Public Document Pack

Audit and Standards Committee
8 March 2021

Lewes District Council

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, 25 February 2021

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 - 8)

To confirm and sign the minutes of the previous meeting held on 18 January 2021 (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 of the 2018/19 Statement of Accounts

Verbal update by Deloitte and Lewes District Council Officers

8 External Audit Plan 2020/21 *(to follow)*

Report of Council's External Auditors (Deloitte)

9 Treasury Management (Pages 9 - 24)

Report of Chief Finance Officer

10 Internal Audit and Counter Fraud report for the first three quarters of the financial year 2020-2021 to the end of December 2020 (Pages 25 - 40)

Report of Chief Internal Auditor

11 Strategic Risk Register quarterly review (Pages 41 - 54)

Report of Chief Internal Auditor

12 Draft Internal Audit plan for 2021/22 (Pages 55 - 64)

Report of Chief Internal Auditor

13 Date of next meeting

To note that the next meeting of the Audit and Standards Committee is scheduled to commence at 10:00am on Monday, 26 July 2021.

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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Lewes District Council

Audit and Standards Committee

Minutes of the meeting held remotely (via Microsoft Teams) on 18 January 2021 at 10.00am

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

Officers in attendance:
Lee Ewan (Counter Fraud Investigations Manager)
Homira Javadi (Chief Finance Officer)
Ola Owolabi (Deputy Chief Finance Officer - Corporate Finance)
Jennifer Norman (Committee Officer, Democratic Services)

Also in attendance:
Ben Sheriff (External Auditor - Deloitte)

63 Introductions

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

64 Apologies for absence/declaration of substitute members

There were none.

65 Declarations of interest

There were none.

66 Minutes

The minutes of the meeting held on 16 November 2020 were submitted and approved, and the Chair was authorised to sign them as a correct record.

67 Urgent items

There were none.

68 Written questions from councillors

There were none.

69 Update on Lewes District Council's use of covert surveillance powers

The Committee received a report which provided an overview of the Council's recent use of online intelligence gathering and covert surveillance powers.

The Regulation of Investigatory Powers Act 2000 (RIPA) Monitoring Officer (MO) presented the report and its findings.

Discussion included:

- Questions surrounding online covert activity and details of the cases as they related to RIPA. The RIPA MO clarified that the Council had been in compliance with RIPA for regulatory powers of surveillance in which cases were required to be a criminal offence. Cases within the Council that were non-RIPA, such as debt collection, were considered to be a civil matter and would not warrant a criminal offense. The RIPA MO further clarified that RIPA did not apply to the report and there had been little, if any, related activity.

- Questions on whether or not the Council's policy on internet and social media research could be included as a background paper to future reports as they related to the use of covert surveillance powers. The RIPA MO agreed.

Resolved:

That the report be noted.

70 Delay to the External Audit of the 2018/19 Statement of Accounts

The Committee invited the Deputy Chief Finance Officer (DCFO) and the Council's External Auditor, Deloitte, to provide an update in relation to the delay to the External Audit of the 2018/19 Statement of Accounts.

The DCFO reminded the Committee that at its previous meeting in November 2020, Members had requested that Officers and Deloitte produce a list of outstanding actions in relation to the delay to the External Audit of the 2018/19 Statement of Accounts.

The DCFO highlighted that after discussions with Deloitte, it was understood that the further delays were due to a lack of resources on the part of Deloitte and that from an Officer standpoint, there were no significant updates to provide to the Committee at this time.

Mr Sheriff of Deloitte agreed with the DCFO's comments and explained that from the External Auditors perspective, the Covid-19 pandemic had been a challenging time in terms of resources and that as a result, Deloitte were not expected to have the resources in January or February 2021 to complete further works on the outstanding issues in relation to the External Audit of the 2018/19 Statement of Accounts.

The Committee expressed its surprise and disappointment on the continued delays in relation to the External Audit of the 2018/19 Statement of Accounts.

Discussions included:

- Questions surrounding the ramifications to the Council for not having the External Audit of the 2018/19 Statement of Accounts completed within a two-year timeframe. The DCFO explained that there were no clear legal remedies in relation to a timeframe in which the audits had to be completed, but it was not good to have the audits outstanding, as it had possible ramifications for stakeholders.

- Questions surrounding whether or not Deloitte could provide a concrete timeline as to when the External Audit of the 2018/19 and the 2019/20 Statement of Accounts would be completed. Mr Sheriff explained that Deloitte could not commit to a fixed timeline for completion.

- Questions surrounding the outcome of the meeting between Officers and Deloitte in relation to the list of outstanding actions needed to be completed. The DCFO explained that Officers had provided a list of outstanding actions to Deloitte. Mr Sheriff of Deloitte confirmed that the relevant member of his team had received the list of outstanding actions but did not agree with the contents of the list. The outstanding issues were unable to be resolved in time for the update to the Committee due to the relevant staff from Deloitte not being available as a result of the Christmas holiday break and various annual leave dates.

The Committee highlighted its disappointment with the External Auditor's efforts and requested that Officers meet with Deloitte's senior partners with the intention of resolving any outstanding issues as soon as practicable. Officers agreed.

The Chief Finance Officer thanked the Committee for its comments and helpful feedback. She extended an invitation to Deloitte's senior partners to ensure Mr Sheriff was getting the support and resourcing his team required.

The Chair thanked Mr Sheriff of Deloitte for the update and also thanked the Committee and Officers for their patience and comments surrounding ongoing discussions with the External Auditor.

Resolved:

That the verbal update be noted.

71 2021/22 Treasury Management Strategy

The Committee considered the report which presented details of recent Treasury Management activity for the period of 1 November to 31 December 2020.

The Deputy Chief Finance Officer (DCFO) apologised and clarified that the report was intended to be a normal monitoring report of Treasury Management activity for the period of 1 November to 31 December 2020, and not the 2021/22 Treasury Management Strategy as originally indicated on the agenda. He summarised the report and its findings.

Discussions included:

- Questions surrounding interest rates in relation to the Council's investment amounts. The DCFO confirmed that the Council would not be able to achieve the projected amounts in terms of income. He clarified that despite the investment figures listed in the report, the Council was limited in terms of where and how it could invest the income.

- Questions surrounding Appendix A, including who produced the information and how it related to local authorities. The DCFO explained that Appendix A was produced by the Council's Treasury Management advisor, Link Services, which provided a quarterly economic view that helped determine how the Council would choose to borrow or where it chose to invest, and was a useful tool to provide additional information to the Committee.

