

Audit and Standards Committee

18 March 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, 7 March 2019

Agenda

1 Minutes (Pages 1 - 4)

To confirm and sign the minutes of the previous meeting held on 21 January 2019 (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 Peacehaven Town Council update

A verbal update by Lewes District Council's Monitoring Officer

7 Climate Change and Investment (Pages 5 - 12)

Report of Director of Planning and Regeneration and Chief Finance Officer

- 8 Annual Audit Letter 2017/18** (Pages 13 - 24)
Report of BDO Accountants and Business Advisers
- 9 Interim report on the Council's Systems of Internal Control 2018/19** (Pages 25 - 36)
Report of Head of Audit and Counter Fraud
- 10 Audit and Counter Fraud Annual Plan 2019/20** (Pages 37 - 46)
Report of Head of Audit and Counter Fraud
- 11 Treasury Management** (Pages 47 - 52)
Report of Chief Finance Officer
- 12 Planning report for the year ending 31 March 2019 (to follow)**
Report of Deloitte
- 13 Date of next meeting**

To note that the next meeting of the Audit and Standards Committee is scheduled to be held on Tuesday, 16 July 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.

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

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.

Email: committees@lewes-eastbourne.gov.uk

Telephone: 01273 471600

Website: <http://www.lewes-eastbourne.gov.uk/>



modern.gov app available

View upcoming public committee documents on your [iPad](#) or [Android Device](#) with the free modern.gov app.



Audit and Standards Committee

Minutes of the meeting held in the Ditchling Room, Southover House, Southover Road, Lewes, BN7 1AB, on 21 January 2019 at 10.00 am

Present:

Councillor Mike Chartier (Chair)

Councillors Stephen Catlin, Johnny Denis, Nigel Enever, Stephen Gauntlett and Julian Peterson

Officers in attendance:

Pauline Adams (Head of Finance), David Heath (Head of Audit and Counter Fraud), Oliver Dixon (RIPA Monitoring Officer) and Jennifer Norman (Committee Officer)

37 Minutes

The minutes of the meeting held on 19 November 2018 were submitted and approved, and the Chair was authorised to sign them as a correct record.

38 Apologies for absence/declaration of substitute members

There were none.

39 Declarations of interest

There were none.

40 Internet and Social Media Research and Investigations Policy and Procedure

The Committee received the report of the Assistant Director of Legal and Democratic Services which sought the approval of the Council's draft policy on conducting internet and social media research and investigations, and authority for creating and issuing an associated procedure.

The RIPA (Regulation of Investigatory Powers Act 2000) Monitoring Officer (MO) highlighted that the report was a follow-up to a previous report that the Committee received 2 years prior, at which time the Committee approved the Council's policy on carrying out covert surveillance. The follow-up report detailed a stand-alone policy which specifically dealt with online covert activity. The RIPA MO highlighted that the need for the new policy had arisen from customers' widespread use of the internet and social media sites for

business or personal use, which could be a useful source of information for officers engaged in research and investigation connected to revenue collection, regulatory or counter-fraud work.

The RIPA MO clarified that the vast majority of the Council's use of internet did not interfere with people's privacy and the type of activity did not need authorisation under RIPA. The new policy stated that if the nature of online activity amounted to 'directed surveillance', it must be done in accordance with RIPA.

The Committee had several questions for the RIPA MO in respect of the report, which included:

- Whether or not the Internet and Social Media Research and Investigations Procedure could, once written, be shown to the Committee in the form of confidential papers. The RIPA MO understood the Committee's interest in the document but advised that he would first need to consult with the Head of Audit and Counter Fraud as to how much of the procedure it would be appropriate to make available to the Committee and in what way, given the sensitivity of the techniques set out. The RIPA MO said the external training course he was attending on 25 January 2019 was on this very topic, which should enable him to report back to Committee in the appropriated manner;
- Which officer/s were allowed to authorise internet or social media research and/or investigative work when this involved directed surveillance. The RIPA MO responded that the overarching policy stipulated that the Council would not use covert surveillance unless it was a last resort, and that the majority of surveillance would be carried out on open source material that any member of the public could access; but that if the research or investigation did constitute directed surveillance, the procedure document would include the authorisation process. Managers would need to alert the RIPA MO, who would then refer it to one of the Council's RIPA authorising officers for evaluation and a decision; and
- The Chair requested that a further report come to Committee which gave more detail on the Council's use of online covert surveillance and the procedural document mentioned above.

Resolved:

1. That Lewes District Council's Internet and Social Media Research and Investigations Policy as set out in draft in Appendix 1 be approved; and
2. That the Director of Service Delivery be delegated authority by the Committee to develop, implement and ensure compliance with an Internet and Social Media Research and Investigations Procedure for Lewes District Council.

41 Written questions from councillors

There were none.

42 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 nine months of 2018/2019, and which summarised the work on which that opinion was based.

The Head of Audit and Counter Fraud (HACF) referenced the large amount of work that had been completed on the housing benefit subsidy claim 2016/2017 which was submitted the last week of September 2018. He informed the Committee that Audit and Counter Fraud team had started work on the 2017/2018 subsidy claim and that testing was underway for both Lewes District and Eastbourne Borough Councils.

The Committee referred to section 3.1 of the report and queried if the actual audit days from the previous year could be included in future reports, so the figures were easier to compare from year to year. The HACF agreed that he would provide the information in future reports.

The Committee asked the HACF to expand upon the term satisfactory in relation to the overall standards of internal control as mentioned in the officer recommendations. The HACF clarified that the term satisfactory when used in an accountancy context meant reasonable.

The Committee queried whether or not guidance on how to fill out the Members Register of Interest form was provided to newly elected councillors. The Committee Officer confirmed that guidance was provided to newly elected councillors.

Resolved:

That the overall standards of internal control were generally satisfactory during the first nine months of 2018/19, as detailed in section 2 of the report.

43 Statement of Accounts 2017/18

The Head of Finance provided a verbal update in relation to the Statement of Accounts 2017/18.

The Head of Finance informed the Committee that the District Valuer had completed the review of accounts on 14 January 2019, with the Chair resigning the letter of representation on 14 January and the Head of Finance on 16 January. The Statement of Accounts was signed off on 16 January 2019, with no changes to the Statement of Accounts the Committee had approved in September 2018.

The Head of Finance explained that the accounts were 3 million underneath the materiality level, but the accounts would not be adjusted to reflect this. She clarified changes to the valuation did not affect the Council's bottom line and it bared no significance to the Council's financial position.

The accounts were signed off and had been handed over to the Council's new external auditors for the 2018/2019 interim audit.

Per BDO's requirements an updated governance report had been distributed to the Committee prior to the meeting. The Head of Finance clarified that the report did not have to be approved by the Committee but that it had been distributed to Members for information purposes only. The Committee had several questions in relation to the report, all of which were answered by the Head of Finance during the discussion.

Resolved:

That the verbal update on the Statement of Accounts 2017/18 be noted.

44 Treasury Management

The Committee considered the report which presented details of recent Treasury Management activity between 1 November 2018 and 31 December 2018.

