

Audit and Standards Committee

27 September 2021



Lewes District Council

Time and venue:

10:00am in the Ditchling & Telscombe Rooms, Southover House, Southover Road, Lewes, BN7 1AB

Note: This meeting is a public meeting. The number of public seats, however, are limited and need to be carefully managed to ensure that the meeting is Covid-secure. For this reason, we would like to ask that anyone intending to attend as a member of the public, contact Democratic Services in advance by email: committees@lewes-eastbourne.gov.uk or phone: 01273 471600. Anyone attending the meeting will be requested to check in at the venue and to wear a face covering.

Membership:

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

Quorum: 4

Published: Friday, 17 September 2021

Agenda

1 Minutes (Pages 5 - 10)

To confirm and sign the minutes of the previous meeting held on 26 July 2021 (attached herewith).

2 Apologies for absence/declaration of substitute members

3 Declarations of interest

Disclosure by councillors of personal interests in matters on the agenda, the nature of any interest and whether the councillor regards the interest as prejudicial under the terms of the Code of Conduct.

4 Urgent items

Items not on the agenda which the Chair of the meeting is of the opinion should be considered as a matter of urgency by reason of special circumstances as defined in Section 100B(4)(b) of the Local Government Act 1972.

5 Written questions from councillors

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

6 External Audit of the 2018/19 Statement of Accounts (to follow)

Report of the Council's External Auditors, Deloitte

7 Treasury Management (Pages 11 - 26)

Report of Chief Finance Officer

8 Internal Audit and Counter Fraud Report for the first quarter of the financial year 2021-2022 (Pages 27 - 50)

Report of Chief Internal Auditor

9 Strategic Risk Register Quarterly Review (Pages 51 - 64)

Report of Chief Internal Auditor

10 Annual Governance Statement (Pages 65 - 84)

Report of Chief Internal Auditor

11 Date of next meeting

To note that the next meeting of the Audit and Standards Committee is scheduled to be held on Monday, 15 November 2021 in the Ditchling and Telscombe Rooms, Southover House, Southover Road, Lewes, BN7 1AB, commencing at 10:00am.

Information for the public

Accessibility:

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

Filming/Recording:

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Public participation:

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

Information for councillors

Disclosure of interests:

Members should declare their interest in a matter at the beginning of the meeting.

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

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

Councillor right of address:

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

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

Other participation:

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

Democratic Services

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

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Audit and Standards Committee

Minutes of the meeting held in the Ditchling & Telscombe Rooms, Southover House, Lewes, BN7 1AB, on 26 July 2021 at 10:00am

Present:

Councillor Stephen Gauntlett (Vice-Chair, in the Chair); Councillors Christine Brett, Isabelle Linington, Christine Robinson and Adrian Ross

Officers in attendance:

Oliver Dixon (Head of Legal Services & Monitoring Officer)
Jackie Humphrey (Chief Internal Auditor)
Jennifer Norman (Committee Officer, Democratic Services)
Ola Owolabi (Deputy Chief Finance Officer, Corporate Finance)

1 Minutes

The minutes of the meeting held remotely on 8 March 2021 were submitted and approved, and the Chair was authorised to sign them as a correct record.

2 Apologies for absence/declaration of substitute members

Apologies for absence were received from Councillor Julian Peterson (Chair) and Homira Javadi (Chief Finance Officer).

3 Declarations of interest

There were none.

4 Urgent items

There were none.

5 Written questions from councillors

There were none.

6 Amendments to ethical standards governance

The Committee considered the report which sought its approval in respect of proposed amendments to the Council's ethical governance framework.

Lewes District's Monitoring Officer (MO) explained that the report proposed amendments to two sets of ethical governance procedures, including the Committee's terms of reference and the Council's arrangements for dealing

with complaints about councillor conduct. He detailed the report and its findings, including the proposed amendments as set out in Appendices 1, 2 and 3.

The MO brought the Committee's attention to paragraph 3.6.3 in Appendix 1, and suggested a further amendment with the inclusion of an additional sub paragraph directly preceding sub paragraph (i) to read:

- *Where the Monitoring Officer has referred to the Standards Panel an Investigating Officer's report into the conduct of a Member, to decide, in consultation with the Independent Person, whether that Member has failed to comply with the Code of Conduct.*

The Committee discussed the suggested amendments including the process of appointing the Independent Person and its request to officers that the amended arrangements for dealing with complaints about councillor conduct, if approved, be distributed to all town and parishes within the District. The Monitoring Officer agreed to inform Town and Parish Council of these changes.

Resolved:

- 1) That the amended Audit and Standards Committee terms of reference as set out in Appendices 1 and 2 be approved, subject to the inclusion of an additional sub paragraph to directly precede sub paragraph (i) under paragraph 3.6.3 in Appendix 1 to read:

Where the Monitoring Officer has referred to the Standards Panel an Investigating Officer's report into the conduct of a Member, to decide, in consultation with the Independent Person, whether that Member has failed to comply with the Code of Conduct.

- 2) That the amended arrangements for dealing with complaints about councillor conduct as set out in Appendix 3, be approved; and
- 3) That the District's Monitoring Officer be authorised to update the Council's constitution and supporting documents to reflect the amendments referenced in resolutions 1 and 2.

7 External Audit of the 2018/19 Statement of Accounts

The Committee received a verbal update from the Deputy Chief Finance Officer (DCFO) in respect of the External Audit of the 2018/19 Statement of Accounts.

The DCFO informed the Committee that the Council's External Auditor, Deloitte, had given apologies for the meeting and as a result, he would not be able to present anything on Deloitte's behalf in respect of the update to the External Audit of the 2018/19 Statement of Accounts.

The DCFO reminded the Committee of the discussions which took place at the meeting on 8 March 2021 regarding the progress by Deloitte in completing the

External Audit of the 2018/19 Statement of Accounts. The Council's External Auditor highlighted that it had been struggling with resources but that it was looking to acquire additional staff to assist in response. Additional resources were provided in April 2021 as a result of discussions between the Council's Chief Executive, senior officers and Deloitte's Director and Senior Director, although the progress continued to be slow moving.

The DCFO highlighted that he, the Council's Chief Finance Officer, and a representative from Deloitte were holding weekly meetings to continually monitor the progress and the best allocation of resources.

The Committee highlighted its continued dissatisfaction with the lack of completion in signing off on the External Audit of the 2018/19 Statement of Accounts by the date previously indicated by Deloitte. It discussed in detail ongoing issues surrounding its previously requested list of outstanding actions, the lack of progress on the External Audits of 2018/19 and 2019/20 and the current contract with the PSAA (Public Sector Audit Appointments).

The Committee requested that senior officers write, for a second time, to the LGA (Local Government Association) highlighting the outstanding actions in relation to the External Audits of 2018/19 and 2019/20 and Members' continued dissatisfaction with the lack of progress made by Deloitte. Officers agreed.

Resolved:

- 1) That the verbal update be noted; and
- 2) That the Council's senior officers write a letter to the LGA (Local Government Association) on behalf of the Committee.

8 Change in the order of items on the agenda

Agenda item 9 (Redmond Review update and MHCLG External Audit Consultations) was taken prior to that of agenda item 8 (Treasury Management Annual Report 2020/21 and latest TM Monitoring).

