 8.6** Audit and Counter Fraud has in place an agreement with DWP for the management of cases of HB fraud. The major work on each HB case is the responsibility of the national Single Fraud Investigation Service (SFIS) within DWP. LDC retains a role in referring cases of suspected HB fraud to SFIS and handling requests for information. A member of that Eastbourne Counter Fraud team and a member of the HB team share the DWP liaison work for LDC, and this arrangement allows the LDC Counter Fraud team to focus on case work in other areas. In the period since April 2018, there have been 12 referrals to SFIS, and 29 information requests have been actioned.

## **9 Risk Management**

- 9.1** 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.



- 9.2** The Annual Report on Risk Management and the Strategic Risk Register was presented to the March 2018 meeting of the Committee. The report recommended a change to the circulation of the report, with the Committee becoming the principal recipient of the Strategic Risk Register. 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 the Council's 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.
- 9.3** CMT has reviewed the Strategic Risk Register, and the results of the review were reported to the September 2018 meeting of the Committee.
- 9.4** HACF will continue to monitor the impact on the control environment of the changes arising from JTP, and will liaise with managers who are working to ensure that the control environment keeps pace with these changes.
- 9.5** The December 2018 Cabinet meeting received reports on the Council's current financial performance and the draft budget proposals for 2019/20. In summary, the wider economic picture remains challenging and there is no end in sight to austerity for local government. The budget report contained a detailed risk analysis that highlighted a range of financial risks, potential outcomes and possible mitigations in areas such as pay and price inflation, and changes in government legislation. The risks assessed as having a 'High' likelihood and the most significant impact were probable increases in interest rates and their effect on borrowing costs, and the government reductions to retained business rates.

## **10 System of management assurance**

- 10.1** 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 are responsible. As part of this process senior managers are required to consider whether there were any significant governance issues during 2017/18. None were reported and, at its meeting on 26 June 2018, CMT confirmed that there were no significant governance issues to report.

## **11 Corporate governance**

- 11.1** 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 2018 was presented to the July 2018 meeting of the Audit and Standards Committee.

## **12 External assurance**

- 12.1** 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 Council's current external auditors are BDO, and the results of their external reviews have helped inform the opinion on the internal control environment.

**12.2 Audit Completion Report (September 2018)** – This report summarised the key issues from work carried out by BDO during the year ended 31 March 2018. When the report was published it represented an interim position because BDO were in the process of completing the audit – the Council had not prepared the draft and final Statement of Accounts in accordance with the new statutory deadlines. The interim key issues highlighted in the report overview section were:

- BDO had not identified any significant audit risks since the presentation of their Audit Plan in February 2018, and there were no significant changes to the planned audit approach.
- BDO had not identified any material misstatements, although the audit was still in progress and could result in audit differences.
- BDO were satisfied that, despite the recognised funding gap in the Medium Term Financial Strategy (MTFS), the Council has appropriate arrangements to remain financially sustainable over the period of the MTFS. All the required savings for 2018/19 had been identified.
- BDO anticipated issuing an unmodified opinion on the arrangements to secure economy, efficiency and effectiveness in the use of resources.
- Subject to successful completion of outstanding work, BDO anticipated issuing an unmodified opinion on the Council's financial statements, and on the consistency of other information in the Statement of Accounts with the financial statements.

**12.3 Grant Claims and Returns Certification for year ended 31 March 2017 (November 2018).** The key points were:

- The audit of the HB subsidy claim identified a high level of errors within the cases tested. This situation, together with the prior year issues identified in the previous audit, required a significant amount of extra testing comprising ten samples of 40 cases, and 100% testing of 129 non-HRA cases.
- The additional work required to be completed by BDO and the Council meant that the audit was completed and a qualified certification issued on 28 September 2018, significantly later than the national deadline of 30 November 2017.
- The claim was valued at £35,127k. The audit identified the need for five different types of amendments to the claim totalling £49k. Because the total level of errors was below the allowed threshold, this did not result in further changes to the total amount of subsidy claimed. A final adjustment of the claim resulted in an increase of £678.
- The review of the returns for the Pooling of Housing Capital Receipts was completed satisfactorily without amendment or qualification. Total receipts were recorded as £1,964k, of which £408k was payable to DCLG.