  The Chief Finance Officer advised that in terms of the focus of the economic report, it was useful for Officers to use the intelligence on how the market was performing to assist in formulating the Council's financial and treasury management plans. She further clarified that although Appendix A was not focused on local government, it was used to provide a wider economic outlook in assisting in the development of the Council's financial strategies.

Resolved:

That Cabinet be recommended to accept the Treasury Management activity from 1 November to 31 December 2020 has been in accordance with the approved Treasury Strategy for the period, as set out in the report.

72 Date of next meeting

Resolved:

That it be noted that the next meeting of the Audit and Standards Committee is scheduled to commence at 10:00am on Monday, 8 March 2021, 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.

The meeting ended at 11.00 am

Councillor Julian Peterson (Chair)

Report to:	**Audit and Standards Committee**
Date:	**8 March 2021**
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 note and recommend that Cabinet accepts that Treasury Management Activity for the period 1 January to 28 February 2021 has been in accordance to 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 (*meeting cancelled*)
14 September 2020	1 April to 31 August 2020 (*revised reporting period*)
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 January to 28 February 2021 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 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
249221	Kirklees Council	17 Feb 21	26 Mar 21	37	5,000,000	0.01	*

*UK Government body and therefore not subject to credit rating

2.3 Fixed Term Deposits which have matured in the reporting period.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term Rating
248920	Telford and Wrekin Council	16 Sep 20	18 Jan 21	124	3,000,000	0.08	*
249020	RB Maidenhead & Windsor	30 Nov 20	19 Jan 21	50	5,000,000	0.03	*
249121	Debt Management Office	15 Jan 21	5 Feb 21	21	8,000,000	0.01	*
					16,000,000		

*UK Government body and therefore not subject to credit rating

2.4 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 2021 was 0.06%, below the average bank base rate for the period of 0.10%.

2.5 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £3.081m generating interest of approximately £0.6k..

	Balance at 28 Feb. 2021 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	5,000	5,000	0.08
Lloyds Bank Corporate Account	345	2,016	0.00
Lloyds Bank Call Account	10	2,227	0.01

2.6 Use of Money Market Funds

Details of the amounts held in the two Money Market Fund (MMF) accounts used by the Council are shown below. The approved Investment Strategy allows a maximum investment of £10m in each fund, and at no time was this limit exceeded.

	Balance at 28 Feb. 2021 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	£5,000	6,982	0.00
Deutsche Managed Sterling Fund	£5,501	7,922	0.00

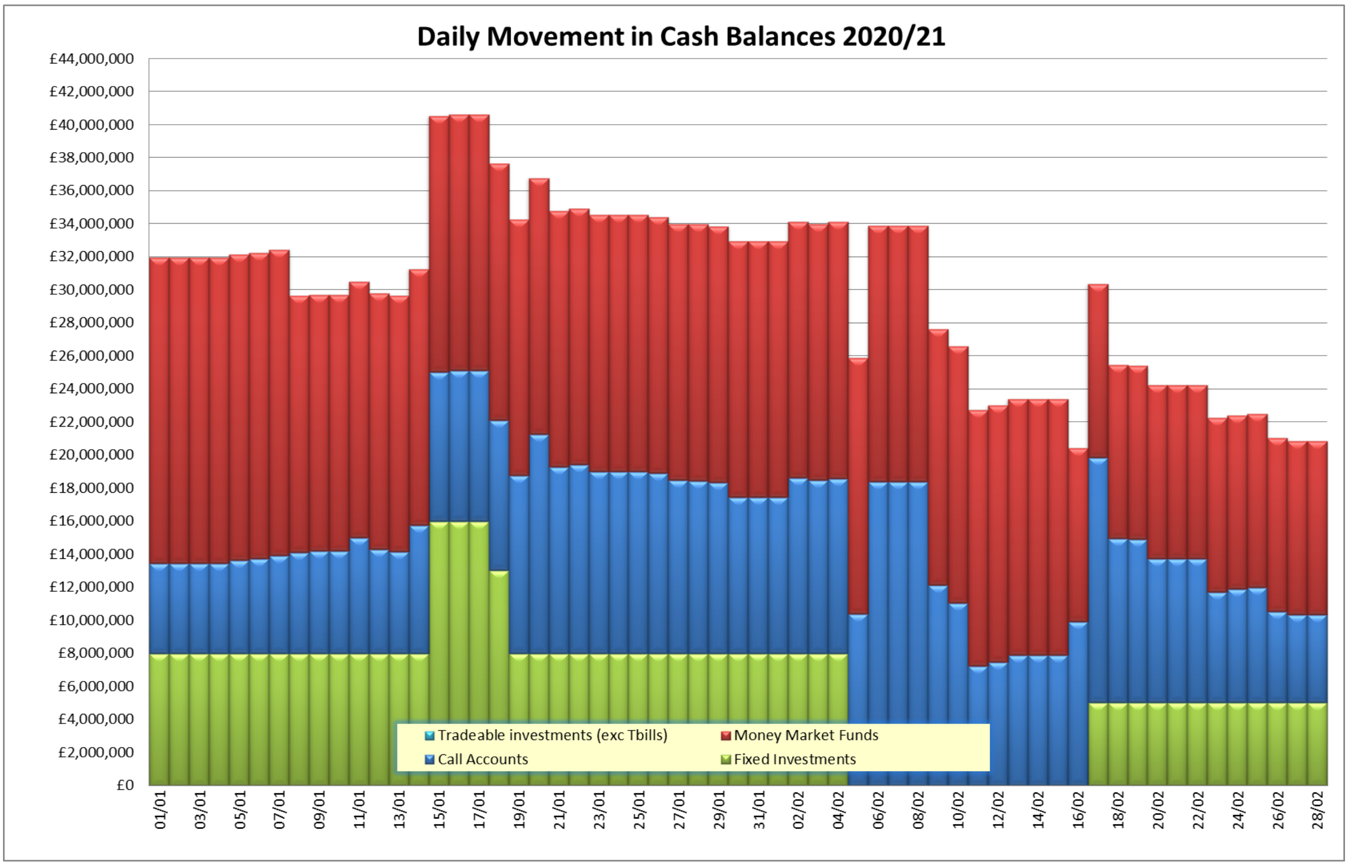
2.7 Treasury Bills (T-Bills)
There were no Treasury Bills held as at 28 February 2021, and there was no activity in the period.