9 Redmond Review update and MHCLG External Audit Consultations

The Committee received the report which provided details in respect of the progress in delivering the recommendations of the Redmond Review and ongoing external audit consultations.

The Deputy Chief Finance Officer (DCFO) summarised the report and its findings, including the Government's responses to the Redmond Review findings and the MHCLG Audit Fees Consultation.

The Committee had no questions in respect of information contained in the report.

Resolved: That the report be noted.

10 Treasury Management Annual Report 2020/21 and latest TM Monitoring

The Committee received the report with presented details of the Annual Treasury Management report for 2020/21 and the latest Treasury Management activities.

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

The DCFO highlighted that the report had already been considered by Cabinet at its meeting on 8 July 2021, with Cabinet recommending the report for approval by Full Council at its meeting on 20 September 2021. He noted, however, that in future Treasury Management reports would be considered by the Committee prior to any recommendations to Cabinet, as had been done in previous years.

The Committee discussed the Treasury Prudential Indicators as set out in paragraph 4.2 and requested that Officers list maturity expiry dates, as set out in paragraph 3.10 of the report, in sequential order in future reports. Officers agreed.

Resolved:

- 1) That the Annual Treasury Management report for 2020/21 and the latest Monitoring report be noted;
- 2) That the 2020/21 Prudential and Treasury Indicators as set out in the report, be noted; and
- 3) That it be noted that the Treasury Management activities for the period 1 March 2021 to 31 March 2021 have been in accordance with the approved Treasury Strategies for that period.

11 Environmental, Social, and Governance Investments

The Committee received the report which provided an update on the position of the Council's Treasury Management investments in respect of the environmental, social and governance aspects of investing.

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

The Committee discussed the idea of an engagement approach as referenced in paragraph 2.3 of the report.

The Committee welcomed the information detailed in the report and thanked the DCFO for his hard work.

Resolved: That the report be noted.

12 Internal Audit and Counter Fraud Report for the financial year 2020-2021

The Committee considered the report which provided a summary of the activities of Internal Audit and Counter Fraud for the financial year 1 April 2020 to 31 March 2021.

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

The Committee discussed withdrawn Right to Buy applications, staffing levels and counter fraud measures.

The Committee highlighted the recommendations outstanding as set out in Appendix B, and queried how soon the first follow up would be. The CIA explained that officers worked to ensure the follow up would be within three months and that the Committee would see the results detailed in the next quarterly report.

Resolved: That the report be noted.

13 Strategic Risk Register Quarterly Review

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

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

The CIA highlighted that ongoing discussions with CMT since the Covid-19 pandemic began resulted in numerous risk levels being raised to red. As the pandemic progressed, it was agreed that the levels could be reverted back to pre-Covid levels with the exception of the second risk as set out in Appendix A. Points in relation to the Brexit risk would be reviewed and discussed with CMT prior to the next report submitted to the Committee in respect of the SRR.

The Committee highlighted that description 1 on page 139 in Appendix A should read 'Lewes District' instead of 'Town'. The CIA agreed to correct the error.

The Committee requested that risks for climate change and coastal erosion be included in future SRR reports. The CIA agreed.

Resolved: That the report be noted.

14 Annual Governance Statement

The Committee considered the report which set out the draft 2020/21 Annual Governance Statement (AGS).

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

The Committee discussed document retention, page numbering in Appendix 4 and the structure of future documents in relation to the AGS. The Committee requested that the CIA review and amend the structure of any future AGS and include more detailed information around the responses in the Managers' Assurance Statements.

The CIA confirmed that the page numbering in Appendix 4 was in error and that any future AGS would be restructured to include the requests by the Committee, including more detailed information around the responses in the Managers' Assurance Statements.

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

15 Date of next meeting

That it be noted that the next meeting of the Audit and Standards Committee is scheduled to commence at 10:00am on Monday, 27 September 2021 in the Ditchling and Telscombe Rooms, Southover House, Southover Road, Lewes, BN7 1AB.

The meeting ended at 12:27pm.

Councillor Stephen Gauntlett (Vice-Chair, in the Chair)

Report to:	Audit and Standards Committee
Date:	27 September 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 April to 31 July 2021 has been in accordance with the approved Treasury Strategies.
Reasons for recommendations:	Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code) and this has to be reported to Full Council.
Contact Officer(s):	Name: Ola Owolabi Post title: Deputy Chief Finance Officer E-mail: ola.owolabi@lewes-eastbourne.gov.uk Telephone number: 01273 485083

1. Introduction

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

2. Treasury Management Activity

- 2.1 The timetable for reporting Treasury Management activity in 2021/22 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
26 July 2021	2020/21 Annual Report (up to 31 March 2021)

27 September 2021	1 April to 31 July 2021
16 November 2021	1 August to 31 October 2021
18 January 2022	1 November to 31 December 2021
8 March 2022	1 January to 28 February 2022

2.2 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held between 1 April to 31 July 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 in terms of long-term A- (Fitch).

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term Rating
250221	Warrington BC	07 Jun 21	17 Aug 21	71	5,000,000	0.02	*
250721	Royal Borough of Windsor & Maidenhead	30 Jul 21	29 Oct 21	91	5,000,000	0.03	*
251221	DMO	29 Jul 21	26 Aug 21	28	9,000,000	0.01	*

*UK Government body and therefore not subject to credit rating

2.3 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured between 1 April to 31 July 2021, in maturity date order. It is important to note that the table includes sums reinvested and that in total the Council's investments have not increased by £116.5m over this period.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int. Rate %	Long-term rating
249321	Surrey County Council	08 Mar 21	08 Apr 21	31	5,000,000	0.05%	*
249421	Debt Management Office	01 Apr 21	08 Apr 21	7	5,000,000	0.01%	*
249521	Debt Management Office	07 Apr 21	13 Apr 21	6	6,000,000	0.01%	*
249621	Debt Management Office	09 Apr 21	30 Apr 21	21	9,000,000	0.01%	*
249721	Debt Management Office	30 Apr 21	21 May 21	21	9,000,000	0.01%	*
249821	Debt Management Office	04 May 21	11 May 21	7	7,000,000	0.01%	*
249921	Debt Management Office	12 May 21	18 May 21	6	7,000,000	0.01%	*
250021	Debt Management Office	18 May 21	01 Jun 21	14	8,000,000	0.01%	*
250121	Debt Management Office	01 Jun 21	07 Jun 21	6	15,000,000	0.02%	*
250321	Debt Management Office	07 Jun 21	28 Jun 21	21	11,500,000	0.02%	*
250421	Debt Management Office	08 Jun 21	29 Jun 21	21	3,500,000	0.02%	*
250521	Debt Management Office	15 Jun 21	18 Jun 21	3	3,500,000	0.02%	*
250621	Debt Management Office	21 Jun 21	12 Jul 21	21	1,500,000	0.02%	*
250821	Debt Management Office	28 Jun 21	29 Jul 21	31	11,500,000	0.01%	*
250921	Debt Management Office	01 Jul 21	08 Jul 21	7	5,000,000	0.01%	*
251021	Debt Management Office	08 Jul 21	15 Jul 21	7	5,000,000	0.01%	*

Ref	Counterparty	Date From	Date To	Days	Principal £	Int. Rate %	Long-term rating
251121	Debt Management Office	15 Jul 21	29 Jul 21	14	4,000,000	0.01%	*
Total					<u>116,500,000</u>		
*UK Government body and therefore not subject to credit rating							

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits held in the period 1 April to 30 July 2021 was 0.015%, which was below the average bank base rate for the period of 0.10%.