Resolved:

That it be confirmed to Cabinet that Treasury Management activity from 1 November 2018 to 31 December 2018 has been in accordance with the approved Treasury Strategy for the period, as set out in the report.

45 Date of next meeting

Resolved:

That the next meeting of the Audit and Standards Committee that is scheduled to be held on Monday, 19 March 2019 in the Ditchling Room, Southover House, Southover Road, Lewes, BN7 1AB, commencing at 10:00am, be noted.

The meeting ended at 11.20 am.

Councillor Mike Chartier (Chair)

Report to:	Audit and Standards Committee
Date:	18 March 2019
Title:	Climate Change and Investment
Report of:	Director of Planning and Regeneration and Chief Finance Officer
Ward(s):	All
Purpose of report:	To advise the Audit and Standards Committee on the implications of the detail and the implications of the recommendations in the motion on Climate Change and Investment agreed at the Lewes Full Council meeting in November 2018, in order for the Committee to consider any further action the Council might reasonably take, and if appropriate to present its findings to Full Council.
Officer recommendation(s):	That the Committee considers the report and presents its findings to Full Council if appropriate.
Reasons for recommendations:	To enable the Committee to comply with the recommendations of Full Council.
Contact Officer(s):	Name: Brian Mew Post title: Interim Deputy Chief Finance Officer E-mail: Brian.Mew@lewes-eastbourne.gov.uk Telephone number: 01323 415587

1 Introduction

- 1.1 At the Lewes District Council Full Council meeting in November 2018 a motion on Investment (set out in Appendix 1) proposed by Councillor Denis was agreed.

The purpose of this report is to enable the Committee to consider the implications of this motion in more detail and present its findings to Full Council if appropriate.

2 Motion – Lewes District Council

- 2.1 In respect of Lewes District Council itself, the motion agreed by Full Council states:

"That Lewes District Council will:

- (a) immediately freeze any new investment in the top 200 publicly-traded fossil fuel companies (ie. the 100 coal companies and the 100 oil and gas

companies whose proven fossil fuel reserves have the largest carbon content) and develop and implement a Responsible Investment Policy through which it will;

(b) divest from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds within 5 years;

(c) set out an approach to quantifying and addressing climate change risks affecting all other investments; and

(d) focus future investments in property and other assets on areas that minimise climate change risk and continue to reduce the council's carbon footprint, while ensuring that the investment continues to generate a sufficient level of return to ensure the current and future sustainability of the investment".

2.2

The current position regarding investment in fossil fuel companies in the Council's Investment Strategy is outlined below. The Investment Strategy prioritises security and liquidity over yield, and focuses on minimising risk rather than maximising returns. The Council does not directly invest in equities, or in any Certificates of Deposit that are issued by any institutions other than banks or building societies. The potential investment type in the Investment Strategy that could conceivably entail investment in fossil fuel companies is Pooled Funds.

This counterparty investment type covers shares or units in diversified investment vehicles consisting of a range of investment types, including equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds (MMFs) that offer same-day liquidity and very low or no volatility are used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period are used for longer investment periods.

Money Market Funds are primarily invested in instruments issued by financial institutions – term deposits, CDs, short-dated bonds - and facilities such as call accounts as well as sovereign instruments such as treasury bills and gilts. MMFs may have some exposure to very short dated instruments such as commercial paper issued by corporates other than banks, but funds do not preclude any specific industry. MMFs do not apply climate change or other similar criteria. MMFs are used for liquidity purposes and, most importantly, to diversify credit risk. The Council does not at the current time use pooled funds which are invested wholly in equities or in bonds.

The Council currently invests in two Money Market Funds - Goldman Sachs (GSMMF) and Deutsche Bank (DBMMF). The Council's investment limit for both of these funds is £3m each. These funds are reported in US dollars, and at the time of writing, GSMMF has a total fund of \$15.5bn in which the Council has \$3.8m, equating to 0.025%, and DBMMF has a total fund of \$5.9bn in which the Council has \$2.6m, equating to 0.034%. Neither of these funds preclude investment in fossil fuel companies, but at the time of writing, neither of these

funds included investments of this nature in their portfolios. Clearly, with such a small stake in these funds, the Council itself would not be in a position to influence their policy regarding investment in particular sectors. Withdrawing from these funds at the present on the basis that they could theoretically invest in fossil fuel companies would deprive the Council of a valuable, low-risk, diverse, and flexible investment alternative to instant access bank accounts or direct deposits..

It should perhaps be noted that there is obviously no guarantee that temporary investments with any counterparties e.g. banks, do not ultimately indirectly result in investments with fossil fuel companies.

Regarding recommendations (c) and (d) of the motion, the Council through its Joint Venture with Aecom & Robertson agreed by [Cabinet in July 2017](#) set out the strategy in relation to environmental, future energy, sustainability and meeting climate changes challenges through the partnership. All projects delivered through Clear Sustainable Futures (CSF) are subject to achieving a number of sustainability targets above what would be standard in a planning policy context. For instance residential development will include requirements for minimising carbon fuel consumption through alternative energy sources, future provision of electric charging points for cars and inclusion of increased cycle storage and connected paths integrated in public realm where possible. In addition CSF have already been commissioned to develop a business case to consider investment in green energy generation at two key capital development sites in Lewes, Avis Way Depot and Seaford Downs Leisure Centre. The Cabinet report from December 2018 setting out the case can be found [here](#).

On the basis of the objectives set out in the private public partnership through Clear Sustainable Futures and projects already in place the Council are already prioritising investment in green energy. All capital development schemes have a focus on creating spaces that are sustainable for a communities not reliant on carbon fuel which is therefore mindful of climate change.

3 Motion – East Sussex County Council Pension Fund

3.1 In respect of East Sussex County Council Fund, the motion agreed by Full Council states:

“That the Chief Executive of Lewes District Council writes to the Chair of East Sussex County Council Pension Committee asking the Committee:

- (1) To immediately freeze any new investment in the top 200 publicly traded fossil fuel companies;
- (2) To Commit itself, over the course of the next 5 years, to divest the East Sussex Pension Fund from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds; and
- (3) To focus re-investment in areas that minimise climate change risk and

reduce the Fund's carbon footprint; while ensuring the Fund continues to generate a sufficient level of return to ensure the current and future sustainability of the investment.”

East Sussex County Council Pension Fund have provided the following comments in respect of this motion.

The perspective from the Pension Fund is that the East Sussex County Council (ESCC) is the administering authority for the East Sussex Pension Fund (ESPF), which is the Fund responsible for the Local Government Pension Scheme (LGPS) in East Sussex. Within the ESPF we have more than 130 different employers and over 73,000 members. The investments held by the ESPF are for the sole purpose of paying promised retirement benefits when they fall due. These assets cannot be accessed by any employer in the Fund.