2.8 Secured Investments
There were no Secured Investments as at 28 February 2021.

2.9 Tradeable Investments
There were no Tradeable Investments as at 28 February 2021, 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 January to 28 February 2021. 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 28 February 2021, except for the balance held with Lloyds Bank, which exceeded the £5m limit for 17 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 Investment returns expectations - Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

4.4 The overall balance of risks to economic growth in the UK is now probably more to the upside but is subject to major uncertainty due to the virus - both domestically and its potential effects worldwide. There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates anytime soon and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

Negative investment rates

4.5 While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in February 2021 stated that financial institutions would not be ready to implement negative rates for six months, some deposit accounts were offering negative rates for shorter periods prior to this latest announcement. 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 cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

4.6 As for money market funds (MMFs), yields have fallen near to zero. Some managers have resorted 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 surfeit of money swilling around at the very short end of the market.

4.7 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 January to 28 February 2021 – excess funds of between £1m and £8m.

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

Interest Rate Forecast

5.2 The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 9.2.21. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 8.2.21	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.90	0.90	0.90	0.90	1.00	1.00	1.10	1.10	1.10	1.20	1.20	1.20	1.20
10 yr PWLB	1.30	1.30	1.30	1.30	1.40	1.40	1.50	1.50	1.50	1.60	1.60	1.60	1.60
25 yr PWLB	1.90	1.90	1.90	1.90	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
50 yr PWLB	1.70	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00

5.3 The coronavirus outbreak has done huge economic damage to the UK and 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 subsequently left Bank Rate unchanged at its subsequent meetings, including its last meeting on 4th February 2021, although some forecasters had suggested that a cut into negative territory could happen. However, at that last meeting, we were informed that financial institutions were not prepared for implementing negative rates. The Monetary Policy Committee (MPC), therefore, requested that the Prudential Regulation Authority require financial institutions to prepare for such implementation if, at any time in the future, the MPC may wish to use that as a new monetary policy tool. The MPC made it clear that this did not in any way imply that they were about to use this tool in the near future. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as it is unlikely that inflation will rise sustainably above 2% during this period so as to warrant increasing Bank Rate.

Gilt yields / PWLB rates

5.4 There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. 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.

5.5 The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. 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 was that bond prices were elevated as investors would have been 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.

5.6 As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as government bond yields of major countries around the world are expected to rise little during this time in an environment where central bank rates are also expected to remain low for some years; this is the result of a change of inflation targeting policy of central banks to one based on average inflation over a number of years. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November 2020 when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

5.7 **Investment and borrowing rates**

- **Investment returns** are likely to remain exceptionally low during 2021/22 with little increase in the following two years.
- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to six years were negative during most of the first half of 2020/21; they jumped up after the Monetary Policy Report of 4th February 2021. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.
- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps, but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The new margins over gilt yields are as follows: -
    - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
    - **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)

- **Borrowing for capital expenditure.** As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are near to historic lows. The Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Although short-term interest rates are cheapest, longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable.

- While this authority will not be able to avoid borrowing to finance new capital expenditure, or to replace maturing debt, there will be a *cost of carry*, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances.

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 28 February 2021, 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**	**28 February 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	-		
<u>Investments</u>			
Investment returns expectations	0.10%	0.06%	
Upper limit for principal sums invested for longer than 365 days			
Maturity structure of fixed rate borrowing - upper limits:			
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	n/a	
Ratio of financing costs to net revenue stream (CS 8.1.1):			

Treasury Prudential Indicators	2020/21 Estimate Indicator	28 February Actual Indicator	RAG Status/Reason
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 (LHIC) -** 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 31 January 2021, 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 31 January 2021, £65 of the working capital facility had been drawn down to cover administrative expenses.

7.2 **Aspiration Homes LLP (AH)** - 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 31 January 2021, £1,663,660 had been drawn down for the purchase of Grays School, Newhaven and dwellings at Oakfield, Plumpton Green.

A working capital facility loan of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 31 January 2021, £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 and a detailed economic commentary on developments during period ended 28 February 2021 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.

Detailed economic commentary on developments during period ending -

28 February 2021

The Bank of England's Monetary Policy Committee (MPC) kept **Bank Rate** and quantitative easing (QE) unchanged on 4th February. However, it revised its economic forecasts to take account of a third national lockdown which started on 5th January, which is obviously going to delay economic recovery and do further damage to the economy. Moreover, it had already decided in November to undertake a further tranche of quantitative easing (QE) of £150bn, to start in January when the previous programme of £300bn of QE, announced in March to June 2020, finished. As only about £16bn of the latest £150bn tranche had been used towards the end of January, it felt that there was already sufficient provision for QE - which would be made to last to the end of 2021. This implied that the current rate of purchases of £4.4bn per week would be slowed during the year.

Although its short-term forecasts were cut for 2021, the medium-term forecasts were more optimistic than in November, based on an assumption that the current lockdown will be gradually eased after Q1 as vaccines are gradually rolled out and life can then start to go back to some sort of normality. The Bank's main assumptions were:

- The economy would start to **recover strongly** from Q3 2021.
- **£125bn of savings** made by consumers during the pandemic will give a significant boost to the pace of economic recovery once lockdown restrictions are eased and consumers can resume high street shopping, going to pubs and restaurants and taking holidays.
- The economy would still recover to reach its **pre-pandemic level** by Q1 2022 despite a long lockdown in Q1 2021.
- **Spare capacity** in the economy would be eliminated in Q1 2022.
- The Bank also expects there to be **excess demand** in the economy by Q4 2022.
- **Unemployment** will peak at around 7.5% during late 2021 and then fall to about 4.2% by the end of 2022. This forecast implies that 0.5m foreign workers will have been lost from the UK workforce by their returning home.
- **CPI inflation** was forecast to rise quite sharply towards the 2% target in Q1 2021 due to some temporary factors, (e.g. the reduction in VAT for certain services comes to an end) and given developments in energy prices. CPI inflation was projected to be close to 2% in 2022 and 2023.
- The Monetary Policy Report acknowledged that there were **downside risks** to their forecasts e.g. from virus mutations, will vaccines be fully effective, how soon can tweaked vaccines be devised and administered to deal with mutations? There are also issues around achieving herd immunity around the world from this virus so that a proliferation of mutations does not occur which prolong the time it takes for the global economy to fully recover.
- The Report also mentioned a potential **upside risk** as an assumption had been made that consumers would only spend £6bn of their savings of £125bn once restrictions were eased. However, the risk is that that consumers could spend a lot more and more quickly.
- The Bank of England also removed **negative interest rates** as a possibility for at least six months as financial institutions were not yet ready to implement them. As in six months' time the economy should be starting to grow strongly, this effectively means that negative rates occurring are only a slim possibility in the current downturn.

However, financial institutions have been requested to prepare for them so that, at a future time, this could be used as a monetary policy tool if deemed appropriate. (**Gilt yields and PWLB rates** jumped upwards after the removal of negative rates as a key risk in the short-term.)