2.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £2.905m generating interest of approximately £0.9k.

	Balance at 31 July 2021 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	£5,000	£5,000	0.02
Lloyds Bank Corporate Account	£2,781	£1,216	0.00
Lloyds Bank Call Account	£2,310	£2,498	0.01

2.5 Use of Money Market Funds

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

	Balance at 31 July 2021 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	£0,000	0,000	0.00
Deutsche Managed Sterling Fund	£0,001	0,001	0.00

2.6 Treasury Bills (T-Bills)

There were no Treasury Bills held as at 31 July 2021, and there was no activity in the period.

2.7 Secured Investments

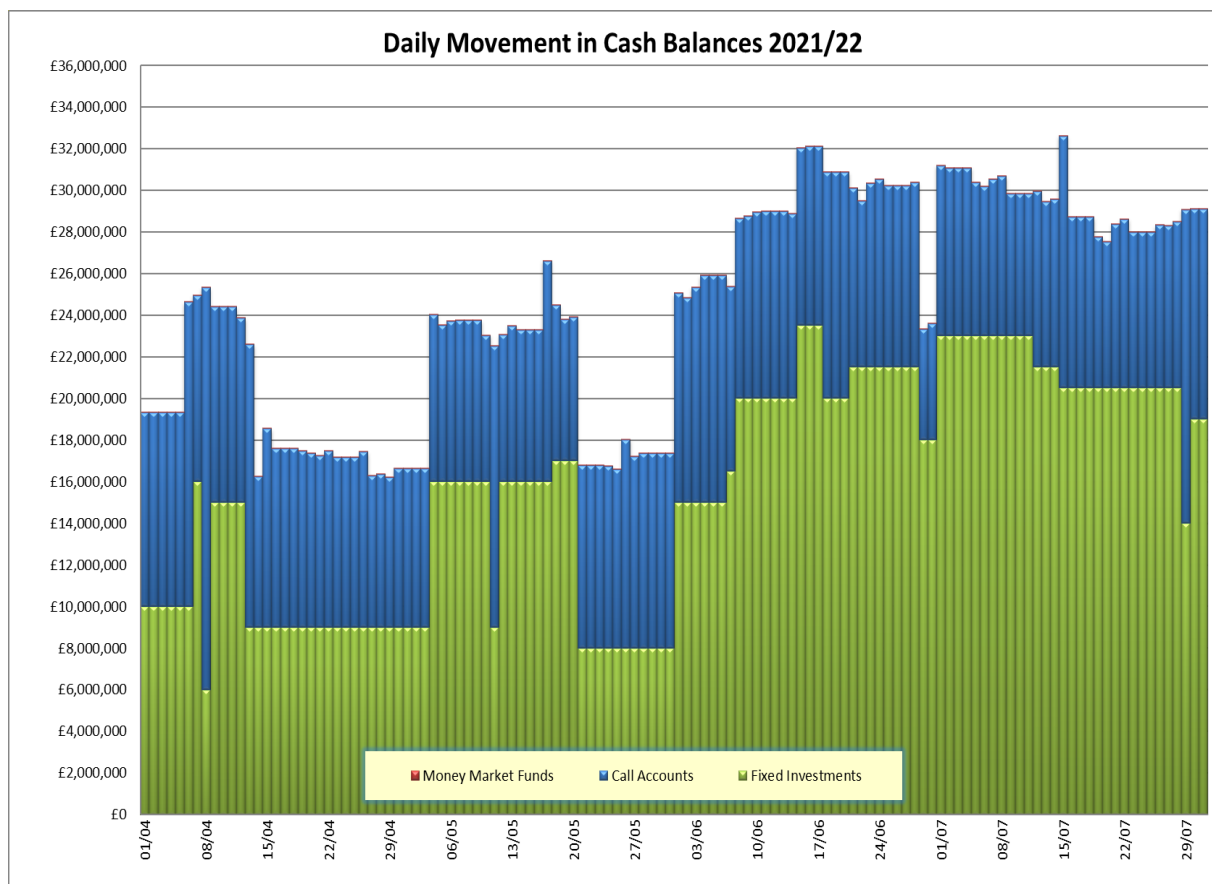
There were no Secured Investments as at 31 July 2021.

2.8 Tradeable Investments

There were no Tradeable Investments as at 31 July 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 September to 31 July 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 2021/22 which includes the Annual Investment strategy, was approved by the Full Council on Monday, 22 February 2021. It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity;
- Yield.

Approved limits within the Annual Investment Strategy were not breached during the period ending 31 July 2021, except for the balance held with Lloyds Bank, which exceeded the £5m limit for 13 days during the period.

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

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

Negative investment rates

- 4.4 While the Bank of England has said that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the Covid crisis; this has caused some local authorities to have sudden large increases in investment balances searching for an investment home, some of which was only very short-term until those sums were able to be passed on.
- 4.5 As for money market funds (MMFs), yields have continued to drift lower. Some managers have suggested that they might resort to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a glut of money swilling around at the very short end of the market.
- 4.6 Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

5. Borrowing

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

Exceptions:

1 April to 31 July 2021 – excess funds of between £1m and £9m.

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. The PWLB rate

forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecasts on 10th May is shown below. A comparison of forecasts shows that PWLB rates have increased marginally and there is also now a first increase in Bank Rate from 0.10% to 0.25% in quarter 2 of 2023/24.

Link Group Interest Rate View		10.5.21											
	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	0.25	0.25	0.25	
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30	
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.40	0.40	
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.50	0.50	
5 yr PWLB	1.20	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	
10 yr PWLB	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00	
25 yr PWLB	2.20	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.50	2.60	
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.40	

5.3 The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings, although some forecasters had suggested that a cut into negative territory could have happened prior to more recent months when strong recovery started kicking in. However, the minutes of the Monetary Policy Committee in February 2021 made it clear that commercial banks could not implement negative rates within six months; by that time the economy would be expected to be recovering strongly and so there would be no requirement for negative rates.

5.4 As shown in the forecast table above, one tentative increase in Bank Rate from 0.10% to 0.25% has now been penciled in for quarter 2 of 2023/24 as an indication that the Bank of England will be moving towards some form of monetary tightening around this time. However, it could well opt for reducing its stock of quantitative easing purchases of gilts as a first measure to use before increasing Bank Rate so it is quite possible that we will not see any increase in Bank Rate in the three-year forecast period shown.

5.5 Significant risks to the forecasts

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The lockdowns cause major long-term scarring of the economy.
- The Government implements an austerity programme that suppresses GDP growth.
- The MPC raises tightens monetary policy too early – by raising Bank Rate or unwinding QE.
- The MPC tightens monetary policy too late to ward off building inflationary pressures.

- Major stock markets e.g. in the US, become increasingly judged as being over-valued and susceptible to major price corrections.

5.6 **GILT YIELDS / PWLB RATES.** 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 heightened expectations 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.

5.7 While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets. Over the year prior to the coronavirus crisis, this resulted in many bond yields up to 10 years turning negative in the Eurozone. In addition, there was, at times, an inversion of bond yields in the US whereby 10-year yields fell below shorter-term yields. In the past, this has been a precursor of a recession.

