

Audit and Standards Committee

16 November 2020



Time: 10.00am

PLEASE NOTE: This will be a 'virtual meeting', held remotely in accordance with section 78 of the Coronavirus Act 2020 and section 13 of the related regulations.

Members of the press and public can view the meeting by clicking on the link provided on the agenda page on the Council's website or calling the number provided.

Instructions for members of the committee, officers and other participants to join the meeting have been circulated separately.

Membership:

Councillor Julian Peterson (Chair); Councillors Stephen Gauntlett (Vice-Chair), Christine Brett, Roy Burman, Phil Davis, Adrian Ross and Christine Robinson

Quorum: 4

Published: Thursday, 5 November 2020

Agenda

1 Introductions

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 Minutes (Pages 5 - 12)

To confirm and sign the minutes of the previous meeting held on 14 September 2020 (attached herewith).

5 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.

6 Written questions from councillors

To deal with written questions from councillors pursuant to Council Procedure Rule 12.3 (page D8 of the Constitution).

7 External Audit report 2018/19 and 2019/20 (to follow)

Update by Deloitte

8 Treasury Management (Pages 13 - 26)

Report of Chief Finance Officer

9 Internal Audit and Counter Fraud report for the first half of the financial year 2020-2021 to the end of September 2020 (Pages 27 - 38)

Report of Chief Internal Auditor

10 Strategic Risk Register quarterly review (Pages 39 - 52)

Report of Chief Internal Auditor

11 Date of next meeting

To note that the next meeting of the Audit and Standards Committee which is scheduled to commence at 10:00am on Monday, 18 January 2021, will take place in a virtual capacity, via Microsoft Teams, and in accordance with section 78 of the Coronavirus Act 2020 and section 13 of the related regulations.

Information for the public

Accessibility:

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.

Public participation:

Please contact Democratic Services (see end of agenda) for the relevant deadlines for registering to submit a speech on a matter which is listed on the agenda if applicable. Where speeches are normally allowed at a Committee, live public speaking has temporarily been suspended for remote meetings. However, it remains possible to submit speeches which will be read out to the committee by an Officer.

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 meeting while the matter is being considered (unless he/she has obtained a dispensation).

Councillor right of address:

A member of the Council may submit a question to ask the Chair of a committee or sub-committee 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.

Other 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.

Democratic Services

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

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Audit and Standards Committee

Minutes of the remote meeting held (via Microsoft Teams) on 14 September 2020 at 10.00am

Present:

Councillor Julian Peterson (Chair)

Councillors Stephen Gauntlett (Vice-Chair), Christine Brett, Phil Davis, Christine Robinson and Adrian Ross

Officers in attendance:

Oliver Dixon (Senior Lawyer and RIPA Monitoring Officer)

Lee Ewan (Counter Fraud Investigations Manager)

Jackie Humphrey (Chief Internal Auditor)

Jennifer Norman (Committee Officer, Democratic Services)

Ola Owolabi (Deputy Chief Finance Officer - Corporate Finance)

36 Introductions

The Chair introduced members of the Committee via roll call, and those officers present during the remote meeting.

37 Apologies for absence/declaration of substitute members

An apology for absence had been received from Councillor Roy Burman.

38 Declarations of interest

There were none.

39 Minutes

The minutes of the meeting held on 20 January 2020 were submitted and approved, and the Chair was authorised to sign them as a correct record.

40 Urgent items

There were none.

41 Written questions from councillors

There were none.

42 Covert Surveillance Policies

The Committee considered a report which sought its approval of the proposed changes to the Council's Covert Surveillance Policy.

The RIPA (Regulation of Investigatory Powers Act 2000) MO (Monitoring Officer) summarised the report and the proposed policy on the Use of Covert Surveillance and/or Covert Human Intelligence Sources as set out in Appendix 1 and the proposed policy on the Acquisition of Communications Data as set out in Appendix 2.

The RIPA MO explained that the draft policies were in response to the Investigatory Powers Commissioner's Office's (IPCO) inspection of Lewes District Council (LDC) and Eastbourne Borough Council (EBC) in December 2019. IPCO was a national body which monitored the compliance of public bodies in relation to surveillance activities, both of which were regulated under the RIPA.

IPCO recommended that the Councils' Covert Surveillance Policy provided guidance on the use of a Covert Human Intelligence Source (CHIS), including arrangements for the appointment of persons fulfilling the role of 'handler' and 'controller' if and when a CHIS is deployed. IPCO further recommended that the policy explained how the role of CHIS differs from a person volunteering information to the Council.

IPCO also recommended that Lewes and Eastbourne Councils included in their Covert Surveillance Policy their stance on the use of communications data for investigative purposes, as permitted under the Investigatory Powers Act 2016. Due to the different statutory framework (i.e. RIPA on the one hand, and the 2016 Act on the other), officers considered it more appropriate to draw up a separate policy on the acquisition and use of communications data.

The RIPA MO highlighted that local authorities were restricted as to what communications information they were permitted to acquire. The information was limited to the 'who' and 'where' of the communication, including the type of device used to send or receive information. The content of the information, however, was not something local authorities had the authority to collect. In addition, when the Council wanted to use these powers, it had to channel that request through an accredited single point of contact: the National Anti-Fraud Network. If the request was approved, the authorisation would last for a maximum of one month.

Discussions included:

- How situations would be handled if officers were at risk of a physical or other type of reaction from the subject of information. Officers highlighted that this was a new concept which had never been done before, and that they were looking at educational tools and safe-guarding procedures for a CHIS. Officers further highlighted that the Council would only consider using the powers detailed in the policies as

a last resort and only if and individual case warranted it; noting that there were only a very limited number of circumstances in which the powers could be used.

- If Trading Standards use the powers set out in the policies. Officers confirmed that powers to deploy a CHIS were available to Trading Standards officers and typically would be used to investigate the sale of alcohol and/or tobacco to underage customers.

Resolved:

- 1) That Lewes and Eastbourne Councils' updated policy on the use of covert surveillance and/or covert human intelligence sources as set out in Appendix 1, be approved; and
- 2) That the Councils' policy on the acquisition of communications data as set out in Appendix 2, be approved.

43 External Audit report 2018/2019

The Committee received a verbal update by the Deputy Chief Finance Officer (DCFO) in relation to the progress of the External Audit report 2018/2019.

The DCFO explained that the Council had two ongoing audits, one for 2018/2019 and one for 2019/2020. As of July 2020, the Council was working with Deloitte, the Council's external auditors, regarding outstanding issues in relation to the current audits. Due to Deloitte not having available resources, the Council had since experienced further delays. The Council, in consultation with Deloitte, was now looking to have the external audit 2018/2019 completed in the autumn of 2020.

The DCFO highlighted that the Council was working on the draft accounts for 2019/2020 and that he would be negotiating with Deloitte as to audit team availability to complete the 2019/2020 audit. He further highlighted that there was an indication that the 2018/2019 and 2019/2020 audits would be completed by the end of November 2020, but he would keep the Committee informed as to the progress.

Discussions included:

- If the situation surrounding the external audit 2018/2019 had improved. The DCFO confirmed that over the last three months the Council and Deloitte had been working well together. If Deloitte had been able to provide sufficient resources in relation to the completion of the external audits, the process would be further along. However due to other commitments with the NHS, Deloitte have had to reallocate its resources.
- Concerns surrounding the quality of accounts for 2018/2019. The DCFO confirmed that officers shared the Committee's concerns, and that they

were working diligently to ensure that the external audits were completed as soon as practicably possible.

- Whether or not the Council could choose its own external auditor going forward. The DCFO explained that only the Public Sector Audit Appointments (PSAA) could appoint an external auditor for the Council.

The Committee wished to express its disappointment and concerns regarding Deloitte not being present at the meeting and requested that officers present a statement to Deloitte on behalf of the Committee to include a detailed timeline for the completion of the external audit 2018/2019 and 2019/2020. The DCFO confirmed that he would draft a document to be approved by the Committee, and once approved he would deliver the document to Deloitte.