- Prior to 4th February, the **MPC's forward guidance** outlined that the sequencing of a withdrawal of monetary policy support would be that Bank Rate would be increased first, and only once it had reached a certain level, 'around 1.5%', before a start would be made on winding down the stock of asset purchases made under QE. However, the MPC decided at the February meeting that this policy should be reviewed as to whether a start should be made first on **winding down QE** rather than raising Bank Rate.
- The MPC reiterated its previous guidance that Bank Rate would not rise until inflation was sustainably above 2%. This means that it will tolerate inflation running above 2% from time to time to balance out periods during which inflation was below 2%. This is termed **average inflation targeting.**

- **There are two views in respect of Bank Rate beyond our three-year time horizon:**
  1. The MPC will be keen to raise Bank Rate as soon as possible in order for it to be a usable tool when the next economic downturn comes along. This is in line with thinking on Bank Rate over the last 20 years.
  2. Conversely, that we need to adjust to the new post-pandemic era that we are now in. In this new era, the shift to average inflation targeting has set a high bar for raising Bank Rate i.e. only when inflation is demonstrably sustainably above 2%. In addition, many governments around the world have been saddled with high levels of debt. When central bank rates are low, and below the average GDP growth rate, the debt to GDP ratio will gradually fall each year without having to use fiscal tools such as raising taxes or austerity programmes, (which would depress economic growth and recovery). This could therefore result in governments revising the setting of mandates to their national central banks to allow a higher rate of inflation linked to other economic targets. This is the Capital Economics view – that Bank Rate will not rise for the next five years and will probably then struggle to get to 1% within 10 years.

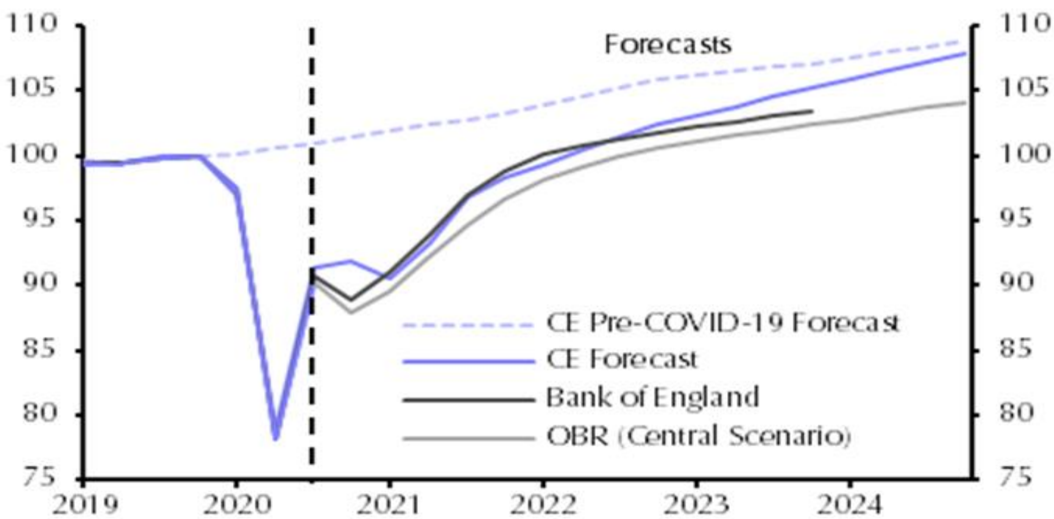
- **Public borrowing** was forecast in November 2020 by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery. It is now likely that total borrowing will probably reach around £420bn due to further Government support measures introduced as a result of further restrictions and the third national lockdown.

- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter

1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. While the one month second national lockdown that started on 5th November caused a further contraction of 5.7% m/m in November, this was much better than had been feared and showed that the economy is adapting to new ways of working. This left the economy 'only' 8.6% below the pre-crisis level. However, a strong recovery from a further contraction during quarter 1 2021 is expected in the second half of 2021 and is likely to mean that the economy recovers to its pre-pandemic level during Q1 2022.

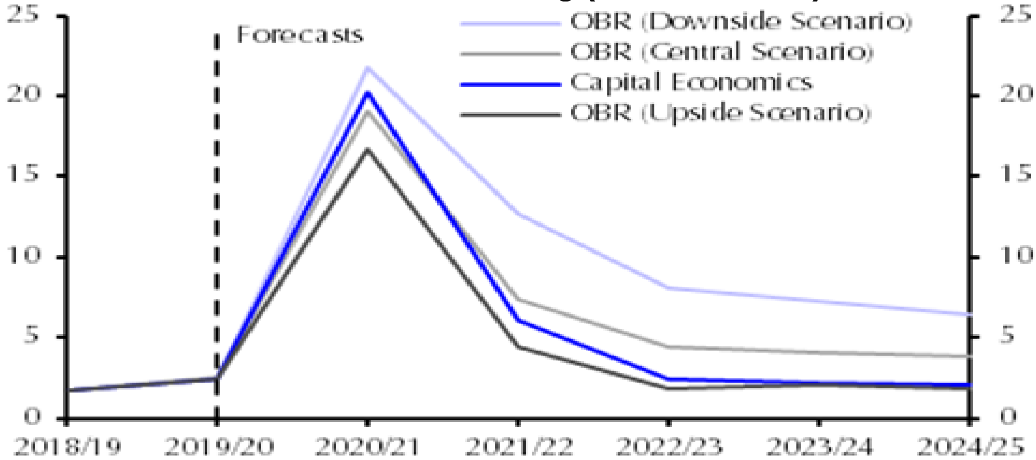
- **Vaccines – the game changer.** The Pfizer announcement on 9th November of a successful vaccine has been followed by approval of the Oxford University/AstraZeneca and Moderna vaccines. The Government has set a target to vaccinate 14 million people in the most at risk sectors of the population by 15th February; it has made good, and accelerating progress in hitting that target. The aim is also to vaccinate all over 50s by May and all adults by September. This means that the national lockdown starting in early January, could be replaced by regional tiers of lighter restrictions, beginning possibly in Q2. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines have radically improved the economic outlook so that it may now be possible for GDP to recover to its pre-virus level as early as Q1 2022. These vaccines have enormously boosted confidence that **life could largely return to normal during the second half of 2021**. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for when life returns to normal.
- Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that **in the second half of this decade**, the economy may be no smaller than it would have been if COVID-19 never happened. The major concern though, is that new mutations of the virus might defeat the current batch of vaccines. However, work is already advanced to produce what may well become annual revaccinations each autumn with updated vaccines. In addition, countries around the world have ramped up vaccine production facilities and vastly improved testing regimes; they are therefore now much better equipped to deal effectively with any new outbreaks of mutations of this virus.