The Pension Committee at ESCC is responsible for the ESPF on behalf of all employers and members of the Fund. An overriding statutory and fiduciary duty exists on the Pension Committee to ensure it has sufficient funds available to pay pensions. In the light of that obligation, and in order to maximise investment return, the Fund has a diverse range of investments and does not restrict investment managers from choosing certain stocks taking into consideration that the Fund's investment strategy is regularly monitored.

The Pension Committee is committed (1) to secure the best realistic return over the long-term and (2) to meet the East Sussex Pension Fund's pension commitments within an acceptable level of risk. In so doing the Committee aims to keep future employer contribution rates stable.

The Fund pursues this strategy by appointing expert specialist investment managers who are given an unconstrained ability to invest within their individual mandates. The Funds Investment Strategy Statement (ISS) sets out how investments will be made. Clearly showing how responsible investment is integral to the funds strategy.

The Committee's perspective as detailed in the ISS is that simply disinvesting from a particular asset class or group of companies is likely to reduce the Fund's ability to secure the best realistic return over the long-term, whilst at the same time keeping employer contributions as low as possible. Furthermore, such an approach denies the opportunity for the Fund to influence companies' environmental, human rights and other policies by positive use of shareholder power, a role the Committee takes very seriously. The Committee has reserved the right to apply ethical or environmental criteria to investments where relevant and appropriate on a case by case basis.

Over the past two years, the Pensions Committee has allocated considerable time to consider the potential impact of climate change (and specifically exposure to fossil fuels) on the Fund's investments. In so doing, the Committee has commissioned a measurement service to provide data on the levels of carbon emissions and exposure to fossil fuel assets across the Fund's range of equity investments, and this information will help to inform future decisions in this area.

The Committee is also looking for investment opportunities that are being presented by climate change. An allocation of 12.5% of the Fund's equity investments into the UBS Climate Aware Fund has been made on the back of these considerations. This would not be possible if a blanket divestment of fossil fuel companies was made. This treats those companies striving to meet the Paris agreement the same as those that aren't and provides no incentive for management to change. The Committee continues to engage with investment managers, along with its investment into the climate aware fund which provides an incentive to companies to move towards limiting climate change.

The Pension Committee believes by increasing pressure on oil and gas companies, through active shareholder engagement, we can get companies to improve their corporate behaviour. Improvements made by these engagements lead to an increase in the long-term value of the Fund's investments. The Fund's approach to engagement recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. The Fund appreciates that to gain the attention of companies in addressing governance concerns it needs to join with other investors sharing similar concerns.

The Committee have made reference to the potential risks from climate change in the Investment Strategy Statement, Responsible Investment Statement and also in the statement of Investment Beliefs and will continue to monitor developments in this area taking into consideration the long term implications for the financial health of the Pension Fund.

4 Financial Appraisal

- 4.1 Implementation of this motion could potentially have some financial impact on the investment returns achieved by the Council if it entailed divesting from the Money Market Funds currently used . Other relevant implications are referred to in the above paragraphs.

5 Risk Management Implications

- 5.1 There is risk that the motion agreed by Full Council may not have any effect on the East Sussex County Council Pension Fund as Lewes District Council has no influence over the decisions of the Pensions Committee of the Pension Fund. However, the Pensions Committee has reserved the right to apply ethical or environmental criteria to investments where relevant and appropriate as well as considering the potential impact of climate change (and specifically exposure to fossil fuels) on the funds investments.

As outlined in the report, Money Money Market Funds are primarily used to aid liquidity and diversify credit risk. Disinvestment in MMFs would reduce this diversification and expose the Council to greater risk from investment with individual institutions, rather than in pooled funds of this type.

6 Equality Analysis

6.1 A detailed Equality Analysis is not required for this report.

7 Legal implications

7.1 The Council's statutory powers of investment derive from section 12 of the Local Government Act 2003. These powers permit a local authority to invest—

- (a) for any purpose relevant to its functions under any Act of Parliament, or
- (b) for the purposes of the prudent management of its financial affairs.

Statutory Instrument (SI) 2003/3146—the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003—develops the controls and powers in the Act and requires local authorities to have regard to the CIPFA Prudential Code for Capital Finance.

Further, the Council must have regard to the latest edition of Statutory Guidance on Local Government Investments, issued by the Secretary of State under section 15(a) of the 2003 Act.

Lawyer consulted 07.03.19

Legal ref: 008125-LDC-OD

8 Background papers

- 8.1
 - Treasury Strategy Statements 2018/2019

Appendix 1- Motion approved at Full Council

11) Investment – Proposed by Councillor Denis Councillor Denis moved, and Councillor Catlin seconded, the notice of motion as follows:

"That Lewes District Council will:

- (a) immediately freeze any new investment in the top 200 publicly-traded fossil fuel companies (ie. the 100 coal companies and the 100 oil and gas companies whose proven fossil fuel reserves have the largest carbon content) and develop and implement a Responsible Investment Policy through which it will;
- (b) divest from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds within 5 years;
- (c) set out an approach to quantifying and addressing climate change risks affecting all other investments; and
- (d) focus future investments in property and other assets on areas that minimise climate change risk and continue to reduce the council's carbon footprint, while ensuring that the investment continues to generate a sufficient level of return to ensure the current and future sustainability of the investment"

Secondly, that the Chief Executive of Lewes District Council writes to the Chair of East Sussex County Council Pension Committee asking the Committee:

- (1) To immediately freeze any new investment in the top 200 publicly traded fossil fuel companies;
- (2) To Commit itself, over the course of the next 5 years, to divest the East Sussex Pension Fund from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds; and
- (3) To focus re-investment in areas that minimise climate change risk and reduce the Fund's carbon footprint; while ensuring the Fund continues to generate a sufficient level of return to ensure the current and future sustainability of the investment."

Councillor Osborne moved, and Councillor Carr seconded, an amendment as follows:
To add the wording:

"Given how imperative it was that the Council does everything within its power to minimise climate change risks, the proposals contained in the motion be referred to the Audit and Standards Committee as soon as possible where it can fully study the detail and the implications of the recommendations in the motion and consider any further action the council might reasonably take. Thereafter the Audit and Standards Committee would present its findings to Full Council."

The amended motion was put to the meeting and it was:
Resolved (Carried)

This page is intentionally left blank

LEWES DISTRICT COUNCIL

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2018

4 March 2019



EXECUTIVE SUMMARY

PURPOSE OF THE LETTER

This annual audit letter summarises the key issues arising from the work that we have carried out at Lewes District Council for the year ended 31 March 2018.

It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

RESPONSIBILITIES OF AUDITORS AND THE COUNCIL

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to report on:

- Our opinion on the Council's financial statements
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP

AUDIT CONCLUSIONS

FINANCIAL STATEMENTS

We issued our unmodified opinion on the financial statements on 16 January 2019.

This was after the statutory deadline of 31 July 2018, as the draft Statement of Accounts was not prepared in accordance with the new faster close statutory deadline of 31 May 2018 and we experienced significant difficulties in obtaining sufficient assurance over the valuation of the Council's land and buildings.

We reported our findings to the Audit and Standards Committee on 24 September 2018 and circulated an updated report on 16 January 2019, when we had completed our audit work.