Resolved:

That the verbal update be noted.

44 Annual Treasury Management report 2019/20 and 2020/21 quarterly monitoring

The Committee considered the annual report and details surrounding the Treasury Management activity for the period of 1 April 2020 to 31 August 2020.

The Deputy Chief Finance Officer (DCFO) summarised the report and its findings. Discussions included:

- Whether or not the Council would consider a review of the COVID-19 situation to look at areas of non-essential expenditure in order to protect essential services. The DCFO confirmed that the Council was currently looking at these issues. He highlighted that there was currently a 4-million-pound gap in financial capability by the Council, and that the Corporate Management Team was working vigorously with central government on how to close the financial gap.
- If the indicators on page 37 of the agenda had indicated compliance with aligned targets. The DCFO confirmed that the indicators on page 37 confirmed compliance.
- Queries surrounding the figures listed in paragraph 2.10 of the report and whether or not officers could provide a list of projects that did materialise. The DCFO confirmed that this information would be provided to the Committee.
- If the Council had been looking at the maturity of its investments as a result of the COVID-19 pandemic, and if such assets would be sufficiently liquid. The DCFO confirmed that both scenarios were accurate.

Resolved:

- 1) That Cabinet be recommended to accept the annual Treasury Management report as set out in Appendix 1; and
- 2) That Cabinet be recommended to accept the Treasury Management activity from 1 April 2020 to 31 August 2020, as set out in Appendix 2, has been in accordance with the approved Treasury Strategy for the period.

45 Internal Audit report for the financial year 2019-2020

The Committee received the report which provided a summary of the activities of Internal Audit and Counter Fraud for the year 1 April 2019 to 31 March 2020.

The Chief Internal Auditor (CIA) summarised the report and its findings.

The Committee confirmed that it had no questions or comments for the CIA in respect of the report, and wished to thank the CIA and her department for all of their hard work.

Resolved:

That the report be noted.

46 Annual Governance statement

The Committee considered the report which sought its approval of the Annual Governance Statement as set out in Appendix 4.

The Chief Internal Auditor (CIA) summarised the report and its findings.

The CIA highlighted that the Council had a legal requirement to produce an Annual Governance Statement each year in accordance with the Accounts and Audit Regulations 2015. She further highlighted that the Committee was tasked with overseeing the risk management, internal control and reporting to the Council, and that a key component of that work was to approve the Annual Governance Statement.

Discussions included:

- That the reference to the Council's Scrutiny Committee on page 102 of the agenda be amended to its newly adopted title of the Policy and Performance Advisory Committee. Officers confirmed that the change would be reflected.
- Queries as to why more accounts were not included in the list of 2019/2020 accounts which were not signed off, as detailed on page 106. The CIA confirmed that she would investigate the matter further and provide the relevant details to the Committee.

- The Committee wished to express its gratitude to the project team which had been working on housing during the COVID-19 pandemic. The Committee further praised Council staff for their outstanding rapid response in relation to issues surrounding the COVID-19 pandemic.

Resolved:

That the Annual Governance Statement, as set out in Appendix 4, be approved.

47 Draft internal Audit plan for 2020/21

The Committee considered the report which sought its approval of the Internal Audit Plan, as set out in Appendix B.

The Chief Internal Auditor (CIA) summarised the report and its findings.

The Committee confirmed it had no questions or comments for the CIA in respect of the report.

Resolved:

That the Internal Audit Plan, as set out in Appendix B, be approved.

48 Internal Audit and Counter Fraud report for the first quarter of the financial year 2020-2021 to the end of June 2020

The Committee received the report which provided a summary of the activities of Internal Audit and Counter Fraud for the first quarter of the financial year from 1 April 2020 to 30 June 2020.

The Chief Internal Auditor (CIA) summarised the report and its findings.

The CIA highlighted that both the Council's Audit and Counter Fraud teams had continued to work throughout the COVID-19 pandemic. She further highlighted that at the beginning of the pandemic the teams had been redistributed to various departments throughout the Councils to assist in time critical matters related to the pandemic, but that presently all Audit and Counter Fraud staff were back in their original teams.

The Committee confirmed it had no questions or comments for the CIA in respect of the report.

Resolved:

That the report be noted.

49 Review of Risk Management

The Committee considered the report which sought its approval on the updated Risk Management Policy as set out in Appendix B.

The Chief Internal Auditor (CIA) reminded the Committee that in April 2019 a new contract to provide insurance for the Council was agreed with Zurich. As part of the contract, the Council was offered a free review of the effectiveness of risk management arrangements. Zurich was requested by the Council to undertake the review.

The CIA highlighted that as a result of the review, Zurich had made 13 recommendations, as detailed on page 135 of the agenda, which were presented to the Corporate Management Team (CMT), but that the recommendations could not be implemented unless the new Risk Management Policy was agreed by the Committee.

Discussions included:

- Whether or not the free review on the effectiveness of risk management arrangements was a voluntary service and what the impact may have on the Council. The CIA informed the Committee that she was not aware of any potential impact and that the service was indeed voluntary.
- Whether or not Zurich worked with other local authorities in a similar capacity, and how the outcome of the Council's review compared with other local authorities. The CIA confirmed that Zurich indeed had experience working with other local authorities, but the Council was not provided with information regarding the results of subsequent reviews.
- Whether or not the Council had an audit log of all of the actions it had committed to carry out as a result of the review by Zurich, and whether or not those actions had been completed. The CIA explained that historically at Eastbourne Borough Council the outstanding actions had been reported to Members, but at Lewes this was not something that had been normal practice. The Committee commented that it would be helpful for the information to be communicated at future meetings of the Committee if relevant. The CIA confirmed she would report back to the Committee any actions that were outstanding in relation to future reviews by Zurich.

Resolved:

That the Risk Management Policy as set out in Appendix B, be approved.

50 Strategic Risk Register quarterly review

The Committee received the report which summarised the outcomes of the quarterly review of the Strategic Risk Register (SRR) by the Corporate Management Team (CMT).

Discussions included:

- That the reference to EBC on page 163 of the agenda be amended to read LDC. The CIA apologised and confirmed that she would make the amendment.
- Queries surrounding the risk score of 12 as set out on page 163 of the agenda. The CIA explained that no one had any idea as to how COVID-19 would impact the Council and the District, so the risk score had been raised as a precaution. She agreed that the original score would need to be reviewed.
- Whether the potential of a no-deal Brexit had been taken into account, especially in relation to the port in Newhaven. The CIA agreed that this had been discussed with the Corporate Management Team (CMT) and that she would bear this information in mind when the SRR is reviewed in future.

The Committee wished to thank the CIA for all of her hard work in relation to the reports contained within the agenda.

Resolved:

That the updates to the Strategic Risk Register, as detailed in the report and Appendix 1, be noted.

51 Date of next meeting

Resolved:

That the next meeting of the Audit and Standards Committee which is scheduled to commence at 10:00am on Monday, 16 November 2020, in a virtual capacity, via Microsoft Teams, and in accordance with section 78 of the Coronavirus Act 2020 and section 13 of the related regulations, be noted.

The meeting ended at 12.21pm.

Councillor Julian Peterson (Chair)

Report To: Audit and Standards Committee

Date: 16 November 2020

Report Title: Treasury Management

Report of: Chief Finance Officer

Ward(s): All

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

Officer Recommendations: To note and recommend that Cabinet accepts that Treasury Management Activity for the period 1 September to 31 October 2020 has been in accordance with the approved Treasury Strategies.

Reasons for recommendations: Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code) and this has to be reported to Full Council.

Contact Officer(s)- Name: Ola Owolabi
Post title: Deputy Chief Finance Officer
E-mail: ola.owolabi@lewes-eastbourne.gov.uk
Telephone number: 01273 485083

1. Introduction

- 1.1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.
- 1.2 The Treasury Strategy Statement also requires the Audit and Standards Committee to review a formal summary report detailing the recent Treasury Management activity before it is considered by Council, in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.