## **12.4 Future external audit arrangements**

- 12.5** Under the provisions of the Local Audit and Accountability Act 2014, the Secretary of State for Communities and Local Government has specified that a company, Public Sector Audit Appointments (PSAA) Limited, will appoint auditors to local government, police and some NHS bodies.
- 12.6** The Council has opted into the PSAA arrangements, and was consulted on the appointment of the external auditor for the period of five years from 2018/19. PSAA have appointed Deloitte LLP, and the Council responded to the consultation to confirm its acceptance of the appointment, which started on 1 April 2018. Deloitte LLP will also be the external auditors for EBC. Initial contacts have been made with representatives of Deloitte LLP to establish the relationship and begin the audit planning process.
- 12.7** BDO is finalising the audit of the 2017/18 accounts and is carrying out the audit of the 2017/18 HB subsidy claim, and will therefore be working with the Council for some months into 2019. HACF obtained cost quotations from Deloitte LLP and other companies for the independent check and sign off of the HB subsidy claim exercises after the BDO contract has ceased. Deloitte LLP has been appointed to this role for the 2018/19 HB subsidy claim.

## **13 Financial Appraisal**

- 13.1** There are no financial implications arising from the recommendations in this report other than those already contained within existing budgets.

## **14 Legal Implications**

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

## **15 Risk Management Implications**

- 15.1** 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.

## **16 Equality analysis**

- 16.1** An equalities impact assessment is not considered necessary because the report is for information only and involves no key decisions.

## **17 Background Papers**

Report to the Audit and Standards Committee – Annual Audit Plan 2018/19, 19 March 2018

[2018/19 Annual Audit Plan](#)

## **18 Appendices**

- 18.1** Appendix A1 - Statement of Internal Audit work and key issues.

**18.2** Appendix A2 - Table of abbreviations.

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

## **APPENDIX A1**

### **Statement of Internal Audit work and key issues.**

#### **Audit Report: Ethics**

**Date of issue: 20 November 2018**

#### **Introduction**

Internal Audit has reviewed the procedures and controls that cover the ethics related objectives, programmes and activities of the Council. The review sought to obtain assurance that the Council has in place an adequate framework of policies and procedures governing ethical standards at the Council, and that the framework is operating as intended.

The review was planned as a light touch review that concentrated on following up the findings from the corresponding audit in 2017, and identifying any significant omissions. The initial assessment, carried out as part of the planning for the review and using the results from the 2017 exercise and other audits, was that no significant omissions were likely.

#### **Overall opinion**

From the audit work carried out during this review Internal Audit has obtained substantial assurance that the Council has an adequate framework of policies and procedures governing ethical standards. The framework is set out in the Council's Local Code of Corporate Governance, which includes the responsibilities for monitoring and review.

As in previous reviews, the framework is largely operating as intended and provides reasonable control over the ethics related objectives, programmes and activities of the Council. For example, the Constitution includes appropriate codes of conduct for Councillors and Officers and is available to all staff and Councillors and aligned to national standards. Guidance is available to Councillors and staff on their responsibilities and duties, and adequate guidance on types of training is available on Infolink. 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. Recommendations made during the last audit have largely been implemented, although there remain gaps in some of the control processes in one area.

#### **Declaration of Councillors' interests**

Councillors are required to complete declarations of interest, and the 2017 audit noted that all Councillors had submitted a declaration. However, the audit concluded that the declarations did not represent a complete or accurate representation of Councillors' interests, with insufficient transparency for some of the property holdings and employments in particular. The situation was judged to be a significant reputational risk for the Councillors and the Council.

It is the personal responsibility of every Councillor to ensure that their declarations are complete and accurate, and Democratic Services are entitled to accept the submissions at face value. However, the 2018 audit has noted an improved position, with many of the previous gaps in the declarations having been addressed as a result of officers working with Councillors to clarify the requirements. There remain some gaps in the register, and Internal Audit believes that a small number of Councillors still do not comply with the requirements of the Localism Act 2011.