Our audit identified one material presentational misstatement in the notes to the financial statements, which was corrected in the final financial statements.

We also reported five unadjusted misstatements, which were not corrected in the financial statements as they were not material and generally related to accounting estimates. If corrected, these would have reduced the deficit on provision of services by £88,000.

USE OF RESOURCES

We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 16 January 2019.

The Council's Medium Term Financial Strategy (MTFS) reflects reductions in Government funding and indicates average budget gaps of £441,000 per annum over the four year period to 2020/21. The Council currently has a number of projects in place to generate savings or create additional revenue streams to fill these gaps, including a continuing Joint Transformation Programme with Eastbourne Borough Council for the provision of frontline services and the organisation of back office functions.

We are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.

FINANCIAL STATEMENTS

OPINION

We issued our unmodified opinion on the Council's financial statements on 16 January 2019.

This means we consider the financial statements:

- Give a true and fair view of the financial position and its income and expenditure for the year
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2017/18.

SCOPE OF THE AUDIT

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

The Council's materiality level was set at £1.8 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 2 per cent) which we consider to be one of the principal considerations for the Council in assessing financial performance.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Our audit was scoped by obtaining an understanding of the Council and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Management override of controls	<p>Under auditing standards, there is a presumed risk of management override of controls as management is in a unique position to manipulate accounting records to prepare fraudulent financial statements.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> • Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Reviewing the accounting estimates for bias and evaluating whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • Obtaining an understanding of the business rationale for any significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual. 	<p>No issues were identified by our review of the appropriateness of journal entries or other adjustments made to the financial statements.</p> <p>Our work on accounting estimates did not identify any evidence of management bias.</p> <p>We did not identify any significant transactions that were outside the normal course of business or that otherwise appeared unusual.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Revenue and expenditure recognition	<p>Under auditing standards there is a presumption that income recognition presents a fraud risk. We also considered the risk of misstatement through the manipulation of expenditure recognition.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> • Testing an increased sample of fees and charges income to underlying documentation and confirming the existence and accuracy of transactions throughout the year • Testing a sample of fees and charges receipts either side of year end, to confirm that income had been recorded in the correct period and that all income that should have been recorded at year end had been • Testing a sample of expenditure either side of year end, to confirm that expenditure had been recorded in the correct period. 	<p>We did not identify any issues in our testing of revenue from fees and charges or receipts either side of year end.</p> <p>We did not identify any issues in our testing of expenditure either side of year end.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of non-current assets	<p>Due to the significant value of the Council's property assets, and the high degree of estimation uncertainty, there is a significant risk over the valuation of non-current assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year end.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> • Reviewing the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we could rely on the management expert • Checking that the basis of valuation for assets valued in year was appropriate • Reviewing the reasonableness of assumptions used in the valuations against indices and price movements for classes of assets, and following up on valuation movements that appeared unusual against indices • Estimating the potential movement on classes of assets that were not revalued in year. 	<p>The Council engaged an external valuer to carry out a year end desktop review on all property categories.</p> <p>From our review of the instructions provided to the valuer, we noted some instances where out of date information had been provided to the valuer. Our enquiries of the valuer also identified a number of issues. These points resulted in the issue of revised valuation reports and indicated a net overstatement of other land and buildings by £235,000, in respect of four properties. This was not adjusted in the financial statements as the difference was not material.</p> <p>We were satisfied that overall we could rely on the work of the valuer as a management expert.</p> <p>We also identified an overstatement of surplus assets by £85,000 when comparing the value in the fixed asset register and the accounts to the valuer's report.</p> <p>We confirmed that the basis of valuation for assets valued in year was appropriate.</p> <p>From our review and enquiries made, we were satisfied that property values were not materially misstated at year end, although our comparison to benchmarking indices indicated that other land and buildings were stated at a value that was £1.330 million below what we estimated as a reasonable range for the value. This was primarily due to the Council not recognising price movements since the last formal valuation in previous years. This was not adjusted for in the financial statements as the difference was not material.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of pension liability	<p>There is a risk the membership data and cash flows provided to the actuary at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.</p> <p>This is a significant risk due to the higher estimation uncertainty arising from the range of assumptions available to value the pension liability.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> • Agreeing the disclosures to information provided by the actuary • Reviewing the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data • Obtaining assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary • Checking whether any significant changes in membership data had been communicated to the actuary. 	<p>The majority of actuarial assumptions remained consistent between the years, other than an increase in the discount rate that reduced the liability by £1.190 million.</p> <p>Our review of assumptions used to estimate the value of the pension liability concluded that they were reasonable. We used the PwC consulting actuary report for reviewing the methodology of the actuary and assessing the reasonableness of the assumptions.</p> <p>We obtained assurance from the pension fund auditor over the controls at the administering authority for providing accurate information on scheme members for the 2016 triennial review and information for 2017/18.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Recharges between the Council and Eastbourne Borough Council	<p>Under the Joint Transformation Programme with Eastbourne Borough Council, the vast majority of Lewes' employees transferred onto Eastbourne's payroll during 2016/17 whilst Legal Services remain within Lewes. There are recharging arrangements in place between the councils.</p> <p>Given that this is the first full year of these recharge arrangements, there is a risk over the accuracy of expenditure in the Comprehensive Income and Expenditure Statement (CIES).</p> <p>There is also a risk that redundancies resulting from the Joint Transformation Programme may not be appropriately accounted for and disclosed in line with the Code of Practice on Local Authority Accounting 2017/18.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> • Reviewing the reasonableness and accuracy of the recharge arrangements in place between the councils, seeking assurance that the Council's share of the costs is in line with approved recharge arrangements • Reviewing the completeness and accuracy of redundancy accruals and provisions and exit package disclosures. 	<p>We confirmed that there are appropriate arrangements in place to keep track of amounts that need to be recharged between the councils on a monthly basis.</p> <p>For the service lines that were set up as shared service arrangements in phase one of the Joint Transformation Programme, there are set percentages in place for the amounts recharged, which are between 40% and 50% per service.</p> <p>As further shared services and greater integration between the councils' staff developed during the year, Eastbourne moved away from recharging Lewes 100% of the hosted payroll cost and is now allocating payroll and some non-payroll costs between the councils on a shared service basis. Our testing confirmed that costs are split between 40% and 50%, dependent on the service line.</p> <p>Our audit of exit packages did not identify any issues.</p>

USE OF RESOURCES

CONCLUSION	We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 16 January 2019.
	This means we consider that the Council has proper arrangements to: <ul style="list-style-type: none"> • Ensure it took properly informed decisions • Deploy resources to achieve planned and sustainable outcomes for taxpayers and local people • Work with partners and other third parties.