Chart: Level of real GDP (Q4 2019 = 100)



This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade, would have major repercussions for public finances as it would be consistent with the government deficit falling to around 2.5% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts in the graphs above and below, assumed that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

Chart: Public Sector Net Borrowing (as a % of GDP)



- There will still be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a **reversal of globalisation** as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, **digital services** are one area that has already seen huge growth.
- **Brexit.** The final agreement of a trade deal on 24.12.20 has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. However, it is evident from problems with trade flows at ports in January and February, that work needs to be done to smooth out the issues and problems that have been created by complex customs paperwork, in order to deal with bottle necks currently being caused.
- **Fiscal policy.** In December, the Chancellor made a series of announcements to provide further support to the economy: -
  - An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
  - The furlough scheme was lengthened from the end of March to the end of April.
  - The Budget on 3.3.21 will lay out the "next phase of the plan to tackle the virus and protect jobs". This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).
- The **Financial Policy Committee** (FPC) report on 6.8.20 revised down the expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

- **World growth.** World growth has been in recession in 2020 and this is likely to continue into the first half of 2021 before recovery in the second half. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

- Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high-tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand and the pace of recovery in their economies.

If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

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Report to:	**Audit and Standards Committee**
Date:	**8th March 2021**
Title:	**Internal Audit and Counter Fraud report for the first three quarters of the financial year 2020-2021 to the end of December 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 three quarters of the financial year - 1st April 2020 to 31st December 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 three quarters of 2020-21.

2.1 A list of all the audit reports issued in final from 1st April 2020 to 31st December 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
Leaseholder Management and Recharges	Partial Assurance
Business Continuity Planning	Minimal Assurance
Procurement	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.

Implementation of the Cx Housing System
Arrears Collection
Officers Expenses
IR35

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 Corporate Management Team have recently expressed concern about the Minimal assurance rating that was given to the audit review of Business Continuity Planning. They wish it to be made clear that the council responded and adapted to the Covid restrictions and demands in a very prompt and efficient manner. While the Audit team have not yet reviewed these responses, it is clear that this is indeed the case. However, the audit was undertaken to ensure that the council had Business Continuity Plans in place. It was found that the plans and activities for Business Continuity Plan arrangements for the council were outsourced to East Sussex County Council but that this work was on hold because of the pressure of work around Covid. Some Business Continuity Plans were written purely in response to the pandemic but had not been in place before this and they appear to be specifically related to the Covid response. Therefore the assurance level given was "minimal" because the process of having Business Continuity Plans in place, and kept up to date, was not in place. This should be seen as a separate issue to the response of the council to the Covid pandemic which appears to have been timely and effective.

2.6 During this quarter the team has also continued to give advice to various departments on a variety of subjects. Members of the team are also involved with various projects usually being members of meetings or project boards. Some of these include Document Management, Workplace 2021 and AI – Bots.

2.7 The Internal Audit team is currently carrying two vacancies. Corporate Management Team agreed that one of the posts could be filled and a recruitment process has been carried out. Interviews were undertaken in December and the successful applicant will commence work with the council on 18th January.

2.8 Two members of the team are undertaking the Internal Audit Practitioner Apprenticeship funded through the government's Apprenticeship Scheme. The apprenticeship is devised by the Chartered Institute of Internal Auditors (Chartered IIA) which is the recognised professional body for internal auditing in the UK and Ireland. The apprentices are members of the Chartered IIA.
As part of the apprenticeship they will complete the:

- IIA Certificate in Internal Audit and Business Risk
- Certified Internal Auditor (CIA) – Part 1 – Essentials of Internal Auditing

Completion of the IIA Certificate leads to the IACert designation, and completion of CIA Part 1 leads to the award of the Internal Audit Practitioner designation.

2.9 For the audit plan this financial year, the number of audit days available were allocated to departments based on the size of the departments as a percentage of the organisation. A suggested plan of audits was proposed for the year based on these percentages. The intention was to enable the plan to be flexible. For example, if a piece of work was requested which was not in the plan then it could be carried out within that percentage allocation by dropping one of the planned audits in that area. In this way an adequate breadth of coverage could be ensured which is essential for the “opinion of the Chief Internal Auditor on the control environment” which has to be made at the end of the financial year.

2.10 This flexibility has proved invaluable this year with the effects of the response to the Covid-19 pandemic having a major impact on the work of the council. Most notably with Tourism and Enterprise being seriously impacted and with events cancelled and venues closed, the work on auditing these areas will not be taking place this financial year.

2.11 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.

Area	Planned	Actual
Regeneration	12%	3.32%
Tourism and Enterprise	9%	0.31%
Service Delivery	37%	45.79%
Corporate Services	42%	50.58%

2.12 A small amount of work was carried out under Tourism in preparation for a review that did not then take place. The percentages should be nearer to the planned figures in the next report after other audits have been completed.

2.13 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 three quarters of 2020-21.

3.1 The Counter Fraud Team have taken a flexible and creative approach in dealing with the existing, and new, fraud investigations under government guidelines and restrictions. Cases have continued to be built and monitored during the lockdown period, 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, due to the effects of Covid-19, this has had a direct impact on work which 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 to build on the existing investigations and find possible solutions in response to Covid-19 restrictions and the backlog HM Courts are currently facing. There are 27 ongoing sublet/abandonment tenancy cases at various stages. Possession for one property was granted pre-lockdown and is currently waiting a date from bailiffs to execute the warrant. Another case is with Legal pending recovery action.

3.3 Right to Buy – There has been an increase in applications in the third quarter. However with changing Covid-19 restrictions the safety of tenants and members of the team is a priority and therefore verification visits have been severely affected. Work has also been focused on one prosecution case with its initial hearing held during the quarter. The trial is currently set for December 2021. There are 16 current applications being checked to prevent and detect fraud and protect the authority against money laundering. Residency checks are still outstanding for 9 cases which had been withdrawn before the checks were arranged.

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. Planned work on Housing Allocations and Applications has been put on hold due to other work commitments.

3.5 Small Business Grant Fund – Following on from the government's announcement to support businesses through the Covid-19 pandemic, the Counter Fraud Team have been working closely with the revenues specialists to prevent and investigate fraudulent applications. The team are currently undertaking post verification work as requested by the Department for Business, Energy and Industrial Strategy. This work will involve reviewing a sample of grant applications in each scheme for evidence of fraud or non-compliance. Over 150 applications have currently been reviewed with the commencement of recovery action for any incorrectly awarded grants. Further schemes have been announced in January 2021 following the latest national lockdown measures and it is therefore expected that post verification work will carry on into the new financial year.