2. Treasury Management Activity

- 2.1 The timetable for reporting Treasury Management activity in 2020/21 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
6 July 2020	1 March to 30 June 2020 (<i>meeting cancelled</i>)

14 September 2020	1 April to 31 August 2020 (<i>revised reporting period</i>)
16 November 2020	1 September to 31 October 2020
18 January 2021	1 November to 31 December 2020
8 March 2021	1 January to 28 February 2021

2.2 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held between 1 September and 31 October 2020 and identifies the long-term credit rating of counterparties 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 necessary criteria the minimum rating required for deposits made after 1 April 2018 is long term A- (Fitch).

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term Rating
248920	Telford & Wrekin Council	16 Sep 20	18 Jan 21	124	3,000,000	0.08	*

*UK Government body and therefore not subject to credit rating

2.3 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured since 1 September 2020, 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 £16.0m over this period.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int. Rate %	Long-term rating
248720	Debt Management Office	1 Sep 20	8 Sep 20	7	8,000,000	0.01%	*
248820	Debt Management Office	9 Sep 20	16 Sep 20	7	8,000,000	0.01%	*
Total					<u>16,000,000</u>		

*UK Government body and therefore not subject to credit rating

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits held in the period 1 September to 31 October 2020 was 0.03%, below the average bank base rate for the period of 0.10%.

2.4 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 £3.392m generating interest of approximately £1.2k

	Balance at 31 Oct. 2020 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	£5,000	£5,000	0.12
Lloyds Bank Corporate Account	£ 730	£1,848	0.00
Lloyds Bank Call Account	£3,300	£3,329	0.05

2.5 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 £10m in each fund, and at no time was this limit exceeded.

	Balance at 31 Oct '19 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	£3,000	4,916	0.16
Deutsche Managed Sterling Fund	£3,001	4,200	0.19

2.6 Treasury Bills (T-Bills)

There were no Treasury Bills held at 31 October 2020, and there was no activity in the period.

2.7 Secured Investments

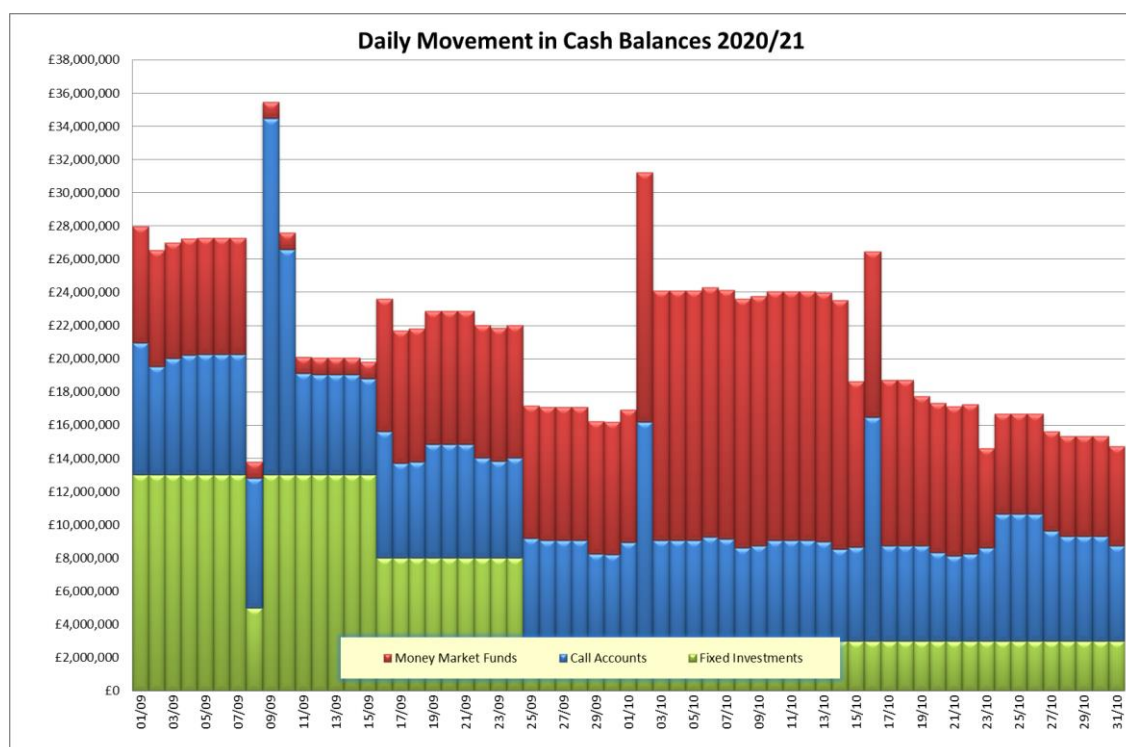
There were no Secured Investments at 31 October 2020.

2.8 Tradeable Investments

There were no Tradeable Investments at 31 October 2020, and there was no activity in the period.

3. Overall investment position

3.1 The chart below summarises the Council's investment position over the period 1 September to 31 October 2020. It shows the total sums invested each day as Fixed Term deposits, amounts held in Deposit accounts and Money Market Funds.



4. Annual Investment Strategy

4.1 The Treasury Management Strategy Statement (TMSS) for 2020/21 which includes the Annual Investment strategy, was approved by the Full Council on Wednesday, 19th February. It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity;
- Yield.

Approved limits within the Annual Investment Strategy were not breached during the period ending 31 October 2020, except for the balance held with Lloyds Bank, which exceeded the £5m limit for 9 days during the period.

4.2 Investment rates available in the market have continued at historically low levels. Investment funds are available on a temporary basis and arise mainly from the timing of the precept payments, receipts of grants and the progress of the capital programme.

4.3 As shown by the interest rate forecasts, it is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%, while some entities, including more recently the Debt Management Account Deposit Facility (DMADF), are offering negative rates of return in some shorter time periods. Given this risky environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31st March 2023, investment returns are expected to remain low.

Negative investment rates

4.4 While the Bank of England has said that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the Covid crisis; this has caused some local authorities to have sudden large increases in investment balances searching for an investment home, some of which was only very short-term until those sums were able to be passed on.

4.5 As for money market funds (MMFs), yields have continued to drift lower. Some managers have suggested that they might resort to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a glut of money swilling around at the very short end of the market.

4.6 Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when

disbursements of funds received will occur or when further large receipts will be received from the Government.

5. Borrowing

5.1 The current account with Lloyds Bank generally remained with credit limits throughout most of the period with the following exceptions:

Exceptions:

1 September 2020 to 31 October 2020 – excess funds of between £1m and £15m.

The Council's long term borrowing in the reporting period is £56.673m.

Interest Rate Forecast

5.2 The Council's treasury advisor, Link Group, provided the following forecasts on 11 August 2020:

Link Group Interest Rate View 11.8.20											
	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month average earnings	0.05	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	1.90	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.40	2.40	2.40	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

The above table is based on PWLB certainty rates – gilt yields plus 180bps.

5.3 The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its last meeting, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.
