SCOPE OF THE AUDIT

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

OUR ASSESSMENT OF SIGNIFICANT RISKS

Our audit was scoped by our cumulative knowledge brought forward from previous audits, relevant findings from work undertaken in support of our opinion on the financial statements, reports from the Council including internal audit, information disclosed or available to support the annual governance statement, and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

USE OF RESOURCES

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Financial sustainability	<p>The update to the MTFS to 2020/21 forecasts further reductions in Government core grant funding and annual inflationary and pay award pressures.</p> <p>The MTFS approved by Cabinet in July 2018 indicated budget gaps of £1.034 million in 2018/19, £585,000 in 2019/20, £126,000 in 2020/21 and £19,000 in 2021/22. This means an average level of required savings of £441,000 per annum over the four year period.</p> <p>The Council currently has a number of major development / transformational programmes in place to facilitate savings or create additional revenue streams in the medium term, to close the budget gaps.</p> <p>We identified a risk that the MTFS does not adequately take account of the investment costs and savings associated with these projects, and that the Council does not have appropriate arrangements to monitor progress in delivering benefits from these projects against the MTFS.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> Assessing the effectiveness of the Council's arrangements for ensuring sustainable finances by reviewing current year outcomes and the Council's reserves position Reviewing the assumptions used in the MTFS for investment costs and savings associated with its major development / transformational programmes Reviewing the Council's arrangements for monitoring the progress of these programmes against budgeted savings targets. 	<p>The Council budgeted to spend £11.148 million on General Fund services in 2017/18 and to make a net transfer to earmarked reserves of £704,000. The actual cost of services (before technical accounting adjustments) in 2017/18 was £11.969 million, an overspend of £821,000. This was largely due to additional one-off costs associated with the Joint Transformation Programme, including temporary staff pending transition. The actual net transfer to reserves was £103,000 less than budgeted.</p> <p>Overall, the general fund balance increased by £31,000, to £2.093 million at 31 March 2018. The general fund balance remains above the minimum level of £1 million recommended by the Section 151 Officer. The total earmarked general fund reserves balance at 31 March 2018 fell by £1.359 million, to £8.737 million. The decrease in earmarked reserves largely related to £2.257 million use of strategic reserves set aside to support the Joint Transformation Programme.</p> <p>The Council achieved £341,000 of its budgeted savings target of £641,000 for the year. A key component of this is savings from the Joint Transformation Programme with Eastbourne Borough Council, although this under-achieved against the budget. The shortfall is being made up during 2018/19.</p> <p>The required savings for 2018/19 relate largely to new income streams and the Joint Transformation Programme.</p> <p>Other development programmes currently in place include the North Street Quarter, Newhaven Enterprise Zone, joint housing investment partnership with Eastbourne Borough Council and joint venture for energy and sustainability.</p> <p>We are satisfied that the MTFS takes account of the investment costs associated with the Council's major transformational and development projects. When these schemes are further established, management should be in a better place to forecast all of the associated savings and revenue contributions going forward.</p>

APPENDIX

REPORTS ISSUED

We issued the following reports since our previous annual audit letter.

REPORT	DATE
2017/18 audit plan	February 2018
2017/18 audit completion report - final	September 2018
2016/17 grant claims and returns certification report	November 2018
2017/18 audit completion report - final	January 2019

FEES

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Audit - PSAA scale fee ⁽¹⁾	61,418	46,418
Housing benefits subsidy certification fee ⁽²⁾	25,598	15,598
Total audit and certification fees	TBC	62,016
Fees for audit related services:		
Pooling of housing capital receipts return ⁽³⁾	2,000	1,500
Total fees	TBC	63,516

(1) We incurred additional cost in our work on the 2017/18 audit due to difficulties and delays in obtaining explanations from the valuer and a number of errors identified in non-current assets. We have therefore agreed an additional fee of £15,000 with management. This is subject to approval by Public Sector Audit Appointments Limited.

(2) Our audit of the 2017/18 housing benefits subsidy claim is in progress. A significant level of misstatements were identified in the audit of the 2016/17 claim, which has necessitated additional audit work on the 2017/18 claim. Additional fees will be agreed with management when the audit is complete, however we have estimated that the fee will be at similar level to the revised fee agreed with management for 2016/17 (£25,598). This is subject to approval by Public Sector Audit Appointments Limited.

(3) We agreed with management an additional fee of £500 for our certification of the pooled housing capital receipts return due to a change in MHCLG's requirements this year.

FOR MORE INFORMATION:

JANINE COMBRINCK
Engagement lead

T: +44 (0)20 7893 2631
E: janine.combrinck@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2019 BDO LLP. All rights reserved.

www.bdo.co.uk

Report To:	Audit and Standards Committee
Date:	18 March 2019
Report Title:	Interim Report on the Council's Systems of Internal Control 2018/19
Report of:	David Heath, Head of Audit and Counter Fraud
Ward(s) Affected:	All
Purpose of report:	To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control during the first eleven months of 2018/19, and to summarise the work on which this opinion is based.
Officer recommendation(s):	To note that the overall standards of internal control were generally satisfactory during the first eleven months of 2018/19 (as shown in Section 2).
Reasons for recommendations:	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.
Contact Officer(s)	Name: David Heath Post title: Head of Audit and Counter Fraud E mail: David.Heath@lewes-eastbourne.gov.uk Telephone number: 01273 085157

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.
- 1.5 Together with a number of other corporate services, the third and final phase of the JTP process has included Audit and Counter Fraud. The results of the consultation process were confirmed in mid-February 2019, and there are ongoing discussions on the detail of the next steps. These include the departure of the HACF and the creation of a new post of Chief Internal Auditor, the departure of one of the Audit Managers, and the creation of a new Auditor post. Recruitment to the vacant posts is underway.

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 2018 meeting of the Committee. The report included the opinion of HACF that the overall standards of internal control are generally satisfactory. This opinion was based on the work of Internal Audit, the internal assurance framework, external reviews, and the Council’s work on risk management. In the period 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 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.
- 3.2 Table 1 shows that a total of 619 audit days have been undertaken compared to 617 days planned in the first eleven months of the year.

Table 1: Plan audit days compared to actual audit days for April 2018 to February 2019

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	425	
Central Systems	67	65	65	
Departmental Systems	3	87	28	
Performance and Management Scrutiny	34	30	11	
Computer Audit	5	25	12	
Management Responsibilities/Unplanned Audits	101	158	78	
Total	557	673	619	617

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.

- 3.3 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 has been underway for some months. The results from the initial sample testing have helped to inform BDO's work on the Council's 2017/18 accounts. BDO identified the need for significant additional testing to address the issues noted in the 2016/17 claim. The timetabled date for BDO to sign off and submit the audited claim was the end of November 2018 but, because of the late start to the exercise and the significant extra work required the claim is unlikely to be submitted for some months. Discussions are being held with BDO to determine a likely submission date.
- 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. HACF is currently engaged in a series of governance and risk management reviews with the Chief Finance Officer.

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

- 4.1** 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.
- 4.2** 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.

5 Peer Review

- 5.1** The External Peer Review of LDC Internal Audit has been completed. The review was carried out by the Principal Auditor at Chichester District Council and the results were reported to the September 2018 meeting of the Committee. The overall results of the review were that the LDC Internal Audit service generally conforms to the standards set by PSIAS 2017.
- 5.2** 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.
- 5.3** 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.