5.8 Gilt yields had, therefore, already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields initially spiked upwards in March, yields fell sharply in response to major western central banks taking rapid policy action to deal with excessive stress in financial markets during March and starting massive quantitative easing driven purchases of government bonds: these actions also acted to put downward pressure on government bond yields at a time when there was a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply.

5.9 The current PWLB rates are set as margins over gilt yields as follows: -

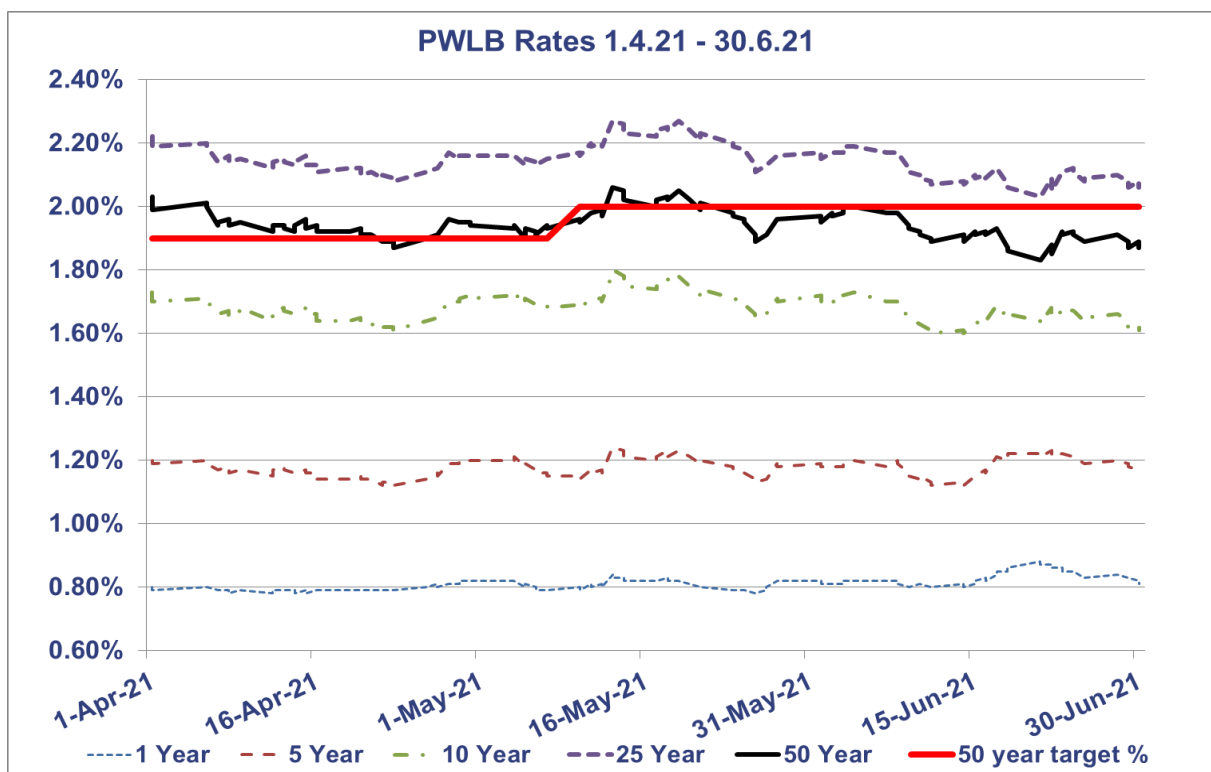
- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

5.10 As the interest forecast table for PWLB certainty rates, (gilts plus 80bps), above shows, there is likely to be little upward movement in PWLB rates over the next three years as the Bank of England is not expected to raise Bank Rate above 0.25% during that period as inflation is not expected to be sustainably over 2%.

PWLB maturity certainty rates year to date to 30th June 2021

5.11 Gilt yields and PWLB rates rose sharply during the first three months of 2021 but have lacked any consistent direction since then over the last three months to 30th

June. The 50-year PWLB target certainty rate for new long-term borrowing started at 1.90% in this quarter but then rose to 2.00% in May.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.78%	1.12%	1.60%	2.03%	1.83%
Date	08/04/2021	22/04/2021	11/06/2021	21/06/2021	21/06/2021
High	0.88%	1.24%	1.80%	2.27%	2.06%
Date	21/06/2021	13/05/2021	13/05/2021	13/05/2021	13/05/2021
Average	0.81%	1.18%	1.68%	2.14%	1.94%
Spread	0.10%	0.12%	0.20%	0.24%	0.23%

Outlook for the remainder of 2021/22










- 5.12 The medium-term global economic outlook has continued to improve with the rollout of vaccination programmes. The UK has continued to benefit from its initial rapid vaccine rollout and has shifted focus onto second vaccinations to increase protection to counter a third wave of COVID-19 variant.
- 5.13 The opening up of the UK economy in Q2/Q3 will continue to prompt a sharp increase in GDP. While downside risks seem to have fallen somewhat after recent trends in GDP and labour, the upside risks remain relatively balanced with the MPC reiterating its commitment not to tighten policy until there is clear evidence that the recovery is eliminating spare capacity in the economy.
- 5.14 Inflation has moved above the Bank of England’s 2% target. Alongside the increase in commodity prices, the MPC has acknowledged the prospect of a sharper upturn in inflation, with the potential CPI could rise above 3% in the coming months. However, the nature of the commodity price rise and the base effect easing, this is









likely a more transitory effect. Upward pressure on gilt yields could continue in the short term due to the preponderance of strong data, but this is likely to ease once inflation fears recede as the effect of weak base effects subsides and growth figures return to more normal levels. Bank Rate is expected to remain at the current 0.10% level. The risk of movement in Bank Rate in the short term is low.

- 5.15 Gilt yields could continue to increase in the short term but will begin to plateau and reduce once the market's expectation of rises in Bank Rate and inflation fears subside. Longer term yields may face upward pressure towards the end of the forecast period as the economy moves back to a sustained footing and policy expectations start to strengthen.
- 5.16 Downside risks remain – the damage from the pandemic will have lasting effects and there is the risk of further virus mutations due to the uneven global rollout of vaccines. Downside risks also arise from potential future vaccine shortages as the global demand for vaccines increases.

6 Compliance with Treasury and Prudential Limits

- 6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS. As at 31 July 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	2021/22 Estimate Indicator	31 July Actual Indicator	RAG Status/Reason
Authorised limit for external debt (CS 4.2.4)	£143.3m	£143.3m	
Operational boundary for external debt (CS 4.2.4)	£130.2m	£130.2m	
Gross external debt (CS 4.2.2)	£91.7m	£56.67m	
Capital Financing Requirement (CS 2.3.4)	£119.7m	£89.9m	
Debt vs CFR under/(over) borrowing	£28.0m	£33.23m	
Investments (Average)	£2.9m	£0.9k	
Investment returns expectations	0.10%	0.015%	
Upper limit for principal sums invested for longer than 365 days			
<i>Maturity structure of fixed rate borrowing - upper limits:</i>			
Under 12 months	25%	25%	
12 months to 2 years	40%	40%	
2 years to 5 years	50%	50%	

Treasury Prudential Indicators	2021/22 Estimate Indicator	31 July Actual Indicator	RAG Status/Reason
5 years to 10 years	75%	75%	
10 years and above	100%	100%	
Capital expenditure (CS 2.1.3)			
General Fund	£11.1m	£1.4m	
HRA	£23.8m	£3.3m	
Commercial Activities/ non-financial investments	£15.9m	£1.0m	
<i>Ratio of financing costs to net revenue stream (CS 8.1.1):</i>			
Proportion of Financing Costs to Net Revenue Stream (General Fund)	5.9%	5.9%	
Proportion of Financing Costs to Net Revenue Stream (HRA)	10.08%	10.08%	

Key: CS – 2020/21 Capital Strategy Appendix 1

7. Non-treasury investments

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

- 7.1 **Lewes Housing Investment Company** - a wholly owned subsidiary of the Council. Incorporated in July 2017, LHIC was set up to acquire, improve and let residential property at market rents. The 2021/22 Capital programme includes £2.4m as commercial loan funding to facilitate property purchases. At 31 August 2021, there had been no draw drawn of the loan facility.