5.4 While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets. Over the year prior to the coronavirus crisis, this has seen many bond

yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

- 5.5 From the local authority borrowing perspective, HM Treasury imposed **two changes of margins over gilt yields for PWLB rates** in 2019-20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11th March 2020, but not for mainstream non-HRA capital schemes. At the same time the Government announced in the Budget a programme of increased infrastructure expenditure.
- 5.6 It also announced that there would be a consultation with local authorities on possibly further amending these margins; the HM Treasury consultation was initially due to end on 4th June, but that date was subsequently put back to 31st July. To date, the outcomes of the consultation have yet to be announced but it is clear that HM Treasury will most likely no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the primary aim is to generate an income stream (assets for yield).
- 5.7 Following the changes on 11th March 2020 in margins over gilt yields, the current situation is as follows: -
- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
 - **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
 - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
 - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
 - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- 5.8 It is possible that the non-HRA Certainty Rate will be subject to revision downwards after the conclusion of the HM Treasury consultation; however, the timing of such a change is currently an unknown, although it would be likely to be within the current financial year.
- 5.9 As the interest forecast table for PWLB certainty rates, (gilts plus 180bps), above shows, there is likely to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

6 Compliance with Treasury and Prudential Limits

- 6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS. As at 31 October 2020, the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

Treasury Prudential Indicators	2020/21 Estimate Indicator	31 October Actual Indicator	RAG Status/Reason
Authorised limit for external debt (CS 4.2.3)	£117.7m	£117.7m	
Operational boundary for external debt (CS 4.2.3)	£127.7m	£127.7m	
Gross external debt (CS 4.2.2)	£137.0m	£56.6m	
Capital Financing Requirement (CS 2.3.4)	£136.9m	n/a	
Debt vs CFR under/(over) borrowing	-		
Investments			
Investment returns expectations	0.10%	0.03%	
Upper limit for principal sums invested for longer than 365 days			
<i>Maturity structure of fixed rate borrowing - upper limits:</i>			
Under 12 months	75%	75%	
12 months to 2 years	75%	75%	
2 years to 5 years	75%	75%	
5 years to 10 years	100%	100%	
10 years and above	100%	100%	
Capital expenditure (CS 2.1.4)	£11.9		
<i>Ratio of financing costs to net revenue stream (CS 8.1.1):</i>			
Proportion of Financing Costs to Net Revenue Stream (General Fund)	1.68%	1.68%	
Proportion of Financing Costs to Net Revenue Stream (HRA)	18.08%	18.08%	

Key: CS – 2020/21 Capital Strategy Appendix 1

7. Non-treasury investments

The non-treasury investment activity includes loans to Council-owned companies or the purchase of property assets for the purpose of income generation.

- 7.1 **Lewes Housing Investment Company** - a wholly owned subsidiary of the Council. Incorporated in July 2017, LHIC was set up to acquire, improve and let residential property at market rents. The 2020/21 Capital programme includes £2.5m as

commercial loan funding to facilitate property purchases. At 30 September 2020, there had been no draw down of the loan facility.

A working capital facility loan of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 30 September 2020, £602 of the working capital facility had been drawn down to cover administrative expenses.

- 7.2 **Aspiration Homes LLP** - a limited liability Partnership owned equally by Lewes District Council and Eastbourne Borough Council. Incorporated in June 2017, AH has been set up for the purpose of developing housing to be let at affordable rent. The Capital programme includes £17.5m as commercial loan funding to AH to facilitate property purchases. At 30 September 2020, £912,910 had been drawn down for the purchase of Grays School, Newhaven.

A working capital facility loan of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 30 September 2020, £20,000 of the working capital facility had been drawn down.

8. Economic Background

- 8.1 As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6th August (and subsequently 16th September). A detailed economic commentary on developments during period ended 30th September 2020 is attached as **Appendix A**.

9. Financial Appraisal

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

10. Risk Management Implications

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

11. Equality Analysis

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

12. Legal Implications

- 12.1 There are no legal implications from this report.

13. Environmental sustainability implications

- 13.1 This report notes the treasury management performance of the Council. There are no anticipated environmental implications from this report that would affect the Council's sustainability policy. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the

treasury activities and highlights compliance with the Council's policies previously approved by members.

14. Appendix

14.1 Appendix A - Detailed economic commentary.

15. Background Papers

15.1 Treasury Strategy Statements 2020/21.

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Detailed economic commentary on developments during quarter ended 30th September 2020

During the quarter ended 30th September 2020 (quarter 3 of 2020):

- There was a quicker-than-expected recovery in GDP in June and July;
- Retail spending rose 4.0% above its pre-virus level, but the recovery in investment lagged behind;
- There was a second wave of the virus and a tightening in COVID-19 restrictions in September;
- In September, the Chancellor announced a new fiscal package worth £5bn (0.2% of GDP) to support the economy;
- Concerns about a second wave and a no deal Brexit weighed on the FTSE 100 and the pound;
- There were divisions on the Monetary Policy Committee over the possible use of negative interest rates;

The initial economic recovery appears to have been quicker than anticipated. GDP rose by 2.4% m/m in May as manufacturing and construction work resumed, by 8.6% m/m in June as non-essential retail stores reopened, and by 6.6% m/m in July as pubs and restaurants reopened. The rise in the all sector PMI from 57.1 in July to 58.7 in August suggests that recovery continued at a strong pace in August. Indeed our 'CE BICS Indicator' suggests that the economy grew by 5.0% m/m in August.

Consumer spending appears to have recovered strongly. Retail sales rose by 0.8% m/m in August, pushing them 4.0% above their pre-pandemic level. The mini-boom in the housing market meant transactions rose by 28.9% y/y in August. Nationwide house prices rose by 0.9% m/m in September, which pushed up the annual rate to 5% – a four-year high. The Eat Out to Help Out, (EOHO), restaurant discount scheme and pent-up demand, also suggest that non-retail spending did well in August.

But this strength largely reflects the success of the government's fiscal support since March. Indeed, it is encouraging that the bulk of the 4 million workers that have come off the furlough scheme between May and the end of July have gone back to their jobs rather than into unemployment or inactivity.

Even so, there have been signs that households' appetite for credit is waning. Consumer credit rose by only £0.3bn in August compared to July's £1.1bn rise. Admittedly, it could be that consumers are just using cash saved during lockdown to finance big ticket purchases. Indeed, the household saving rate surged from 9.6% in Q1 to a record-high of 29.1% in Q2. But consumer confidence has also weakened, slipping from -16.6 in August to -17.9 in September according to the EC.

What's more, having fallen by 26.5% q/q in Q2, business investment still seems to be well below pre-pandemic levels. According to the latest ONS Business Impact of the COVID-19 Survey (BICS), 38% of businesses said their plans to expand had been scaled back or cancelled since the pandemic. And the Bank of England's Agents survey suggested that investment intentions remain close to their record lows. Meanwhile, there have been worrying signs that activity started to drop in September. Footfall on UK high streets had fallen to -45% y/y by mid-September. And despite not

even having returned to its pre-crisis level, seasonally adjusted car production dropped by 24% m/m in August.

The Chancellor announced further fiscal support in September. The centerpiece of his Winter Economic Plan (WEP) was the six-month long “Job Support Scheme” starting on 1 November. Under the scheme, the government will pay a maximum of 22% of worker’s salaries and the company pays a minimum of 55%, as long as the employee is working a third of normal hours. The WEP also included an extension of the VAT cut for hospitality/tourism from 20% to 5% from 13 January to 31 March. All in, the Chancellor’s new measures will probably cost around £5bn (0.2% of 2019 GDP), bringing the total cost of the government’s direct fiscal measures to about £220bn (10% of GDP).

The mounting fiscal cost of the crisis is being reflected in public finance figures. Indeed, the government borrowed another huge sum of £35.9bn in August, leaving borrowing in the year to date at £173.5bn. That’s already the highest cash figure on record, with seven months of the financial year still to go (the previous record was £158.3bn in 2009/10). Add in the effects of the weak economy and we think that the Chancellor could end up borrowing a huge £370bn (18.4% of GDP) in 2020/21 as a whole.

But the new package is unlikely to fully offset the hit to GDP and employment from the government’s COVID-19 restrictions announced on 22 September. Indeed, the UK has begun to grapple with a second wave of coronavirus infections, with daily cases averaging about 5,500 during the last week of September (up from just 1,000 per day a month earlier). Consequently, new restrictions were brought in so that bars and restaurants have to close at 10pm, the reopening of other parts of the sports and hospitality sectors will be delayed, and people were advised to resume working from home if they can. This won’t prevent some sectors from continuing to recover but will cause others to go backwards.

That is why we think that an impressive rebound in GDP of about +18% q/q in Q3 will give way to no rise at all in October. Add in some further restrictions as well as the drag on activity from the uncertainty over Brexit, and GDP may not rise in November and December either. Meanwhile, we still expect the unemployment rate to rise further, from 4.1% in July to 7% in Q4 2021.