## **APPENDIX A2**

### **Table of abbreviations**

AGS – Annual Governance Statement  
BDO – BDO, the Council's external auditors. Formerly BDO Stoy Hayward  
CIPFA – Chartered institute of Public Finance and Accounting  
CMT – Corporate Management Team  
CTRS – Council Tax Reduction Scheme  
DCLG – Department for Communities and Local Government  
DWP – Department of Work and Pensions  
EBC – Eastbourne Borough Council  
ESFOG – East Sussex Fraud Officers Group  
ESPB - East Sussex Prevent Board  
GDPR - General Data Protection Regulation  
HACF – Head of Audit and Counter Fraud  
HB – Housing Benefit  
HRA – Housing Revenue Account. Refers to Council owned housing  
HSO – Health and Safety Officer  
ISO – International Organisation for Standardisation  
IT – Information Technology  
JTP – Joint Transformation Project  
LATC – Local Authority Trading Company  
LDC – Lewes District Council  
LLP – Limited Liability Partnership  
NDR – Non Domestic Rates  
NFI – National Fraud Initiative  
PFSS - Property and Facilities Shared Service  
PIs – Performance Indicators  
PSIAS – Public Sector Internal Audit Standards  
PSAA - Public Sector Audit Appointments  
QAIP – Quality Assurance and Improvement Programme  
RTB – Right to Buy  
SFIS – Single Fraud Investigation Service  
SPB - Strategic Property Boards  
WGA – Whole of Government Accounts  
W&R – Waste and Recycling

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**Report to:** Audit and Standards Committee

**Date:** 21 January 2019

**Title:** Treasury Management

**Report of:** Chief Finance Officer

**Ward(s):** All

**Purpose of report:** To present details of recent Treasury Management activity.

**Officer recommendation(s):** To confirm to Cabinet that Treasury Management activity from 1 November to 31 December 2018 has been in accordance with the approved Treasury Strategy for the period.

**Reasons for recommendations:** 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.

**Contact Officer(s):** Name: Nigel Morrison  
Post title: Principal Accountant  
E-mail: Nigel.Morrison@lewes-eastbourne.gov.uk  
Telephone number: 01273 085009

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## 1 Introduction

- 1.1 The timetable for reporting Treasury Management activity in 2018/2019 is shown in the table below. 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
17 July 2018	1 March to 30 June 2018
24 September 2018	1 July to 31 August 2018
19 November 2018	1 September to 31 October 2018
21 January 2019	1 November to 31 December 2018
18 March 2019	1 January to 28 February 2019

## 2 Economic Background

- 2.1 The final estimates of Quarter 3 GDP showed the UK economy expanded by 0.6% over the quarter and 1.5% year-on-year. Both the quarter's figure and the

year-on-year figure met expectations. The headline inflation figure CPI rose at an annual rate of 2.3% in November, the lowest since March 2017. In the November inflation report, the Bank of England changed this year's growth forecast to 1.3% and lowered next year's forecast from 1.7% to 1.6%. Inflation is predicted to be 2.5% this year and 2.1% next year, still above the target rate of 2%. The unemployment rate was 4.1% in October, remaining unchanged from September's figure.

- 2.2 After holding interest rates in November the Monetary Policy Committee voted unanimously to hold rates again in December. The Bank of England have said that the economy is operating at almost full capacity, raising the prospect of more inflationary pressure ahead, despite slow growth. The Bank of England stated in December that Brexit related uncertainty has 'intensified considerably' and the drop in oil prices will likely push inflation below the 2% target..
- 2.3 House prices grew at their slowest pace since February 2013, with an annual growth rate of 0.5% in December from 1.9% in the previous month as uncertainty over the economic outlook appeared to be dragging down buyer confidence.

### 3. Inter- Authority Dealings

- 3.1 As the Treasury and Finance Sections of Lewes District Council and Eastbourne Borough Council are now working closer together it is important that all dealings between the two Authorities are totally transparent.

It is Council Policy to ensure that all monies lent by Lewes District Council to Eastbourne Borough Council are at prevailing market rates. No discounts are given.

### 4 Fixed Term Deposits

- 4.1 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 December 2018 and identifies the long-term credit rating of the 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. All of the deposits met the minimum rating required for deposits made which is long term A- (Fitch).