A working capital facility of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 31 August 2021, £1,065 of the working capital facility had been drawn down to cover administrative expenses.

- 7.2 **Aspiration Homes LLP** - a limited liability Partnership owned equally by Lewes District Council and Eastbourne Borough Council. Incorporated in June 2017, AH has been set up for the purpose of developing housing to be let at affordable rent. The Capital programme includes £17.4m as commercial loan funding to AH to facilitate the purchase and construction of property. At 31 August 2021, £2,965,808 had been drawn down.

A working capital facility loan of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 30 September 2021, £20,000 of the working capital facility had been drawn down.

8. Environmental, Social and Governance Investment - update

- 8.1 The Cabinet at its meeting on 4 February 2021 approved the 2021/22 Treasury Management and Investment Strategy, which include Non-Specified investments in

Green Energy Bonds and/or other ESG products that met the Council's internal and external due diligence criteria.

- 8.2 While a wide range of ESG investment are currently limited, there are expectation to see more banks and funds providing specific products over the coming years. As this area continues to develop and become more prominent, the Council in conjunction with the treasury management advisor (Link Asset Services) will continue to monitor ESG investment opportunities within the parameters of the Council's counterparty criteria and in compliance with the MHCLG Investment Guidance (i.e., prioritising security, liquidity before yield).
- 8.3 Potential Approach to ESG Investing - The Council might consider options for various investments of up to £2 million in short/medium-term investments with institutions that will ring fence the use of such funds for ESG related matters and/or continue to explore alongside its treasury advisors other ethical investing options, including -
- Green Bond Purchasing Programme.
 - Green and Sustainable Product Framework.
 - Sustainability Notice Account - a deposit comprising the green and social projects.
 - Multi-asset pooled funds - 'all in one' solution for most long-term investors, offering:
 - long-term growth in capital and income.
 - efficient access to a wide range of investments.
 - low cost/simple administration.
 - well established ethical and responsible policies.

9. Economic Background

- 9.1 As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged and a detailed economic commentary on developments during period ended 31 June 2021 is attached as **Appendix A**.

10. Financial Appraisal

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

11. Risk Management Implications

- 11.1 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.

12. Equality Analysis

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

13. Legal Implications

- 13.1 There are no legal implications from this report.

14. Environmental sustainability implications

- 14.1 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.

15. Appendices

- 15.1 Appendix A - Detailed economic commentary

16. Background Papers

- 16.1 Treasury Strategy Statements 2021/22

Link Treasury Services Limited - Detailed economic commentary on developments during quarter ended 30th June 2021

During the quarter ended 30th June 2021 (*quarter 1 of financial year 2021/22*):

- GDP rose by 2.3% m/m in April as restrictions were lifted on non-essential retailers;
- There were signs that activity was given another boost in May as indoor hospitality resumed;
- Sharply increasing virus cases in June delayed the final easing of lockdown restrictions by four weeks;
- Inflation accelerated to 2.1% in May due to energy effects and a surge in reopening inflation;
- Gilt yields and sterling made little headway, while the FTSE 100 failed to catch up on the S&P 500.

The economic recovery stepped up a gear as non-essential retailers and outdoor hospitality reopened on 12th April. The 2.3% m/m gain in GDP in April was the fastest pace of growth since July 2020 and left the economy just 3.8% below its February 2020 level. It was the accommodation and food sector and the retail sector that led the charge with monthly gains of 44.1% and 8.9% respectively.

Activity was given another boost in May as indoor hospitality reopened on 17th May. Households were keen to return to restaurants. The seven-day average of restaurant diners shot up from around 35% below the same period in 2019 to around 30% above it after 17th May. And there were further signs that the recovery shifted up a gear as the IHS Markit/CIPS composite PMI surged to an all-time high of 62.9 in May. Admittedly, there has since been a recent softening in some activity indicators. Retail sales volumes fell by 1.4% m/m in May and the Bank of England CHAPS data showed a dip in the value of consumer spending on electronic cards from 1.3% below the February 2020 value in May to 5.2% below it in the first two weeks of June. What is more, the composite PMI also declined from 62.9 in May to 61.7 in June. But we think that this is a sign that the economic recovery is evolving as consumers substitute spending on goods towards services, rather than a sign that the recovery is spluttering. Indeed, our CE BICS indicator, which has been a reliable barometer since the onset of the pandemic, suggests that growth has been strong in May and June. As a result, we think that GDP rose by around 1.5-2.0% m/m in both May and June.

The final stage of lifting lockdown restrictions on social distancing and large events was delayed in June. This was triggered by a sharp rise in new virus infections. These have increased from a low of around 1,600 per day in early May to over 20,000 by the end of June. Fortunately, this rise has not translated into a sharp increase in hospitalisations. Another reason for the delay was to buy some time to further the vaccine rollout. Currently, nearly half of the total population has received a second vaccine dose and over two thirds have received their first dose. At its current pace, the government is more or less on track to hit its target of vaccinating all adults with a first dose (roughly 53 million) by the end of July.

While Prime Minister Boris Johnson has said that the final domestic restrictions are likely to end on 19th July, this four-week delay is unlikely to prevent the economy from climbing back to its pre-pandemic size by the autumn. This is because the biggest bump to activity came from reopening hospitality in April and May and a delay of four weeks means that the final boost to activity will come only a month later. So, we think that monthly GDP will rise back to the pre-pandemic peak of February 2020 in August, rather than July as we had previously thought.

Meanwhile, households showed that they are willing and able to drive the recovery. Consumer credit increased in May for the first time since August 2020. And the rise in the amount of cash in households' bank accounts of £7.0bn in May was above the 2019 average rise of £4.7bn, suggesting that households are still amassing excess savings. That means there is the potential for faster rises in GDP further ahead should households choose to spend those excess savings.

Some sectors will take longer to recover than consumer spending. Trade flows are still well below pre-crisis levels and trade with the EU remains especially depressed after Brexit. Exports values to the EU, excluding erratics, were 5.7% below their December level in April, while imports were a whopping 19.1% below. The slower recovery in the euro-zone and lingering Brexit effects are still hampering the recovery in trade with the EU, which will probably continue to lag behind the broader recovery.