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 two business rate bills with a net income of £20,858 generated to the authority.

3.7 Council Tax – A review of Council Tax Exemptions has found several discrepancies where a change of circumstances has not been reported to the authority. This has resulted in the rebilling of 37 accounts with a net income of £100,389.46 generated over current and past financial years. Further checks will be undertaken.

3.8 Council Tax Reduction – Two cases have been closed in this period with a further two under investigation in conjunction with a tenancy fraud 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 investigated Housing Benefit. Two cases have been closed in this period with an increase in recoverable Housing Benefit of £199.02.

3.10 National Fraud Initiative –Mandatory datasets for the 2020/21 exercise have been provided for the initiative with the first set of results expected to be received in early February 2021.

3.11 Data Protection (DPA) and other service requests – the team take an active role in supporting colleagues in other organisations to prevent fraud and detect criminal activity. In this period, there were nine DPA requests from the Police and other authorities. In addition, 13 checks were completed where Property Services were unable to undertake gas safety reviews.

3.12 A table showing the savings made by the Counter Fraud team in the first three quarters 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.

9.2 Appendix B – Outstanding recommendations/actions

9.3 Appendix C – Counter Fraud work and savings

10 Background papers

10.1 Internal Audit reports issued throughout the year.

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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	• 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	• 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	• 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	• 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	• 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	• 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	• 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 March 21

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
Leaseholder Management and Recharges	Partial	• Leaseholder charges and handbook are not readily available to leaseholders • Copies of some leases could not be found for the audit.	Follow up due June 21
Business Continuity Planning	Minimal	• There is no lead officer for business continuity planning • There is no appropriately skilled or resourced Business Continuity Planning function • The council does not hold a strategic Business Continuity Plan • There is a lack of business continuity plans at a department level	Follow up due Feb 21
Procurement	Partial	• The council does not have a Procurement Strategy • The council does not have a representative on any local procurement group • The use of corporate contracts is not adequately communicated • There is no reporting on savings made through contract procurement • The Creditors system is not being utilised to highlight opportunities to put contracts in place. • Non compliance with raising of purchase orders is not being monitored and reported.	Follow up due June 21

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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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Appendix C

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		£20,858.00				£111,679.36	£0.00
Council Tax	£781.38		£2,679.63		£100,389.46				£103,850.47	£0.00
Value of ongoing CT increase per week	£38.17				£1,434.92				£1,473.09	£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		£199.02				£55,264.65	£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**	**122,881.40**	**0.00**	**£0.00**	**£0.00**	**£274,947.20**	**£600,001.76**

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Report to:	**Audit and Standards Committee**
Date:	**8th March 2021**
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 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 January 2021 Review

2.1 The Strategic Risk Register was taken to Corporate Management Team on 27th January 2021 for the quarterly review.

2.2 It was agreed that the internal controls/mitigating actions taken to address some of the issues likely to occur around Newhaven Harbour, owing to Brexit, have been effective. For this reason it was agreed to reduce the risk scores for risks SR_022 (council economically less stable) and SR_023 (changes in demands and expectations) should be reduced from a likelihood score of 5 to a 4.

2.3 The Corporate Management Team also discussed that there was no mention currently in the risk register concerning the financial impact of Covid-19 on the council. The following has therefore been added to SR_022 “Changes to the economic environment makes the council economically less stable”:

Description added:

5. Covid 19 has had a significant impact on the Council’s finances.

Internal Control added:

Reduces Likelihood

5. The council is currently in ongoing discussions wit the Ministry of Housing, Communities and Local Government around financial support to cover costs related to expenditure on responses to the Covid pandemic.

2.4 The changes 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.

Appendix A

Strategic Risk Register (Lewes)

Report Type: Risks Report
Generated on: 28 January 2021

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	Reduces Likelihood 1. Create inclusive governance structures which rely on sound evidence for decision making. Reduces Impact 2. Annual review of corporate plan and Medium-Term Financial Strategy 3. Creating an organisational architecture that can respond to changes in the environment.	Chief Executive	2	3	6	Amber	01-May-2021
SR_022	Changes to the economic environment makes the Council economically less sustainable	1. Economic development of the town suffers. 2. Council objectives cannot be met. 3. Newhaven town suffers economic impact from Brexit and the effects on the port.	5	5	25	Reduces Impact 1. Robust Medium-Term Financial Strategy reviewed annually and monitored quarterly. Refreshed in line with macro-economic environment triennially. 2. Creating an organisational architecture that can respond to changes in the environment.	Chief Finance Officer	4	5	20	Red	01-May-2021

Appendix A

Strategic Risk Register (Lewes)

Report Type: Risks Report
Generated on: 28 January 2021

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		4. Council will need to provide a new service for inspecting imports at the port. 5. Covid-19 has had a significant impact on the council's finances.				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. <u>Reduces Likelihood</u> 5. The council is currently in ongoing discussions with the Ministry of Housing, Communities and Local Government around financial support to cover costs related to expenditure on responses to the Covid-19 pandemic.						
SR_023	Unforeseen socio-economic and/or demographic shifts creating significant changes of	1. Unsustainable demand on services. 2. Service failure. 3. Council structure unsustainable and not fit for purpose.	5	5	25	<u>Reduces Impact</u> 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).	Director of Service Delivery	4	5	20	Red	01-May-2021

Appendix A

Strategic Risk Register (Lewes)

Report Type: Risks Report
Generated on: 28 January 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
	demands and expectations.	4. Heightened likelihood of fraud. 5. Brexit may lead to increased traffic through Newhaven to the port. 6. Failure to support Newhaven Port Authority in the changes could result in an economic downturn in the town.				2. Ensuring community and interest group engagement in policy development (e.g. Neighbourhood Management Schemes; Corporate Consultation Programme) 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	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.	Asst Dir of HR and Transformation	3	2	6	Amber	01-May-2021

Appendix A

Strategic Risk Register (Lewes)