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
240618	Thurrock Borough Council	02/10/18	02/04/19	182	2,500,000	0.90	*
241218	Eastbourne Borough Council	22/10/18	23/01/19	93	2,000,000	0.70	*
241418	Thurrock Borough Council	14/11/18	14/05/19	181	3,000,000	0.90	*
241818	Thurrock Borough Council	09/11/18	11/02/19	94	5,000,000	0.73	*
242018	Eastbourne Borough Council	03/12/18	01/03/19	88	3,000,000	0.75	*
242318	Debt Management Office	17/12/18	02/01/19	16	3,000,000	0.50	*
					<u>18,500,000</u>		

\*UK Government body and therefore not subject to credit rating

#### 4.2 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured since 1 November 2018, 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 £28m over this period.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
241518	Debt Management Office	01/11/18	05/11/18	04	8,000,000	0.50	*
241618	Debt Management Office	05/11/18	09/11/18	04	4,000,000	0.50	*
241718	Debt Management Office	05/11/18	12/11/18	07	4,000,000	0.50	*
239518	Thurrock Borough Council	14/05/18	14/11/18	184	3,000,000	0.63	*
241918	Debt Management Office	15/11/18	19/11/18	04	2,000,000	0.50	*
239718	South Heighton Parish Council	29/05/18	29/11/18	184	24,000	0.63	*
240018	Surrey Heath Borough Council	12/06/18	12/12/18	183	1,000,000	0.60	*
242118	Debt Management Office	10/12/18	17/12/18	07	3,000,000	0.50	*
242418	Debt Management Office	17/12/18	19/12/18	02	2,000,000	0.50	*
242218	Debt Management Office	17/12/18	24/12/18	07	1,000,000	0.50	*
<b>Total</b>					<u>28,024,000</u>		

\*UK Government body and therefore not subject to credit rating

4.3 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 November to 31 December 2018 was 0.72%, whereas those made during the period also averaged 0.78%. The bank rate was 0.75% throughout the period.

### 5. Investment Account

#### 5.1 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 £2.51m generating interest of approximately £2,500.

	Balance at 31 Dec'18 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	2,000	1,248	0.65
Lloyds Bank Corporate Account	1,108	1,266	0.65

#### 5.2 Use of Money Market Funds

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

	Balance at 31 Dec '18 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	3,000	2,324	0.84
Deutsche Managed Sterling Fund	3,000	2,448	0.80

### 5.3 Treasury Bills (T-Bills)

No T-bills were held at 31 December 2018. Activity in the period is shown below:

	Maturity Date	Purchased in period	Purchase date	£'000	Disc %
<b>Matured during the period</b>					
UK Treasury Bill 0%	26/11/18		29/10/18	1,000	0.651
UK Treasury Bill 0%	10/12/18	✓	12/11/18	1,000	0.622
UK Treasury Bill 0%	10/12/18	✓	12/11/18	1,000	0.628
UK Treasury Bill 0%	10/12/18	✓	12/11/18	1,000	0.638
UK Treasury Bill 0%	10/12/18	✓	12/11/18	1,000	0.619
				<u>5,000</u>	

### 5.4 Secured Investments

There were no secured investments at 31 December 2018.

### 5.5 Tradeable Investments

There were no Tradeable Investments held at 31 December 2018.

### 5.6 Overall investment position

The chart below summarises the Council's investment position over the period 1 November to 31 December 2018. It shows the total sums invested in the various instruments used by the Authority:

	Minimum £'000	Maximum £'000	Average £'000
Deposit Account	290	4,000	2,510
Money Market Funds	Nil	6,000	4,780
Fixed Term Investments	13,500	21,500	16,590
Treasury Bills	Nil	5,000	2,250
Tradeable Investments	Nil	1,000	0.700
Total Invested (mix of those above)	20,192	31,098	26,828

## 6.0 Borrowing

6.1 The current account with Lloyds Bank remained in credit throughout the period. No temporary borrowing for cash-flow management purposes took place.

There has been no change in the total value of the Council's long term borrowing in the reporting period, which remains at £56.673m.

## **7.0 Non-treasury investments**

7.1 At its previous meeting, the Committee requested that information should be included in this report about the Council's 'non-treasury' investment activity eg loans to Council-owned companies or the purchase of property assets for the purpose of income generation.

7.2 At the time of drafting this report, no loans have yet been advanced to Lewes Housing Investment Company or Aspiration Homes.

7.3 No investments properties were purchased by the Council during the period covered by this report.

## **8 Financial appraisal**

8.1 All relevant implications are referred to in the above paragraphs.

## **9. Risk Management Implications**

9.1 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.

## **10. Equality Analysis**

10.1 This is a routine report for which detailed Equality Analysis is not required to be undertaken.

## **11 Legal implications**

11.1 None arising from this report.

## **12 Background papers**

12.1

- Treasury Strategy Statements 2018/2019

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