After being subdued over much of the pandemic, inflation picked up sharply in this quarter. A large portion of the rise in CPI inflation from 0.7% in March to 1.5% in April was due to temporary energy price effects. Fuel price inflation added 0.3 percentage points (ppts). And the 9.2% increase in Ofgem's gas and electricity price cap from 1st April added 0.3ppts too. Inflation climbed further in May to 2.1% and core CPI inflation rose from 1.3% to 2.0%. Some of this was driven by reopening inflation, with clothing inflation, restaurants/hotels inflation and package holidays inflation all rising and likely rise further. Meanwhile, cost pressures are building earlier in the price pipeline. The input prices and output prices balances of the IHS Markit/CIPS manufacturing PMI both reached record highs in June. Core input producer price inflation picked up from 7.4% in April to 7.8% in May and core output producer price inflation rose from 2.5% to 2.7%.

A strong recovery is underway in the labour market. The 113,000 rise in LFS employment in the three months to April was the largest rise since February 2020 and the ILO unemployment rate edged down to 4.7% from 4.8%. The strong set of labour market figures for April fed concerns over the anecdotal reports of labour shortages and its possible impact on inflation from higher wage growth. Vacancies rose to just 3.4% below their pre-virus level in May and online Adzuna vacancies suggest that the official measure of vacancies rose to 20% above pre-pandemic levels in June.

The myriad of factors boosting inflation (energy price effects, utility price effects, supply/shipping constraints, commodity prices and reopening), are likely to prove temporary. As such, the Bank of England will probably look through increases in inflation above the 2.0% target due to these factors. Indeed, the minutes of the June meeting emphasised "the medium-term prospects for inflation" and left intact the forward guidance designed to stress the MPC's patience.

So, we still think financial markets are wrong to price in an interest rate rise from next year. **Instead, we think it will not be until late 2023 that inflation breaches 2.0% sustainably, with the Bank tightening policy from 2024. And when the Bank does tighten policy, we think it will unwind QE, (shrink its holdings of gilts), first rather than raise interest rates.** The Bank is likely to proceed very cautiously by simply not reinvesting the proceeds from maturing gilts. The maturity profile of the Bank's assets points to around £45bn of QE being unwound per year. And we suspect the MPC would want to wait to see how unwinding QE is influencing the economy and financial markets before raising Bank Rate. So, the first rate hike may not come until a year later, perhaps in 2025.

In the wake of the hawkish surprise at the Fed's May meeting, the gilt yield curve flattened in the UK, but not to the same extent as in the US treasury market. That said, most of these moves have since unwound. **Our forecasts that the Bank will tighten policy later than the markets expect, and unwind QE before raising interest rates, will probably lead to a steeper gilt yield curve, driven by rising long yields.**

The FTSE 100 rose by 5% over Q2 but failed to make up any lost ground on the S&P 500 or Dax 30. However, the easing in COVID-19 restrictions in the UK helped the more domestically orientated FTSE 250 to outperform the FTSE 100. And we think that the favourable valuation and composition of UK equities should help them outperform their global peers over the rest of 2021. We expect the FTSE 100 to rise from 7,100 now to 7,500 by the end of 2021 and to 8,250 by the end of 2022.

In the US, CPI inflation accelerated from 4.2% in April to 5.0% in May, including a jump in core CPI inflation from 3.0% to 3.8%. That was mostly driven by categories directly affected by loosening virus restrictions. But there are also signs of pressures in other sectors too. That means not all the upward pressure may prove transitory as the Fed expects. The Fed revised up its median projections for interest rates to include two 25bp hikes in 2023. We think the upward pressure on inflation will be greater and longer lasting in the US than in the UK. **That is why we think the Fed will tighten (in 2023) before the BoE (in 2024), so the risks to our forecast for the pound to stay close to \$1.40 for the next couple of years are to the downside.**

The more positive economic outlook this year for the UK compared to the **euro-zone** means there is scope for the pound to rise against the euro from €1.16 now, perhaps to €1.22. But as the economic recovery catches up in the euro-zone, sterling might fall back to €1.17 by the end of 2023. In the euro-zone, the vaccine rollout has picked up considerable speed. The euro-zone is now on track to vaccinate 70% of its adult population by July. And economies have gradually reopened as virus cases have fallen significantly. This progress means that we now think GDP increased by 1.0% q/q in Q2. After HICP inflation rose to 2.0% in May, we think that reopening inflation may push headline inflation above 2.5% in the second half of the year. But as inflation will drop back in 2022, the ECB will persist with its ultra-loose monetary policy.

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Agenda Item 8

Report to:	Audit and Standards Committee
Date:	27 September 2021
Title:	Internal Audit and Counter Fraud Report for the first quarter of the financial year 2021-2022
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 quarter of the financial year - 1st April 2021 to 30th June 2021.
Officer recommendation(s):	That the information in this report be noted and members identify any further information requirements. The Committee is requested to review and approve the updated Audit Charter.
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.
- 1.3 This report summarises the work carried out by Internal Audit and Counter Fraud across the first quarter of the financial year 2021-22.
- 1.4 At the last committee meeting, members raised some points relating to the layout of the report. In this report some RAG rating colours have been added for

clarity and more information added to Appendix B. However, a fuller review of the report layout is underway and the next report to committee should address the issues that were raised.

2 Review of the work of Internal Audit carried out in the first quarter of the financial year 2021-22

2.1 A list of all the audit reports issued in final from 1st April 2021 to 30th June 2021 is as follows:

Name of Audit	Assurance Level
Council Tax (20/21)	Substantial Assurance
Payroll (20/21)	Substantial Assurance
Building Control	Full 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 Appendix A is a list of all reports issued with an assurance level below “substantial”. This list is split between reports issued in this financial year and those issued in previous years where follow ups have not yet been carried out or where the assurance level remains below “substantial” after follow up. The list contains brief bullet points of the issues highlighted during the reviews which informed the assurance level given.

2.4 During the first quarter of the year the focus of work for Internal Audit is on completing the annual reviews of the main financial systems. There is much work to be carried out on these and the team are reliant on departments responding to requests for information.

- 2.5 Two follow up reports have been completed in this quarter:
Business Continuity Planning: it was found that two of the original four recommendations had been addressed and that an action plan was in place to address the remaining action. The assurance level was raised from “minimal” to “partial” and a further follow up will be carried out in September.
- IR35: it was found that only one of the original 13 recommendations had been addressed. However, work was ongoing to address the remaining recommendations. The assurance level was raised from “no” assurance to “minimal” because work has begun on looking at and addressing the recommendations. A further follow up will be carried out in October.
- 2.6 Following this quarterly report being taken to Corporate Management Team, the Assistant Director for HR and Transformation provided this update for the work on the recommendations re IR35:
- “Outline next step:
- A new IR35 procedure has been drafted with appropriate guidance notes and forms e.g. Status Determination Statement
 - Investigation has also been undertaken into existing arrangements with individuals and regarding the process with Matrix
 - A meeting of the Working Group will review the draft policy and new proposed procedure
 - Following this, a report will be taken to CMT by the end of September
 - Go Live for new process – 1 October”
- 2.7 Appendix B shows outstanding recommendations/actions. This list includes recommendations from audit reviews that remain outstanding after the first follow up has been completed. It also includes actions from other reports that have been brought to committee.
- 2.8 The team is currently carrying one vacancy. This has had an impact on the team’s resilience and has impacted work carried out as one member of the team was on sick leave for the majority of the first quarter. This member of the team is now back at work. Consideration is currently being given to the make-up the team and the resources necessary to have a fully resilient team.
- 2.9 One member of the team only joined Internal Audit in January. The current work on the annual reviews is their first time carrying out these reviews and is their first experience of carrying out a full review on their own. They have therefore taken more than the allocated time to complete the work and have required support. However, they are making very good progress and are now requiring less support.
- 2.10 Two members of the team are continuing with their Institute of Internal Auditors, Internal Audit Practitioner apprenticeships. The Audit Manager has completed the IIA Award in the Effective Delivery of Audit and Assurance, and the Internal Audit Practitioner exam. She now needs to complete a professional discussion and sit a scenario-based exam to complete the apprenticeship. The Auditor

undertaking the apprenticeship has had to undertake extra work on English and Maths as they could not find their school exam certificates. He has completed the IIA Award in the Effective Delivery of Audit and Assurance but is currently awaiting results.