Report Type: Risks Report
Generated on: 28 January 2021

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		increase in service costs.				<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.						
SR_025	Not being able to sustain a culture that supports organisational objectives and future development.	1. Decline in performance. 2. Higher turnover of staff. 3. Decline in morale. 4. Increase in absenteeism. 5. Service failure 6. Increased possibility of fraud.	4	4	16	<u>Reduces Likelihood</u> 1. Deliver a fit for purpose organisational culture. 2. Continue to develop our performance management capability to ensure early intervention where service and/or cultural issues arise. 3. Continue to develop communications through ongoing interactions with staff.	Asst Dir of HR and Transformation	3	4	12	Amber	01-May-2021
SR_026	Council prevented from delivering services for a	1. Denial of access to property	5	5	25	<u>Reduces Likelihood</u> 1. Adoption of best practice IT and Asset Management policies and procedures.	Chief Executive	4	4	16	Red	01-May-2021

Appendix A

Strategic Risk Register (Lewes)

Report Type: Risks Report
Generated on: 28 January 2021

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
	prolonged period of time.	2. Denial of access to technology/information 3. Denial of access to people				Reduces Likelihood and Impact 2. Joint Transformation programme has created a more flexible, less locationally dependent service architecture. Reduces Impact 3. Regularly reviewed and tested Business Continuity Plans. 4. Regularly reviewed and tested Disaster Recovery Plan.						
SR_027	Council materially impacted by the medium to long term effects of an event under the Civil Contingencies Act	1. Service profile of the Council changes materially as a result of the impact of the event. 2. Cost profile of the Council changes materially as a result of the impact of the event.	5	5	25	Reduces Likelihood and Impact 1. Working in partnership with other public bodies. 2. Robust emergency planning and use of Council's emergency powers. Reduces Impact	Asst Dir for Corporate Governance	5	5	25	Red	01-May-2021

Appendix A

Strategic Risk Register (Lewes)

Report Type: Risks Report
Generated on: 28 January 2021

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		3. Work adversely affected by reduced staff numbers owing to effects of pandemic virus.				3. Ongoing and robust risk profiling of local area (demographic and geographic). 4. Review budget and reserves in light of risk profile.						
SR_028	Failure to meet regulatory or legal requirements	1. Trust and confidence in the Council is negatively impacted. 2. Deterioration of financial position as a result of regulatory intervention/penalties 3. Deterioration of service performance as a result of regulatory intervention/penalties	3	4	12	<u>Reduces Likelihood</u> 1. Developing, maintaining and monitoring robust governance framework for the Council. 2. Building relationships with regulatory bodies. 3. Develop our Performance Management capability to ensure early intervention where service and/or cultural issues arise. 4. Take forward the recommendations of the CIPFA Asset Management	Asst Dir Legal and Democratic Services	2	4	8	Amber	01-May-2021

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Appendix A

Strategic Risk Register (Lewes)

Report Type: Risks Report
Generated on: 28 January 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
						report to ensure we meet regulatory/legal requirements regarding the management of property. 5. Ensure there is full understanding the impact of new legislation. 6. All managers are required to abide by the Council's procurement rules. 7. Ensure that fire risk regulations are adhered to and that Fire Risk Assessments are regularly reviewed.						
SR_029	Commercial enterprises that are fully controlled by the authority do not deliver financial expectations or do not meet	1. Unfamiliar activity with staff inexperienced in this area 2. Council finances affected if projects do not meet	5	5	25	Reduces Likelihood 1. Hire suitably qualified/experienced staff to give legal and specialist support. 2. Appoint Head of Commercial Activities.	Dir of Regeneration and Planning And	5	5	25	Red	01-May-2021

Appendix A

Strategic Risk Register (Lewes)

Report Type: Risks Report
Generated on: 28 January 2021

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

Appendix A
Strategic Risk Register (Lewes)

Report Type: Risks Report
Generated on: 28 January 2021

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		intervention/penalties 4. Increased probability of compensation claims by persons affected by a personal data breach.				5. Ensure that managers regularly remind staff of their responsibilities under data protection, including personal data breach reporting arrangements. 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	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	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	Asst Dir Legal and Democratic Services	4	4	16	Red	01-May-2021

Appendix A

Strategic Risk Register (Lewes)

Report Type: Risks Report
Generated on: 28 January 2021

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
	delegated powers	(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 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. Issue minutes of meetings as soon as possible						

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Appendix A

Strategic Risk Register (Lewes)

Report Type: Risks Report
Generated on: 28 January 2021

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		3. The officer resource needed to defend the councils against this type of challenge will be significant.										

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Report to:	**Audit and Standards Committee**
Date:	**8th March 2021**
Title:	**Draft Internal Audit plan for 2021/22**
Report of:	**Chief Internal Auditor**
Ward(s):	**All**
Purpose of report:	**To propose an Internal Audit plan for 2021/22.**
Officer recommendation(s):	**(1) To consider and agree the proposed plan.**
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 internal audit function contributes to the council's overall governance arrangements through the audits carried out in the annual internal audit plan.

1.2 The annual audit plan includes a number of managed audits which are required to be carried out annually.

2 Approach to setting the plan

2.1 During the past few years it has been noted that senior managers are more willing to approach Internal Audit to request various audit reviews be carry out in their areas. As these requests usually involve issues which are a high risk, or are of immediate importance, these have been carried out by the team. There have also been times where an audit review of one area has been proposed but, at the time of scoping the review, the relevant senior manager has requested that the scope be changed to cover a different area with which they have concerns.

2.2 It is important that Internal Audit add value to the council and ensure that any emerging areas of concern are considered. The work of the team must add value and be flexible whilst still ensuring that there is an adequate breadth of cover to the work that is carried out.

2.3 In order to try to address all these points a new approach to the annual audit plan was trialled last year. The total number of areas that can be audited has been divided into the departments under which they sit. The number of areas by department have then been calculated as a percentage of the total number of areas. The table below shows the number of areas listed in the universe for each department which has then been calculated as a percentage of the total.

Department	No of areas	% of total
Regeneration	15	10%
Tourism and Enterprise	18	12%
Service Delivery	58	39%
Corporate Services	59	39%
TOTAL	150	100%

These percentages have then be used to inform the contents of the plan and this is explained in more detail below.

3 The Audit Universe

3.1 The Audit Universe is the list of all areas across the councils which can be reviewed; this includes areas across both Eastbourne Borough and Lewes District Councils so that a full joint audit plan can be produced. Whilst many services are now delivered jointly there are still some which are relevant to only one council and these are identified as such where appropriate.

3.2 As part of the planning process this year a review was undertaken of the Audit Universe that has changed the percentage slightly from last year.

4 Production of the draft audit plan for 2021/22

4.1 The internal audit plan for each year begins by calculating the number of audit days available. This takes the number of work days of each member of staff less non-chargeable time (e.g. annual leave, public holidays, sick leave, training, admin. etc.). From the remaining days, 36 are allocated for audits for Eastbourne Homes and 5 for South East Environmental Services Ltd – both of which are paid for by the companies.