- 5.4** 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 procurement of the Pentana audit management system, but no target date for completion has been set.

6 Review of 2018/19 Audit Plan

- 6.1** 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.
- 6.2** That review has taken place and the results of the review were presented to the January 2019 meeting of the Committee. The review took account of a range of issues including 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.
- 6.3** HACF advised that the significant aspects of the annual audit plan would be covered, but with a small number of audits scheduled into the Annual Plan for 2019/20. 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.

7 Combatting Fraud and Corruption

National initiatives

- 7.1** The 2018 National Fraud Initiative (NFI) exercise is underway, with the Counter Fraud Investigations Manager in Eastbourne taking the coordination role for both councils. The matches were received in February 2019, with 1654 matches for LDC across 55 reports. Each report sets out different types of potential fraud among benefit claimants, housing tenants, and anyone receiving payments or discounts from the Council. There is a targeted approach to the examination of matches to identify those that indicate the greatest likelihood of fraud or significant error. So far, 333 matches have been closed with no errors or frauds identified. A further 42 matches are currently being examined.

Local initiatives

- 7.2** 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.
- 7.3** 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.

- 7.4** 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

- 7.5** 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 22 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. One case of abandonment has been referred to Legal Services for preparation for court action.
- 7.6** Since April 2018, 29 new RTB applications have been received for checking to prevent fraud and protect the Council against money laundering. In the same period, 22 RTB applications have been approved and passed for processing, and eight 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. Two cases of suspected RTB fraud are under investigation, and one of these cases has been referred to Legal Services for preparation for court action.
- 7.7** 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 Lewes Counter Fraud team to focus on case work in other areas. In the period since April 2018, there have been 15 referrals to SFIS, and 33 information requests have been actioned.

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 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.

- 8.3** CMT has reviewed the Strategic Risk Register, and the results of the review were reported to the September 2018 meeting of the Committee.
- 8.4** The December 2018 Cabinet meeting received 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 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.
- 8.5** The February 2019 Cabinet meeting received updated reports on the Council's financial performance and, following wide consultation on the draft budget, the formal budget proposals for 2019/20. The budget report included the conclusion that 'The Council is reasonably placed financially to meet the demands on its services as well as the reductions in Government support. However, the challenge over the medium term is profound and more change is necessary to move to a sustainable position. The Council is more dependent on commercial activity than it has ever been and this requires a high level of monitoring and risk management.'

8.6 System of management assurance

- 8.7** 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.

9 Corporate governance

- 9.1** 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.

10 External assurance

- 10.1** 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.

10.2 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.

10.3 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.

10.4 Future external audit arrangements

- 10.5** 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.
- 10.6** 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.
- 10.7** BDO 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 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.

11 Financial Appraisal

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

12 Legal Implications

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

13 Risk Management Implications

- 13.1** 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.

14 Equality analysis

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

15 Background Papers

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

[2018/19 Annual Audit Plan](#)

16 Appendices

- 16.1** There is no Statement of Internal Audit work and key issues (normally Appendix A1).

16.2 Appendix A2 - Table of abbreviations.

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

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

This page is intentionally left blank

Report To:	Audit and Standards Committee
Date:	18 March 2019
Report Title:	Audit and Counter Fraud Annual Plan 2019/20
Report of:	David Heath, Head of Audit and Counter Fraud
Ward(s) Affected	All
Purpose of Report:	To present to Councillors the Annual Plan for 2019/20.
Officer recommendations:	To agree the Annual Plan for 2019/20 (as shown at Appendix 1)
Reasons for recommendations	The remit of the Audit and Standards Committee includes the duties to agree an Annual Plan of Internal Audit and Counter Fraud work and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the arrangements for identifying and managing risk.
Contact Officer(s)	Name: David Heath Post title: Head of Audit and Counter Fraud E mail: David.Heath@lewes-eastbourne.gov.uk Telephone number: 01273 085157

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 require the Head of Audit and Counter Fraud (HACF) to prepare a strategic statement of how the Internal Audit service will be delivered and developed in accordance with the Internal Audit Charter, and for there to be a risk based plan that sets out the priorities for Internal Audit activity. The plan must show the audit engagements to be carried out, their respective priorities and the resources required.

2 Impact of the Joint Transformation Programme (JTP)

- 2.1** 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).
- 2.2** Prior to the start of the JTP, the strategic statement and the audit plan were normally combined into a three year Strategic Audit Plan that was presented to the Audit and Standards Committee for approval. The changes that continue to be being made as part of the JTP integration process mean that Internal Audit is not able to prepare a meaningful programme of audits for the second and third years of the Strategic Audit Plan. HACF is therefore proposing that, as was the case for 2018/19, only the Annual Plan for 2019/20 is presented to the Audit and Standards Committee. The draft Annual Plan for 2019/20 is given at Appendix 1. The Annual Plan covers the work to be done by both Internal Audit and Counter Fraud.
- 2.3** The formal integration of the Internal Audit and Counter Fraud Teams in both councils took place on 1 July 2017. The Annual Plan 2019/20 is a single plan covering the work to be done at both councils. The same plan has been presented to the Audit and Governance Committee at EBC, albeit in a slightly different format in keeping with that Committee's requirements.
- 2.4** Together with a number of other corporate services, the third and final phase of the JTP process has included Audit and Counter Fraud. The results of the consultation process were confirmed in mid-February 2019, and there are ongoing discussions on the detail of the next steps. These include the departure of the HACF and the creation of a new post of Chief Internal Auditor, the departure of one of the Audit Managers, and the creation of a new Auditor post. Recruitment to the vacant posts is underway. The Annual Plan 2019/20 reflects the resources provided by the new structure.

3 Aims and Objectives for Audit and Counter Fraud

- 3.1** Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic and disciplined approach to evaluating the effectiveness of risk management, control and governance processes.
- 3.2** Counter Fraud is an independent and objective activity designed to help prevent and detect fraud, and undertake appropriate investigations when necessary. Working together, these activities help the councils accomplish their objectives by bringing a systematic and disciplined approach to improving the effectiveness of risk management, control and governance processes.

3.3 The PSIAS include a Mission Statement for Internal Audit as follows

‘To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.’

3.4 The Core Principles for the Professional Practice of Internal Auditing, which form part of the updated PSIAS, have been incorporated into the revised Charter for Internal Audit that was presented to the Committee in January 2018.

3.5 The Audit and Counter Fraud service for EBC and LDC is provided internally, and has the following service objectives:

- To provide an efficient and effective Internal Audit function which achieves its service standards, and improves performance where possible.
- To deliver the councils’ Audit Plan.
- To provide an efficient and effective Counter Fraud Team that supports the councils’ Anti-Fraud and Corruption Strategy by carrying out a planned programme of work to help prevent and detect fraud, and provide resources to investigate suspected fraud cases.