This supports our existing view that the Bank of England will ease monetary policy further. Admittedly, the sharp drop in CPI inflation from +1.0% in July to +0.2% in August, due to the effects of the cut in VAT for hospitality/tourism and August’s EHO restaurant discount scheme, probably represents the low point for inflation. We expect CPI inflation to have risen to +0.6% in September and it could temporarily rise to 2.0% at the end of 2021. But the big picture is that it will be a few years before the economy is strong enough to sustain CPI inflation at the Bank of England’s 2% target.

However, unlike the financial markets, we do not think the Bank will use negative rates in the next six months. Admittedly, in its September minutes, the MPC commented that it “had been briefed on the Bank’s plans to explore how a negative Bank Rate could be implemented effectively”. And MPC member Silvana Tenreyro noted the “encouraging” evidence on the use of negative rates in Japan and the euro-zone. But Bank of England Governor Andrew Bailey, and other MPC members such as Dave

Ramsden and Andy Haldane, have talked down the prospect. So for the next 6-12 months, we think that QE will remain the tool of choice and that another £250bn of QE will be used over the next year, significantly more than the consensus forecast.

There are two key downside risks to the outlook. The first of these is the possibility that restrictions are tightened much further to contain the spread of coronavirus. If the government resorted to a two-week national lockdown at some point, that could reduce the level of GDP by 5% and push the point at which the economy returns to its pre-crisis level back by a year. This would also increase the possibility that the Bank of England has to do more at a later stage.

The second risk is a no deal Brexit at the end of the transition period on 31 December 2020. With just two weeks to go until Boris Johnson's 15 October deadline to reach a deal before the UK walks away and only three months until the transition period expires, it doesn't appear as though the two sides are nearing an agreement. A no deal on 31 December is unlikely to spell disaster for the economy. But it could lead to a hit to GDP of 1-3% depending on the type of no deal, setting back the UK's recovery from the recession.

The concerns about the consequences for the economy from a second wave of COVID-19 and a no deal Brexit have reduced the FTSE 100 almost back to May's level and weakened the pound from \$1.35 to \$1.28. Some spreads of corporate bonds over gilt yields such as BBB ones, have started to tick up. With COVID-19 and a no deal Brexit risks rising, the risks to our forecast that the FTSE 100 will rebound to its pre-crisis level by the end of 2022 and that the pound will climb back to \$1.35 if there is a Brexit deal are firmly on the downside.

In the euro-zone, there is further evidence that the economic recovery is grinding to a halt. This has resulted in short-time working policies being extended in Europe's Big Four until the end of the year at a minimum. And there is a good chance that the ECB will provide additional stimulus soon, perhaps making the TLTROs more generous.

The continued economic recovery in the US in the face of its second wave in June and July has been impressive, but GDP remains below pre-virus levels. And while the Fed adopted "a flexible form of average inflation targeting" in August, it has offered no hints it is contemplating adding more stimulus soon. But the calls for more stimulus may grow louder if the recovery slows, particularly if Congress can't agree on more fiscal support.

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Agenda Item 9

Report to:	Audit and Standards Committee
Date:	16th November 2020
Title:	Internal Audit and Counter Fraud report for the first half of the financial year 2020-2021 to the end of September 2020
Report of:	Chief Internal Auditor
Ward(s):	All
Purpose of report:	To provide a summary of the activities of Internal Audit and Counter Fraud for the first half of the financial year - 1st April 2020 to 30th September 2020.
Officer recommendation(s):	That the information in this report be noted and members identify any further information requirements
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: Jackie Humphrey Post title: Chief Internal Auditor E-mail: jackie.humphrey@lewes-eastbourne.gov.uk Telephone number: 01323 415925

1 Introduction

- 1.1 The remit of the Audit and Standards Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk.
- 1.2 The quarterly report includes a review of work undertaken by Internal Audit and Counter Fraud. At the end of the financial year the Chief Internal Auditor will state their opinion of the control environment of the authority based on this work.

2 Review of the work of Internal Audit carried out in the first half of 2020-21.

- 2.1 A list of all the audit reports issued in final from 1st April 2020 to 30th September 2020 is as follows:

Name of Audit	Assurance Level
Benefits and Council Tax Reduction (19/20)	Substantial Assurance
Main Accounting (19/20)	Partial Assurance
Treasury Management (19/20)	Substantial Assurance
Payroll (19/20)	Partial Assurance
Council Tax (19/20)	Substantial Assurance
National Non Domestic Rates (19/20)	Substantial Assurance
Cash and Bank (19/20)	Partial Assurance
Debtors (19/20)	Partial Assurance
Housing Rents (19/20)	Partial Assurance
Creditors (19/20)	Partial Assurance
Information Technology (19/20)	Partial Assurance
Voids Management	Substantial Assurance
Rechargeable Repairs	Partial Assurance

NB. These are the Assurance Levels given at the time of the initial report and do not reflect findings at follow up.

2.2 Below are the descriptions of the levels of assurance referred to above.

Assurance Level	Description
Full Assurance	Full assurance that the controls reduce the risk to an acceptable level.
Substantial Assurance	Significant assurance that the controls reduce the level of risk, but there are some reservations; most risks are adequately managed, for others there are minor issues that need to be addressed by management.
Partial Assurance	Partial assurance that the controls reduce the level of risk. Only some of the risks are adequately managed; for others there are significant issues that need to be addressed by management.
Minimal Assurance	Little assurance that the controls reduce the level of risk to an acceptable level; the level of risk remains high and immediate action is required by management.
No Assurance	No assurance can be given. The reasons will be explained thoroughly in the report.

2.3 During this period the following draft reports have been issued and will be reported in future reports once agreed by the relevant manager.

Business Continuity Planning

2.4 Appendix A is the list of all reports issued in final during the year which were given an assurance level below "Substantial". This list includes brief bullet points of the issues highlighted in the reviews which informed the assurance level given.

- 2.5 During this quarter work has also been undertaken in other areas in more of a consultancy capacity that has not resulted in an audit report with an assurance level given to the control environment. A couple of pieces of work were carried out in the Finance section to provide advice on processes. A small investigation was also carried out on a potential fraud involving a creditor providing temporary accommodation. This was found not to be a fraud but poor record keeping on the part of the creditor which had not been identified by the department passing the invoices for payment. There have been several instances of advice being sought from the Internal Audit department on a variety of subjects.
- 2.6 The other area of work involving the Internal Audit team is the Benefit Subsidy Claim. The council has to put in an annual claim to the Department for Work and Pensions (DWP) for the repayment of the benefits paid out on their behalf. The claim has a number of fields which are filled out based on information input to the Open Revenues software. Every year this claim has to be tested for errors before it is submitted. This testing is carried out by the Internal Audit team based on samples selected by an external company. This external company has traditionally been the external auditors for the council. If any errors are found then an additional 40 cases must be selected and tested. Once this work is completed the external auditors test the work carried out by Internal Audit before the claim is signed off and passed to the DWP.
- 2.7 As well as the testing of the subsidy claim this year a piece of work was carried out on the information entered into Open Revenues and the fed into the subsidy claim. It was considered that Internal Audit was not best placed to continue to carry out this work as it distanced the users/department from the results and therefore appeared to transfer responsibility. Also, there was only one officer in Internal Audit who had the necessary experience in this area and this was a potential risk to the council if that member of staff was not available for any reason. It has therefore been agreed that after the current piece of subsidy work is completed then this work will be outsourced to a company to carry out. This will allow resilience of coverage and should allow for potential savings if the company provides the work for both authorities.
- 2.8 In the audit plan for 2020/21 it was proposed to have a list of audits to be carried out which reflected the size of the departments as a percentage of the councils. In this way, when the teams are tasked with pieces of work, these can be carried out within the allocation for the area. A planned audit may have to be dropped but the breadth of coverage would be maintained. It would be ensured that a lower risk audit was dropped if this were to be the case.
- 2.9 The table below shows the work carried out by the Internal Audit team in the first half of the year by percentage across the main areas services compared to that planned for the whole. It should be noted that the figures will be skewed as few audits (other than the annual audits) have been undertaken at this point in the year.