2.11 The Internal Audit team has also been involved with giving advice to departments and sitting on groups involved with various projects. Previously this work has not been noted as work against the Audit Plan. However, consideration has been given to how this work supports the council and how it is recorded. The team are therefore trialling a new approach of “real-time auditing”. One aspect of this will be that notes of discussion at these meetings will be recorded along with any suggestion/recommendation made by the Auditor present. A “report” will be passed to the appropriate manager/project manager after the meeting and a summary report at the end of the project. In this way the recommendations can be monitored and the work can be included against the Audit Plan as it will contribute to assurance given. An update on this work will be reported quarterly to the committee. This is a brand new process so it will evolve over time.

2.12 As reported previously, the flexibility of the new process of setting the Audit Plan proved invaluable during the Covid-19 pandemic. It also allows for the introduction of the new “real-time auditing” approach to be part of the overall work undertaken. The table below shows the work carried out by the Internal Audit team showing the percentage of work carried out across the main areas of the council compared to that originally planned. It should be noted that at the beginning of the year the actual figures will differ from that planned but should begin to match as more audit reviews are carried out.

Area	Planned	Actual
Regeneration	12%	0.44%
Tourism and Enterprise	9%	5.14%
Service Delivery	37%	47.84%
Corporate Services	42%	46.57%

3 Review of the work of Counter Fraud carried out in the first quarter of the financial year 2020-21.

3.1 The Counter Fraud Team was affected by the response to the Covid-19 pandemic. The team continues to be directly impacted by Covid-19 pandemic. This has resulted in periods of adjustment while supporting the council’s key priority areas while also taking a flexible and creative approach in dealing with the existing and new fraud investigations under government guidelines and restrictions.

3.2 Cases have continued to be built and monitored during the easing of lockdown restrictions, with the team responding to new and emerging fraud risks following the release of Covid-19 support packages to businesses and individuals.

- 3.3 Housing Tenancy – The team continues 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 38 ongoing sublet/abandonment tenancy cases at various stages. Possession of one property was granted pre-lockdown and is currently waiting a date from bailiffs to execute the warrant. One other case is with Legal pending recovery action. One property was successfully returned to the council following joint work between the Counter Fraud team and Homes First – a saving of £93,000 has been noted, based on government guidance.
- 3.4 Right to Buy – There continues to be a steady volume of applications since autumn 2020. 18 cases are currently being checked to prevent and detect fraud and protect the authority against money laundering. 25 cases, which have either been approved for sale or have been withdrawn, still require a home visit. However, with changing Covid-19 restrictions the safety of tenants and the team has taken priority and therefore verification visits have been delayed. Work has also been focused on one prosecution case with the trial set for December 2021.
- 3.5 The BBC broadcast a new ‘Fraud Squad’ series in May 2021, which aims to highlight Local Authority efforts to prevent, pursue and prosecute offences. One of the Counter Fraud team’s investigations, involving a woman who admitted a charge of fraud by false representation by pretending to live in a 3 bedroom council property and claiming a £80,000 Right to Buy discount, was selected to be part of this series and was shown on BBC1 on the 17 May 2021.
- 3.6 Housing Applications – The team are working directly with colleagues in Homes First to implement additional counter-fraud measures to ensure that the limited housing stock that is available will only be allocated to those in genuine need. A project commenced in March 2021, with further details to follow in the second quarter.
- 3.7 Housing Options – Access for Homes First caseworkers and specialists to use HM Land Registry and the National Anti-Fraud Network facilities for credit checks has been rolled out to help verify applications and prevent fraud.
- 3.8 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 business rate bills with a net income of £63,582.19 generated to the authority. 2 cases have been closed during this quarter with a number still under review.
- 3.9 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 14 accounts with a net income of £4,170.46 generated and a preventative saving of £17,836.16 over this period.
- 3.10 Council Tax Reduction - Three cases are under investigation with 1 in conjunction with tenancy fraud investigations.
- 3.11 Housing Benefit – The team continue to work closely with the Department for Work and Pensions (DWP) and the council’s benefit section. Due to resource

limitations and pressing need to assess Universal Credit applications, the DWP have limited their capacity to investigate Housing Benefit. Only one case was closed during this period with no financial impact.

- 3.12 National Fraud Initiative – The 2020/21 exercise has now commenced with the first batch of 1378 cases to review, the CFT have processed 60 cases so far and investigating another 32. No financial gains have been found to date.
- 3.13 Data Protection Requests – The team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. During this period the team have dealt with 11 data protection requests from the Police and other authorities. In addition, 11 Gas Safety checks were completed on council properties where the tenant has not responded.
- 3.14 5 allegations were received from the general public during the first quarter which were closed down due to either insufficient information/contact details or the matter did not relate to a council concern.
- 3.15 A table showing the savings made by the Counter Fraud team in the first quarter of 2021-2021 can be found at Appendix C.

4 Post Verification of Review of the First Round of Covid Grants

- 4.1. The government introduced Small Business grants and Retail, Hospitality and Leisure grants to help businesses that were affected during the pandemic. In order to deal with the applications a portal was put onto the council's website, through which applications could be made. This piece of software checks applications against data held by the council and from open source data. It then allocated a RAG rating to the applications where:
- Green – met checks and criteria and could be paid
Amber – low risk but some further checks required
Red – higher risk and required thorough checking
- 4.2 Lewes/Eastbourne was one of only two authorities to originally work with Ascendant to use this portal. By the second round of grants, many more authorities began using this software.
- 4.3. When the portal went live, 1803 applications were made between April and September 2020. In this first round, £14,101,000 was paid out in Small Business grants and £8,025,000 in Retail, Hospitality and Leisure grants. A total of £22,035,000.
- 4.4 The Department of Business, Energy and Industrial Strategy (BEIS) requested post-verification testing to be carried out. In order to give assurance, the work was carried out in two parts:
- to check the information produced by the portal software to ensure that it had correctly allocated the RAG ratings

- to check grants which had been paid to see if any showed fraud or error had occurred

4.5 Software testing – a sample of applications from each of the RAG ratings were tested. In each case it was found that the correct rating had been allocated to the cases based on the data held by the council and open data. Therefore, reasonable assurance can be given that the software worked as intended.

4.6 Grants paid – a sample of cases was taken from those that had been in the amber and red ratings where the grant had been paid. 438 red rating and 653 amber rating were checked. Testing found that 9 had been paid incorrectly, amounting to a total of £105,000. At the time of writing, a further 36 are still under review. The percentage of grants incorrectly paid at this time is 0.82%.