4 Planning Assumptions

4.1 In preparing the Annual Plan, HACF has taken account of the adequacy and outcomes of the councils’ risk management, corporate governance and other assurance processes. The Annual Plan has been drawn up on the basis that the Audit and Counter Fraud service will:

- Undertake annual testing of the key financial systems, and supplement this work as appropriate with system reviews based upon a detailed gap analysis and risk assessments.
- Undertake annual testing of the Housing Benefits subsidy grant claim on behalf of BDO and Deloitte LLP.
- Provide advice on corporate management activities such as risk management, corporate governance and performance management and to review their effectiveness within the councils.
- Undertake follow up to determine whether agreed recommendations have been implemented.
- Provide advice to managers on financial and control issues, and the measures to prevent and detect fraud.
- Include an element of contingency to cover assignments that could not have reasonably been foreseen, and to meet management requests for consultancy assignments, special investigations, and strategic projects.
- Provide an agreed level of resources (36 audit days) for audits for Eastbourne Homes Limited.
- Carry out a programme of planned and responsive work to prevent, detect and investigate fraud across all the councils’ services and activities.

- Carry out all audits at both authorities, unless the area under review is administered by just one authority.

4.2 The scope of the Annual Plan is designed to enable Internal Audit to form an annual opinion on the Council's internal control and governance framework, and to obtain the necessary assurance for the purposes of the Annual Governance Statement (AGS).

5 Relationship with external auditors

5.1 The Government relies on external auditors to periodically review the work of the councils to make sure it is meeting its statutory obligations and performing well in its services. Internal Audit operates in accordance with a joint protocol with the external auditors that ensures an integrated audit approach that makes efficient use of resources and prevents duplication of work.

5.2 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. Both LDC and EBC opted into the PSAA arrangements, and were consulted on the appointment of the external auditor for the five year period from 2018/19. PSAA have appointed Deloitte LLP, and the councils have confirmed their acceptance of the appointment, which started on 1 April 2018.

5.3 During 2019/20 Internal Audit will work with BDO in testing the Housing Benefits subsidy grant claims for 2017/18 and with Deloitte LLP in the testing of the corresponding claim for 2018/19. It is forecast that the testing will again require significant Internal Audit resources.

5.4 Internal Audit decides the scope and content of the work on the key financial systems (see 7.3) that will be required to obtain the necessary assurance for the purposes of the AGS. Internal Audit will ensure that the Deloitte LLP requirements for information on the adequacy of controls for the purposes of the 2018/19 accounts will be met.

6 Other sources of assurance

6.1 The councils operate a management assurance system, which enables senior officers to confirm the proper operation of internal controls in those services for which they are responsible. This system is a key part of the councils' governance framework, which is reviewed annually by Internal Audit. The results of this review and the outputs from the management assurance system are reported in the AGS.

Preparation of the Annual Audit Plan

7 Review of Key Council Activities

7.1 This review is based on information from the Council Plan, the Council's Strategic Risk Register, the Council's Assurance Framework, Council Service Plans, Cabinet reports and other known developments. The following issues are highlighted.

Council Transformation

7.2 Internal Audit will review the Annual Plan for 2019/20 after nine months to assess whether any significant changes are necessary in response to the ongoing restructuring of the councils' services. A report on the results of the review will be presented to the January 2020 meeting of the Committee.

Key Financial Systems

7.3 Internal Audit undertakes the review and testing of the key financial systems every year to provide assurance for the AGS. The work for the 2018/19 exercise is underway. To help in the planning and monitoring of these reviews, the resource requirements are shown against each key system.

7.4 As the JTP progresses, individual shared services will continue to be located in both Eastbourne and Lewes or they may become more centralised in one or other location. Internal Audit reviews of the services will reflect these changes as appropriate. For example, key financial functions such as Payroll, Treasury Management and Creditors serve both councils, and the internal audit work on these functions will be done as joint audits as part of the Annual Audit programme.

Housing Benefit Subsidy Claim

7.5 The annual exercise to verify the Housing Benefit Subsidy Claims for both authorities remains a key commitment. This work requires considerable time and resources because if the audit identifies any error in the administration of benefits there must be extra testing to confirm the extent and impact of the error. Internal Audit works with operational teams to identify the reasons for errors and develop fixes, but the amount of work required to verify the subsidy claims has not decreased. The time required for this work in 2019/20 is reflected in the Annual Plan, but there is also provision for a project that will involve close working with operational service managers and staff to try to improve the quality of the data which forms the basis for the subsidy claim.

General

7.6 The Annual Plan includes contingencies for unforeseen work and, consultancy reviews and strategic projects that enable Internal Audit to be flexible and to adapt its coverage to address changing priorities.

7.7 For consultancy assignments carried out by any member of Internal Audit, the follow up of the results are carried out by team members other than those involved in the

original work. Standard audits of areas/topics covered by recent consultancy studies will apply the same disciplines to ensure the independence of Internal Audit and avoid conflicts of interest.

- 7.8** The outline plan of Internal Audit assignments and the main areas of work for the Counter Fraud Team are given at Appendix 1. In calculating the resources to be assigned to these tasks provision has been made for non-chargeable time (eg administration, training, leave and sickness).

8 Application of the Risk Assessment Model

- 8.1** The risk model assesses each activity under three categories: financial materiality, system stability, and the adequacy of internal control. Each category is scored on a weighted scale from 1 to 5, with the greater risks receiving the higher scores. Audits are assigned to one of three risk bandings as follows:

- 1 High Risk
- 2 Medium Risk
- 3 Low Risk

- 8.2** The risk bandings are the start point for selecting areas for review. This assessment process has been applied to the whole audit universe for the current exercise, but only the audits allocated to the audit programme for 2019/20 are shown. The majority of the audits in the audit programme are rated High or Medium Risk. The single Low Risk audit is the audit of Ethics that is carried out every year in order for Internal Audit to comply with PSIAS requirements.

- 8.3** The Annual Audits of the key financial systems are not subject to the risk assessment process.

9 Counter Fraud Team

- 9.1** The work of the team has been planned in accordance with current development and case management priorities. The focus of the work may change as a wider range of potential frauds are considered. For example, the work on Tenancy Fraud will include building relationships with Homes First and Account Management in order to elicit more referrals. Private Sector Housing, Disabled Facilities Grants and Procurement are areas that have seen no fraud work to date, and these areas will be assessed to see how best any investigations can be approached.

- 9.2** Counter Fraud work in the areas of Council Tax and Council Tax Reduction result in lower amounts of savings than other work. However, these savings are actual cashable savings to the Council.

10 Allocation of Staff Resources

- 10.1** The planned level of staffing for Internal Audit (7 FTE) for 2019/20 reflects the new post JTP3 structure, although some posts remain to be filled.
- 10.2** The current staffing level for Counter Fraud (4.3 FTE) will continue in 2019/20 with recruitment taking place to fill a recent vacancy.

11 Financial Appraisal

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

12 Legal Implications

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

13 Risk Management Implications

- 13.1** If the Council cannot demonstrate an effective Internal Audit function it will not meet its statutory obligations. The Annual Plan, together with the associated monitoring of the plans via the regular reporting to the Audit and Standards Committee, represents a key part of the control framework that helps to ensure the effectiveness of Internal Audit.