Area	Planned	Actual
Regeneration	12%	2.03%
Tourism and Enterprise	9%	0.12%
Service Delivery	37%	59.54%
Corporate Services	42%	38.32%

- 2.10 Appendix B shows outstanding recommendations/actions. This list includes recommendations from audit reviews that remain outstanding after the first follow up has been completed plus actions from other reports that have been brought to committee.
- 3 Review of the work of Counter Fraud carried out in the first half of 2020-21.**
- 3.1 A flexible and creative approach has been taken in dealing with the existing and new fraud investigations under government guidelines and restrictions. Cases have continued to be built and monitored, with the team responding to new and emerging fraud risks following the release of Covid-19 support packages to businesses and individuals. The team continues to target the high risk and value areas of tenancy housing while also undertaking other exercises as detailed below. However, the effects of Covid-19 are still being felt and this is explained in more detail under each sub section.
- 3.2 Housing Tenancy – The team continue to work closely with colleagues in Homes First and Legal, with one property returned as a result of joint working operation. The returned property is a positive outcome, however as this is a joint working operation with extensive work undertaken by Homes First, it has not been noted as a preventative saving in the figures for the Counter Fraud team. There are currently 22 ongoing sublet/abandonment tenancy cases at various stages. Eight Cases have been closed with no further action. Possession for another property was granted pre-lockdown and is currently waiting a date from bailiffs to execute the warrant. There is one other case with legal pending recovery action.
- 3.3 Right to Buy – There has been an increase in applications in the second quarter, as Covid-19 restrictions have gradually started to be lifted. 13 cases are currently being checked to prevent and detect fraud and protect the authority against money laundering. Seven cases were withdrawn during this period with a net saving to the authority of £575,300. Nine other cases have been approved for sale. Residency checks are still outstanding for 10 cases which have either been approved or previously withdrawn. These checks are completed as part of the checks carried out in each case but with the Covid restrictions these could not be a carried out earlier. Another case is awaiting a prosecution hearing, which is expecting to be heard in November.
- 3.4 Housing Options – Access for Homes First caseworkers and specialists to use HM Land Registry and the National Anti-Fraud Network facilities for credit checks has been rolled out to help verify applications and prevent fraud.
- 3.5 Small Business Grant Fund – Following on from the government’s announcement to support businesses through the Covid-19 pandemic, the team have been working closely with the revenues specialists to prevent and investigate fraudulent applications. Eight applications were verified during this period to confirm the correct recipient of the grant. Work on these applications has already resulted in the return of one £10,000 grant payment and a Police Caution for another application. Work is also ongoing on post verification of 96 applications verified by the council’s Ascendant system. Upon completion of this

review, additional checks may be made where fraud or error has been highlighted.

- 3.6 NNDR – As part of the review of Small Business Grant Fund applications discrepancies of Small Business Rate Relief and liable rate payer have been found. This has resulted in changes to six business rate bills with a net income of £90,821.36 generated to the authority.
- 3.7 Council Tax – one case was closed during this period. Other planned work on Council Tax Exemptions and Disregards has been put on hold due to work commitments around the Small Business Grants.
- 3.8 Council Tax Reduction - Two cases have been closed down in this period with a net income to the council of £2,679.63 and weekly incorrect saving of £1,824.32. 2 cases are currently under investigation.
- 3.9 Housing Benefit – The team continue to work closely with the Department for Work and Pensions (DWP) and our colleagues in the benefit section. Due to resource restrictions and pressing need to assess Universal Credit applications, the DWP have limited their capacity to investigate Housing Benefit. However, 11 cases have been closed in this period with an increase in recoverable Housing Benefit of £13,085.57 and a preventative saving of £3,575.68.
- 3.10 National Fraud Initiative – No further work has been taken on the 2018/19 exercise following limited results from 10% of test checking. The next data set exercise for 2019/20 is due to be extracted at the end of this year.
- 3.11 Data Protection Requests – the team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. In this period we have dealt with five DPA requests from the Police and other authorities.
- 3.12 A table showing the savings made by the Counter Fraud team in the first half of the year 2020-2021 can be found at Appendix C.

4 Financial appraisal

- 4.1 There are no financial implications relating to expenditure arising from this report. Details of savings generated by the Counter Fraud team are included in Appendix C.

5 Legal implications

- 5.1 This report is for noting only and therefore the Legal Services team has not been consulted on the content of it.

6 Risk management implications

- 6.1 If the Council does not have an effective governance 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.

7 Equality analysis

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

8 Environmental sustainability implications

- 8.1 Not applicable.

9 Appendices

- 9.1 Appendix A – List of all reports issued in final during the year which were given an assurance level below “Substantial” with any issues highlighted in the reviews which informed the assurance level given

Appendix B – Outstanding recommendations/actions

Appendix C – Counter Fraud work and savings

10 Background papers

- 10.1 Internal Audit reports issued throughout the year.

APPENDIX A

Reasons for original assurance levels given (below Substantial)

N.B. The issues noted here may have been addressed since the original report was issued.

AUDIT REVIEW	ASSURANCE LEVEL	ISSUES NOTED	Level at follow up
Main Accounting (19/20)	Partial	<ul style="list-style-type: none"> • Budget holders indicated they would like more training • Written procedures have not been updated to reflect shared service • Cafi does not reflect the current organisation structure • Recharges between councils are not carried out on a regular monthly basis • Regular reconciliations between the general ledger and feeder files (e.g. rents, council tax etc.) are not being carried out 	Annual Audits are followed up when the following year's audit is completed.
Payroll (19/20)	Partial	<ul style="list-style-type: none"> • The Authorised Signatory List requires updating • Processes around honoraria payments needs to be reviewed • Some forms do not request detailed information or adequate information was not entered. 	Annual Audits are followed up when the following year's audit is completed
Cash and Bank (19/20)	Partial	<ul style="list-style-type: none"> • Blank cheques need to be held more securely • Written procedures are out of date • Cash is held securely but a number of staff are able to access the area where the cash is held. 	Annual Audits are followed up when the following year's audit is completed
Debtors (19/20)	Partial	<ul style="list-style-type: none"> • Information/evidence is retained in various areas and some is retained on Outlook. • Authorisation for raising invoices is not consistently retained • The Authorised Signatory List requires updating • Debt recovery procedures require updating. 	Annual Audits are followed up when the following year's audit is completed

APPENDIX A

Reasons for original assurance levels given (below Substantial)

N.B. The issues noted here may have been addressed since the original report was issued.

AUDIT REVIEW	ASSURANCE LEVEL	ISSUES NOTED	Level at follow up
Housing Rents (19/20)	Partial	<ul style="list-style-type: none"> • Lack of reports from Housing software required to carry out some areas of work • Procedures for entering some types of tenancy require review • Delays in debt recovery action • Access to standing data on the Housing system needs to be reviewed • Arrears recovery procedures need to be aligned and updated 	Annual Audits are followed up when the following year's audit is completed
Creditors (19/20)	Partial	<ul style="list-style-type: none"> • The Authorised Signatory List requires updating • Information/evidence is retained in various areas and some is retained on Outlook. • No documented procedures for verifying bank account changes nor is evidence of checks retained • Purchase orders are not always raised in a timely manner. 	Annual Audits are followed up when the following year's audit is completed
Information Technology (19/20)	Partial	Owing to workload pressures within IT due to Covid-19 it was only possible to carry out a light touch audit. As it was not possible to carry out testing a "partial" assurance level was given. A full review will be carried out for 2020/21.	Full review to be carried out in 20/21
Rechargeable Repairs	Partial	<ul style="list-style-type: none"> • A number of tenancy agreements could not be found during testing • No check is made that invoices sent out are correct • The number of post inspections had fallen due to Covid restrictions. 	Follow up due December 20

APPENDIX B

OUTSTANDING RECOMMENDATIONS/ACTIONS

AUDIT REPORT	OUTSTANDING RECOMMENDATION	COMMENTS
None	None	None
OTHER REPORTS TO COMMITTEE	OUTSTANDING ACTION	COMMENTS
Risk Management	Hold facilitated workshops for CMT and Members to refresh understanding of roles and responsibilities.	Currently in discussion with Zurich to arrange training. Will begin at senior management level so that training/workshops for CMT and Members can use the risk assessments produced by services.
	Interactive training workshops across all levels.	
	Risk management refresher training for Members (especially newer ones).	
	All risk assessments to be put back onto Pentana Performance.	
	Contract risk management training and awareness, with a view to identifying strategically important contracts and associated risks.	
	Operational and service level risks to be recorded on one risk assessment for each service area. Service level risk registers to be reviewed six monthly at CMT with Directors/Asst Directors responsible for the service level risk registers.	This will be completed once risk assessments have been produced.
Service level risk registers to be discussed at Departmental Management Team meetings.	Senior Managers to be reminded of this once the risk assessments have been completed.	