4.2 There are twelve "managed" audits which have to be undertaken every year as these cover our main financial systems and their controls. The time taken for these days is also taken off the remaining number along with some allocation for special pieces of work, advice, consultancy etc.

4.3 The Audit Manager and one Auditor are undertaking apprenticeship scheme training with the Institute of Internal Auditors which has reduced the audit time available while they undertake the training. Also a new member of staff joined the team in January 2020 and while the majority of training will take place during the last quarter of 20/21 some training will take place in 21/22. Time has to be set aside for this but later in the year the addition of an extra member of staff should help to complete the audit plan.

4.4 The total number of days available for audits having been arrived at (see Appendix A) these have then been split by the percentages shown at 2.3. This is as follows:

Total days available		320 audit days
Regeneration	10%	32audit days
Tourism and Enterprise	12%	28 audit days
Service Delivery	39%	125 audit days
Corporate Services	39%	125 audit days

4.5 The universe is the starting point for developing the annual audit plan. Current issues facing the councils are considered and any relevant areas in the universe will be considered for auditing. Equally, any priorities or initiatives for the councils will be considered in the same way.

4.6 Once the audits that affect the objectives of the councils have been considered, the rest of the universe is looked at and consideration given to other areas of higher risk, areas that haven't been audited for some time, and new areas added. Any that are considered as being due for review are added to the list based on the percentages at 2.3 and the number of days available.

4.7 The majority of services are now shared across the authorities so the audit plan reflects this as well. The draft plan therefore is flexible, covers the work in both authorities and reflects the risk levels around internal controls. This draft plan can be found at Appendix B.

4.8 The plan is in place to provide a list of audits that will be carried out if no other work is requested from the team. However, by using the percentage approach when other work is requested, it will be carried out within the time allocated for that department and will mean that one of the lower risk audits will be carried forward to be undertaken within a future audit plan. The aim is to ensure that the breadth of audit work across all areas is maintained whilst still being able to be flexible to requests. Should work be requested that would take the department beyond the percentage allocated then a conversation would be held to decide on the importance of the piece of work being requested.

4.9 Quarterly reporting of the work of Internal Audit will be based on this percentage approach.

5 Counter Fraud

5.1 The plan for Counter Fraud work has also been based on the time available from Counter Fraud staff across the two authorities.

	Days	Priority
Housing Allocations	65	High
Tenancy Fraud	247	High
Right to Buy	180	High
Council Tax/CTR	78	Medium
NNDR	50	Medium
Covid-19 Grants	100	Medium
Private Sector Housing/DFG	5	Medium
Housing Benefit	25	Low
Procurement	5	Low
Data Matching/Other	20	Low

5.2 Tenancy fraud work includes building up relationships with Homes First and Account Management in order to elicit more referrals and then to investigate these.

5.3 Council Tax and Council Tax Reduction work results in lower amounts of savings than other work. However, these savings are actual cashable savings to the council.

5.4 Disabled Facility Grants and Procurement are areas where no fraud work has yet been undertaken so work will be carried out to see how best any investigations can be approached. There has been little work being passed to the Counter Fraud team in respect of Private Sector Housing and Disabled Facility Grants.

5.5 Projects to be undertaken within the days listed above include tenancy succession, Council Tax discounts and Housing Applications.

5.6 During the year there will be some work carried out by the Counter Fraud Investigations Manager into areas where income can be generated. These will be reviewing the chasing of potential bad debts on rent and deposit loans, and consideration of training a member of staff to be a financial investigator. Having a trained financial investigator would involve some expenditure at first for the training, however they could investigate proceeds of crime from housing fraud etc. and this money can be retained by the council. This would also be a resource that could be offered to other authorities, perhaps for a fixed fee or for a percentage of the monies identified.

5.7 Covid-19 grants have been included to reflect the ongoing financial support provided to businesses affected by national and localised restrictions. All grant prevention work and recovery will be returned to central government, however there remains a potential financial income incentive to the council by identifying incorrect liable parties for business rates and those not eligible for Small Business Rate Relief.

6 Financial Appraisal

6.1 There are no financial implications.

7 Legal Implications

7.1 This report takes account of regulation 5 of the Audit and Accounts Regulations 2015 which requires the Council to "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."

8 Risk Management Implications

8.1 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.

9 Equality Analysis

9.1 An equalities impact assessment is not considered necessary.

10 Appendices

10.1 Appendix A – Calculation of audit resources for the draft plan

10.2 Appendix B – Draft Audit plan for 2021/2022

11 Background Papers

11.1 Audit universe.

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Calculation of Audit Time Available

	Head of Service	Audit Man	Senior Auditor	Auditor	Auditor
Total days		260	260	260	260
Non charge		172	94	113	77
Actual days	100	88	166	147	183

Gross total	684
Less EHL	36
Less SEESL	5
Total audit days available	**643**

Annual audits	183
Follow ups of audits from previous years	15
Advice/specials	10
Fraud/Audit projects	15
Consultancy and CIA projects	100
Total	**323**
Available for operational audits	**320**

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	No of areas		% of universe		Actual days	Rounded days
Regeneration	15		10		32.00	32
Tourism and Enterprise	18		12		38.40	38
Service Delivery	58		39		124.80	125
Corporate Services	59		39		124.80	125
				Total days	320	320

INTERNAL AUDIT DRAFT PLAN 2021/22

Regeneration and Planning

	Regeneration Projects	7	
	Performance Management Software (controls)	5	
	Leasing and Licensing	15	
	Community Wealth Building - LEWES	5	32

Tourism and Enterprise

	Destination Management	10	
	Sovereign Centre - EASTBOURNE	10	
	Stage Door - EASTBOURNE	10	
	Film Liaison Unit	8	38

Service Delivery

	Lewes Waste Services	12	
	Allocations and Housing Lettings System	25	
	Rent Sense (requested by Kevin Rance)	12	
	EHIcl/LHICL/HEDP/EHL(gov/perf)	15	
	Shared Ownership/resales	15	
	Leaseholder Management and Recharges	12	
	Pest Control and Public Health Burials	12	
	Pollution (Air quality/beaches)	12	
	Report It App	10	125

Corporate Services

	Land Charges and Searches	10	
	Furloughing	12	
	Finance Performance	20	
	Information Governance	10	
	HR - Covid new ways of working and policies	10	
	Invoice Handling - Flow Matrix	10	
	Risk Management	10	
	IT Security - PSN	10	
	Cyber Security during Covid	12	
	IT Post Brexit Arrangements	12	
	Use Of Social Media	10	126
			321

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