14 Equality Analysis

- 14.1** An equalities impact assessment is not considered necessary because the report is an internal planning document and involves no key decisions.

15 Background Papers

None.

16 Appendices

Appendix 1 – Audit and Counter Fraud Annual Plan 2019/20

Appendix 2 - Table of abbreviations

Appendix 1

AUDIT AND COUNTER FRAUD ANNUAL PLAN 2019/20

	2019/20 Planned Days	Risk
Internal Audit		
Annual Audits		
Housing Benefits -Lewes	15	
Housing Benefits - Eastbourne	15	
Council Tax - Lewes	10	
Council Tax - Eastbourne	10	
NNDR - Lewes	10	
NNDR - Eastbourne	10	
Cash and Bank - Joint	15	
Creditors - Joint	20	
Debtors - Joint	20	
Rents - Joint	20	
Main Accounts - Joint	15	
Payroll – Joint	10	
Treasury Management - Joint	10	
IT - Joint	8	
Theatres - Joint	5	
Total	193	
Other Work		
Housing System - CX	20	High
Leaseholder Service Charges and Recharges	20	High
Business Continuity and Disaster Recovery	20	High
RIPA	15	High
Tenancy Management	20	High
Aids and Adaptations	20	Medium
Stage Door/EDGC and Catering	20	Request
Members Allowances	15	Medium
Ethics	15	Low
Internet/Intranet/Telephone Payments.	15	Medium
IT Security and Networks	10	Medium
Theatres	15	Medium
Voids Management	20	Medium
Human Resources (HR)	20	Medium
Partnerships	20	Medium
Project Management	20	Medium
Data Protection	15	Medium
Total	300	

	2019/20 Planned Days	Risk
Housing Benefit Subsidy and Subsidy Project	450	
Follow up of audits from previous years	30	
Contingency	56	
Advice/Special Investigations	30	
Joint Audit/Fraud Projects	25	
CIA Strategic Projects	100	
Total Internal Audit Days	1184	
Counter Fraud		
Tenancy Fraud	347	High
Right to Buy (RTB)	180	High
Council Tax/CTR	78	Medium
Private Sector Housing/DFG	45	Medium
NNDR	40	Medium
Procurement	15	Low
Housing Benefit/DHP	50	Low
Data Matching/Other	20	Low
Total Counter Fraud Days	775	
Total Audit and Counter Fraud Days	1959	

Appendix 2

Table of abbreviations

AGS – Annual Governance Statement
BCP – Business Continuity Planning
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
DFGs – Disabled Facilities Grants
DWP – Department of Work and Pensions
EBC – Eastbourne Borough Council
ESFOG – East Sussex Fraud Officers Group
HACF – Head of Audit and Counter Fraud
HB – Housing Benefit
HRA – Housing Revenue Account. Refers to Council owned housing
ISO – International Organisation for Standardisation
IT – Information Technology
JTP – Joint Transformation Project
LDC – Lewes District Council
LLP – Limited Liability Partnership
NFI – National Fraud Initiative
PIs – Performance Indicators
PSIAS – Public Sector Internal Audit Standards
QAIP – Quality Assurance and Improvement Programme
RIPA – Regulation of Investigatory Powers Act
RTB – Right to Buy
SFIS – Single Fraud Investigation Service

Report to: Audit and Standards Committee

Date: 18 March 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 January to 28 February 2019 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

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 UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. While assumptions are that a Brexit deal is struck and some agreement

reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a “no deal” Brexit still hangs over economic activity. This uncertainty has manifested itself of late in both lower gilt yields and expectations for official interest rates.

The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the Bank of England, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK’s exit from the EU is relatively smooth.

While the domestic focus has been on Brexit’s potential impact on the UK economy, globally 2019 has so far been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself is suffering from a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund has downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

Longer term interest rates will remain benign until a clearer picture emerges and in the near-term there is potential for yields to be driven lower still. Official interest rates will also remain low and in the event of a hard Brexit on 29th March it would not be a surprise to see a policy response from the MPC that could take rates back to the emergency level of 0.25% it introduced shortly after the referendum result in 2016.

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.

No new Inter-Authority dealings were made during the period covered by this report.

4 Fixed Term Deposits

- 4.1 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 28 February 2019 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	*
241418	Thurrock Borough Council	14/11/18	14/05/19	181	3,000,000	0.90	*
242018	Eastbourne Borough Council	03/12/18	01/03/19	88	3,000,000	0.75	*
					<u>8,500,000</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 January 2019, 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 £22m over this period.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
242318	Debt Management Office	17/12/18	02/01/19	16	3,000,000	0.50	*
242518	Debt Management Office	02/01/19	07/01/19	5	3,000,000	0.50	*
242618	Debt Management Office	15/01/19	21/01/19	6	2,500,000	0.50	*
241218	Eastbourne Borough Council	22/10/18	23/01/19	93	2,000,000	0.70	*
242718	Debt Management Office	24/01/19	08/02/19	15	2,000,000	0.50	*
242818	Debt Management Office	04/02/19	08/02/19	4	2,500,000	0.51	*
241818	Thurrock Borough Council	09/11/18	11/02/19	94	5,000,000	0.76	*
242918	Debt Management Office	13/02/19	18/02/19	5	2,000,000	0.50	*
	Total				<u>22,000,000</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 January to 28 February 2019 was 0.69%, whereas those made during the period also averaged 0.50%. 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 £2.84m generating interest of approximately £2,250.

	Balance at 28 Feb '19 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	500	1,745	0.65
Lloyds Bank Corporate Account	812	1,096	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 28 Feb '19 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	3,000	2,932	0.87
Deutsche Managed Sterling Fund	3,000	2,627	0.83

5.3 Treasury Bills (T-Bills)

No T-bills were held at 28 February 2019. Activity in the period is shown below:

	Maturity Date	Purchased in period	Purchase date	£'000	Disc %
Matured during the period					
UK Treasury Bill 0%	04/01/19	✓	07/01/19	1,000	0.649
UK Treasury Bill 0%	04/01/19	✓	07/01/19	1,000	0.651
UK Treasury Bill 0%	04/01/19	✓	07/01/19	1,000	0.658
				3,000	

5.4 Secured Investments

There were no secured investments at 28 February 2019.

5.5 Tradeable Investments

There were no Tradeable Investments held at 28 February 2019.

5.6 Overall investment position

The chart below summarises the Council's investment position over the period 1 January to 28 February 2019. It shows the total sums invested in the various

instruments used by the Authority:

	Minimum £'000	Maximum £'000	Average £'000
Deposit Account	790	4,000	2,850
Money Market Funds	3,000	6,000	5,560
Fixed Term Investments	8,500	18,500	14,130
Treasury Bills	Nil	3,000	1,420
Tradeable Investments	Nil	Nil	Nil
Total Invested (mix of those above)	15,600	30,180	23,950

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. A total of £10,000 has been advanced to Aspiration Homes.

7.3 No investment 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