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LEWES COUNTER FRAUD SAVINGS

	QUARTER ONE		QUARTER TWO		QUARTER THREE		QUARTER FOUR		YEAR TOTAL	
	Income	Savings	Income	Savings	Income	Savings	Income	Savings	Income	Savings
Tenancy Housing										
Recovery of council properties									£0.00	£0.00
RTB value saved through intervention				£575,300.00					£0.00	£575,300.00
Housing intervention/fraud									£0.00	£0.00
Revenues										
NNDR			£90,821.36						£90,821.36	£0.00
Council Tax	£781.38		£2,679.63						£3,461.01	£0.00
Value of ongoing CT increase per week	£38.17								£38.17	£0.00
Council Tax Penalties									£0.00	£0.00
CTR & Housing Benefit										
SPOC Cases									£0.00	£0.00
Council Tax Reduction			£2,679.63						£2,679.63	£0.00
CTR weekly incorrect benefit (WIB)				£1,824.32					£0.00	£1,824.32
Housing Benefit	£41,980.06		£13,085.57						£55,065.63	£0.00
HB weekly incorrect benefit (WIB)		£19,301.76		£3,575.68					£0.00	£22,877.44
Income from Adpen collection									£0.00	£0.00
NFI										
Number of open matches									£0.00	£0.00
Number of closed matches									£0.00	£0.00
Awaiting Processing									£0.00	£0.00
Overpayments identified									£0.00	£0.00
Weekly incorrect benefit identified									£0.00	£0.00
OTHER INVESTIGATIONS										
Procurement									£0.00	£0.00
Internal									£0.00	£0.00
DPA									£0.00	£0.00
Income from court costs									£0.00	£0.00
TOTALS	£42,799.61	£19,301.76	£109,266.19	£580,700.00	0.00	0.00	£0.00	£0.00	£152,065.80	£600,001.76

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Report to:	Audit and Standards Committee
Date:	16th November 2020
Title:	Strategic Risk Register Quarterly Review
Report of:	Chief Internal Auditor
Ward(s):	All
Purpose of report:	To report to Committee the outcomes of the quarterly review of the register by the Corporate Management Team.
Officer recommendation(s):	To receive and note the update to the Strategic Risk Register.
Reasons for recommendations:	The Council is committed to proper risk management and to regularly updating the committee with regard to the Strategic Risk Register.
Contact Officer(s):	Name: Jackie Humphrey Post title: Chief Internal Auditor E-mail: Jackie.humphrey@lewes-eastbourne.gov.uk Telephone number: 01323 415925

1 Introduction

- 1.1 The Strategic Risk Register is a high level document that records the key risks facing the council: those risks that would prevent the authority from achieving its overall strategies and objectives.
- 1.2 Maintaining the Strategic Risk Register is a vital part of the governance arrangements of the authority and, as such, it is overseen by the Corporate Management Team who review it on a quarterly basis.
- 1.3 The risk register shows the risk, a description of the risk, the risk score if no action is taken (original risk score), the internal controls put in place to mitigate the risk and the risk score after these controls are in place (current risk score).
- 1.4 The risk register is brought to the committee when any changes have been made to it following review by the Corporate Management Team.

2 October 2020 Review

- 2.1 The Strategic Risk Register was taken to Corporate Management Team on 21st October for the quarterly review.

2.2 As many of the risks have already been raised to their highest level to take into account the effects of Covid-19 and Brexit, it was felt that the scores should not be changed.

2.3 However, in response to a comment about Newhaven Port at the last committee meeting, additional descriptions and internal controls, referring specifically to the port, have been added under relevant risks. These are as follows:

SR_022 - Changes to the economic environment makes the Council economically less sustainable

Descriptions added:

3. Newhaven town suffers economic impact from Brexit and the effects on the port.

4. Council will need to provide a new service for inspecting imports at the port.

Internal Controls added:

3. Working with the port to provide support, advice and to help explore funding options.

4. Council seeking funding from DEFRA to set up new service for inspecting imports.

SR_023 - Unforeseen socio-economic and/or demographic shifts creating significant changes of demands and expectations.

Descriptions added:

5. Brexit may lead to increased traffic through Newhaven to the port.

6. Failure to support Newhaven port in the changes could result in an economic downturn in the town.

Internal Controls added:

3. Working with the port to provide support, advice and to help explore funding options.

4. Council seeking funding from DEFRA to set up new service for inspecting imports which could result in new jobs.

2.4 The additions above can be seen on the attached Strategic Risk Register.

3. Financial appraisal

3.1 There are no financial implications arising from this report.

4. Legal implications

- 4.1 This report is for noting only and therefore the Legal Services team has not been consulted on the content of it.

5. Risk management implications

- 5.1 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.

6. Equality analysis

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

7. Appendices

- 7.1 Appendix A - Strategic Risk Register

8. Background papers

- 8.1 None.

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Strategic Risk Register Position Table (Lewes)



Report Type: Risks Report
Generated on: 23 October 2020

Code & Title	SR_020 Strategic Risk Register (Lewes)
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Current Risk Matrix		<p>LIKELIHOOD</p> <ul style="list-style-type: none"> 1 - Unlikely 2 - Possible 3 - Likely 4 - Highly Likely 5 - Almost Certain 	<p>IMPACT</p> <ul style="list-style-type: none"> 1 - Minor 2 - Moderate 3 - Significant 4 - Major 5 - Critical
		<p>The numbers relate to the amount of risks currently positioned in each box.</p>	

Strategic Risk Register (Lewes)

Report Type: Risks Report

Generated on: 23 October 2020

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
SR_021	No political and partnership continuity/consensus with regard to organisational objectives	Sudden changes of political objectives at either national or local level renders the organisation, its current corporate plan and Medium Term Financial Strategy unfit for purpose.	4	4	16	<p><u>Reduces Likelihood</u></p> <p>1. Create inclusive governance structures which rely on sound evidence for decision making.</p> <p><u>Reduces Impact</u></p> <p>2. Annual review of corporate plan and Medium Term Financial Strategy</p> <p>3. Creating an organisational architecture that can respond to changes in the environment.</p>	Chief Executive	2	3	6	Amber	02-Feb-2021
SR_022	Changes to the economic environment makes the Council economically less sustainable	<p>1. Economic development of the town suffers.</p> <p>2. Council objectives cannot be met.</p> <p>3. Newhaven town suffers economic</p>	5	5	25	<p><u>Reduces Impact</u></p> <p>1. Robust Medium Term Financial Strategy reviewed annually and monitored quarterly. Refreshed in line with macro-economic environment triennially.</p> <p>2. Creating an organisational architecture that can respond to changes in the environment.</p>	Chief Finance Officer	5	5	25	Red	02-Feb-2021

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Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		<p>impact from Brexit and the effects on the port.</p> <p>4. Council will need to provide a new service for inspecting imports at the port.</p>				<p>3. Working with the port authority to provide support, advice and to help explore funding options.</p> <p>4. Council seeking funding from DEFRA to set up new service for inspecting imports.</p> <p>This risk has been given a higher score owing to the uncertainty over the withdrawal from the European Union. It will be reviewed once more is known.</p>						
SR_023	Unforeseen socio-economic and/or demographic shifts creating significant changes of demands and expectations.	<p>1. Unsustainable demand on services.</p> <p>2. Service failure.</p> <p>3. Council structure unsustainable and not fit for purpose.</p> <p>4. Heightened likelihood of fraud.</p> <p>5. Brexit may lead to increased traffic</p>	5	5	25	<p><u>Reduces Impact</u></p> <p>1. Grounding significant corporate decisions based on up to date, robust, evidence base. (e.g. Census; Corporate Plan Place Surveys; East Sussex in Figures data modelling).</p> <p>2. Ensuring community and interest group engagement in policy development (e.g. Neighbourhood Management Schemes; Corporate Consultation Programme)</p>	Director of Service Delivery	5	5	25	Red	01-Feb-2021

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Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		through Newhaven to the port. 6. Failure to support Newhaven Port Authority in the changes could result in an economic downturn in the town.				3. Working with the Port Authority to provide support, advice and to help explore funding options. 4. Council seeking funding from DEFRA to set up new service for inspecting imports which could result in new jobs						
SR_024	The employment market provides unsustainable employment base for the needs of the organisation	Employment market unable to fulfil recruitment and retention requirements of the Council resulting in a decline in performance standards and an increase in service costs.	4	4	16	<u>Reduces Likelihood</u> 1. Changes increase non-financial attractiveness of LDC to current and future staff. 2. Appropriate reward and recognition policies reviewed on a regular basis. <u>Reduces Likelihood and Impact</u> 3. Review of organisation delivery models to better manage the blend of direct labour provision. Pursuit of mutually beneficial shared service arrangements.	Asst Dir of HR and Transformation	3	2	6	Amber	01-Feb-2021
SR_025	Not being able to sustain a culture that supports organisational objectives and	1. Decline in performance. 2. Higher turnover of staff.	4	4	16	<u>Reduces Likelihood</u> 1. Deliver a fit for purpose organisational culture. 2. Continue to develop our performance management	Asst Dir of HR and Transformation	3	4	12	Amber	01-Feb-2021

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Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
	future development.	3. Decline in morale. 4. Increase in absenteeism. 5. Service failure 6. Increased possibility of fraud.				capability to ensure early intervention where service and/or cultural issues arise. 3. Continue to develop communications through ongoing interactions with staff.						
SR_026	Council prevented from delivering services for a prolonged period of time.	1. Denial of access to property 2. Denial of access to technology/information 3. Denial of access to people	5	5	25	<u>Reduces Likelihood</u> 1. Adoption of best practice IT and Asset Management policies and procedures. <u>Reduces Likelihood and Impact</u> 2. Joint Transformation programme has created a more flexible, less locationally dependent service architecture. <u>Reduces Impact</u> 3. Regularly reviewed and tested Business Continuity Plans. 4. Regularly reviewed and tested Disaster Recovery Plan.	Chief Executive	4	4	16	Red	01-Feb-2021
SR_027	Council materially impacted by the medium to long	1. Service profile of the Council changes materially as a result	5	5	25	<u>Reduces Likelihood and Impact</u> 1. Working in partnership with other public bodies.	Asst Dir for Corporate Governance	5	5	25	Red	01-Feb-2021

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Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
	term effects of an event under the Civil Contingencies Act	<p>of the impact of the event.</p> <p>2. Cost profile of the Council changes materially as a result of the impact of the event.</p> <p>3. Work adversely affected by reduced staff numbers owing to effects of pandemic virus.</p>				<p>2. Robust emergency planning and use of Council's emergency powers.</p> <p><u>Reduces Impact</u></p> <p>3. Ongoing and robust risk profiling of local area (demographic and geographic).</p> <p>4. Review budget and reserves in light of risk profile.</p> <p>This risk has been given a higher score owing to the uncertainty over the withdrawal from the European Union. It will be reviewed once more is known.</p>						
SR_028	Failure to meet regulatory or legal requirements	<p>1. Trust and confidence in the Council is negatively impacted.</p> <p>2. Deterioration of financial position as a result of regulatory intervention/penalties</p> <p>3. Deterioration of service performance as</p>	3	4	12	<p><u>Reduces Likelihood</u></p> <p>1. Developing, maintaining and monitoring robust governance framework for the Council.</p> <p>2. Building relationships with regulatory bodies.</p> <p>3. Develop our Performance Management capability to ensure early intervention where service and/or cultural issues arise.</p>	Asst Dir Legal and Democratic Services	2	4	8	Amber	01-Feb-2021

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Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		a result of regulatory intervention/penalties				<p>4. Take forward the recommendations of the CIPFA Asset Management report to ensure we meet regulatory/legal requirements regarding the management of property.</p> <p>5. Ensure there is full understanding the impact of new legislation.</p> <p>6. All managers are required to abide by the Council's procurement rules.</p> <p>7. Ensure that fire risk regulations are adhered to and that Fire Risk Assessments are regularly reviewed.</p>						
SR_029	Commercial enterprises that are fully controlled by the authority do not deliver financial expectations or do not meet	<p>1. Unfamiliar activity with staff inexperienced in this area</p> <p>2. Council finances affected if projects do not meet financial expectations.</p>	5	5	25	<p><u>Reduces Likelihood</u></p> <p>1. Hire suitably qualified/experienced staff to give legal and specialist support.</p> <p>2. Appoint Head of Commercial Activities.</p> <p>3. Ensure that projects meet core principles.</p>	<p>Dir of Regeneration and Planning</p> <p>And</p> <p>Dir of Tourism and Enterprise</p>	5	5	25	Red	01-Feb-2021

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Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
	governance requirements.	<p>3. Reputational damage if governance procedures are inadequate.</p> <p>4. Failure to abide by company law.</p>				<p>4. Up or re-skill staff to maximise commercial opportunities.</p> <p>5. Ensure governance processes are set up and adhered to.</p>						
SR_030	The Council suffers a personal data breach by inadequate handling of data or by an IT incident	<p>1. Trust and confidence in the Council is negatively impacted.</p> <p>2. Deterioration of financial position as a result of regulatory intervention/penalties</p> <p>3. Deterioration of service performance as a result of regulatory intervention/penalties</p> <p>4. Increased probability of compensation claims by persons affected by a personal data breach.</p>	3	4	12	<p><u>Reduces Likelihood</u></p> <p>1. Ongoing corporate training for data protection.</p> <p>2. Ensure all staff complete the e-learning Data Protection course.</p> <p>3. Ensure that the Data Protection Policy is regularly reviewed.</p> <p>4. Ensure the Data Protection Officer is afforded the resources to discharge their statutory functions.</p> <p>5. Ensure that managers regularly remind staff of their responsibilities under data protection, including personal data breach reporting arrangements.</p>	Asst Dir Legal and Democratic Services	2	4	8	Amber	01-Feb-2021

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Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						6. Ensure the suite of IT policies is kept up to date. 7. Ensure that IT security is in place and regularly tested. <u>Reduces Impact</u> 8. Incident management procedures to mitigate loss or breach of data are in place.						
SR_031	Judicial challenge of decision-making is heightened as a consequence of increased reliance on use of officer delegated powers	1. There is scope for the public audience, members of whom may be directly or indirectly affected by council decisions, to increase once they can routinely hear (and see) meetings from the comfort of their homes. So, the number of people who may be in a position to mount a challenge may similarly increase. 2. There is potential for successful challenges where lapses in IT connectivity may mean	4	4	16	<u>Reduces Likelihood</u> 1. Work closely with IT to ensure that technological issues are kept to a minimum. <u>Reduces Impact</u> 2. Use of delegated powers to be adequately recorded 3. Issue minutes of meetings as soon as possible	Asst Dir Legal and Democratic Services	4	4	16	Red	01-Feb-2021

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Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		that decisions are made where members have not heard and taken into account all relevant information and/or where key public or other participants have not been able to participate in the meeting due to technology failure. 3. The officer resource needed to defend the councils against this type of challenge will be significant.										