It is not possible to state definitively whether any of the 9 cases paid incorrectly were fraudulent claims or not. It can only be stated that they were ineligible for the grant.

Reasons for incorrect payment included:

- business had ceased trading as of 11th March 2020
- business not eligible under the criteria
- dispute between parties following change or transfer of the business

Recovery of the incorrectly paid grants is ongoing with £20,000 having been repaid in full. Of the remaining cases, some have accepted the decision and have requested a repayment plan. These have been set up through the Debtors system. Other have not responded. BEIS have advised that the council is responsible for taking any practical steps to recover monies incorrectly paid with the plan that at some point these debts, if still outstanding, will be passed back to them to resolve. All monies paid back will be given back to the government.

4.7 Work is continuing on checking grants but the following observations were made during the first round of testing:

- the grants were implemented in a matter of weeks so there was no time for thorough preparation
- the business rate payer records were formed for the collection of rates and not for fraud prevention so do not contain the same level of detail as other systems
- there were just 5 members of staff across two authorities working on the administration of these grants. extra work was caused where there has been a dispute over eligibility. All this at a time when the businesses were actually closed.
- there was pressure from government and business owners to pay out grants swiftly

- 383 small business grant and 85 retail, hospitality and leisure grant applications were never fully completed, indicating that the measures in place are likely to have reduced fraudulent applications being made
- the process of administering the grants revealed that some information held by business rates was out of date

4.8 The Counter-Fraud team are continuing with post-verification testing. Now businesses have re-opened, it will be possible to do further checks around eligibility.

4.9 It has not been possible to find information from other authorities against which to benchmark this work. However, such information will continue to be sought and will be reported to the committee if and when it becomes available.

5 Updating Policies

5.1 The policies and procedures of Internal Audit and Counter Fraud are regularly reviewed and the procedures of the teams are also considered in terms of continuous improvement.

5.2 All of the policies are currently undergoing a thorough review to ensure that they are up to date and, where necessary, amended or re-written. Attached at Appendix D to this report is the updated Audit Charter which the committee is required to approve.

The Public Sector Internal Audit Standards (PSIAS) state:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

5.3 The Committee is requested to review and approve the updated Audit Charter.

6 Updating the quarterly report

6.1 Questions raised by councillors have highlighted that the quarterly report itself needs to be reviewed. Over time, small changes have been made in response to requests and questions by councillors and it is felt that it would now be timely to consider a fuller review.

6.2 The review will consider the process of producing and collating information and how it is presented in this quarterly report.

6.3 As the committee requires the information it needs to keep the work under review, members are requested to make any comments/request about both content and layout of the current report. These will then be taken into consideration when updating the report.

7 Financial appraisal

- 7.1 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.

8 Legal implications

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

9 Risk management implications

- 9.1 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.

10 Equality analysis

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

11 Environmental sustainability implications

- 11.1 Not applicable.

12 Appendices

- 12.1 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.
- 12.2 Appendix B - Outstanding recommendations/actions.
- 12.3 Appendix C - Counter Fraud work and savings.
- 12.4 Appendix D - Audit Charter.

13 Background papers

- 13.1 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 IN ORIGINAL REVIEW	Level at follow up
Business Continuity Planning	Minimal	<ul style="list-style-type: none"> • 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 	<p>Partial (See appendix B)</p> <p>2nd Follow up due July 21</p>
Rechargeable Repairs	Partial	<ul style="list-style-type: none"> • A number of tenancy agreements could not be found during testing • No check is made that invoices sent out are correct • The number of post inspections had fallen due to Covid restrictions. 	<p>Follow up due March 21</p> <p>Awaiting review</p>
IR35	No	<ul style="list-style-type: none"> • Pockets of knowledge on the subject in different areas of the council but not working together • A status determination statement on file was completed by the consultant • The status of the golf pro is unclear • Guidance on the intranet does not cover the full process and is not easily found • Consultants have been set up on council systems as if they are employees. 	<p>Minimal (See appendix B)</p> <p>2nd Follow up due October 21</p>
Arrears Collection	Partial	<ul style="list-style-type: none"> • Aged debt analyses not being utilised to inform debt collection • Lack of shared knowledge and expertise in debt collection 	<p>Follow up ongoing</p>

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 IN ORIGINAL REVIEW	Level at follow up
		as split between departments.	
Leaseholder Management and Recharges	Partial	<ul style="list-style-type: none"> • The Leaseholder handbook is out of date • Copies of some leases could not be found for the audit. 	Follow up due June 21 Awaiting review
Procurement	Partial	<ul style="list-style-type: none"> • 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 ongoing
Implementation of Housing CX	Partial	<ul style="list-style-type: none"> • Some reports required from the system are still not available • Lack of resource for communication between departments and those writing reports 	Follow up due June 21 Awaiting review
Fly Tipping	Partial	<ul style="list-style-type: none"> • No policy on fly tipping • Procedures require updating • Lack of separation of duties between operational work and authorisation • Information/evidence not held centrally in one place 	Follow up due June 21 Awaiting review

APPENDIX B OUTSTANDING RECOMMENDATIONS AFTER FOLLOW UP/ACTIONS

AUDIT REPORT	RISK LEVEL	OUTSTANDING RECOMMENDATION	CLIENT COMMENTS
Business Continuity Plans	High	Business Continuity Plans for both councils must be completed and adopted as soon as possible.	We now have an agreed Action plan for the completion of BCPs across the organisation. The Pid for the project has been supplied. Commencing 6/4/21 with a completion 1/7/21. The plans will be validated through an Organisational Table Top BC Exercise in June 21.
	High	Business Continuity Plans for every department must be completed and adopted as soon as possible.	
IR35	High	The working group must consider the status of all the examples raised in this report	AD for HR is undertaking initial investigations. Results will go back to working group.
	High	Any adjustments to employment status must be made if the working group decides it falls within IR 35.	AD for HR is undertaking initial investigations. Results will go back to working group.
	High	Status Determination Statements must be obtained for all existing consultants employed through their own companies and before any new ones are taken on. (These must be undertaken by the councils and not the consultant.)	IR35 page being set up on the Hub where there will be a procedure, guidance notes and a downloadable RAF and SDS. This part of the process will be owned by the HR team. Will be done by end of August.
	High	A new contract/agreement with the golf pro should be written, or the existing one reviewed, taking into account the opinion on IR35 status by the working group.	AD for HR is undertaking initial investigations. Results will go back to working group. End of July
	Medium	A review should be carried out of any staff who have been employed through Matrix for a year or longer.	AD for HR is undertaking investigations. Results will go back to working group. End of July

APPENDIX B OUTSTANDING RECOMMENDATIONS AFTER FOLLOW UP/ACTIONS

AUDIT REPORT	RISK LEVEL	OUTSTANDING RECOMMENDATION	CLIENT COMMENTS
IR35 (continued)	Medium	Consideration should be given to the way in which consultants are set up for work in terms of equipment and communications.	AD for HR is undertaking investigations. Results will go back to working group. End of July
	High	The working group must write procedures for all the steps which must be followed by managers when considering hiring consultants	IR35 page being set up on the Hub where there will be a procedure, guidance notes and a downloadable RAF and SDS. This part of the process will be owned by the HR team. Will be done by end of August.
	High	A page should be set up on the Hub, or the current Agency Workers page updated, to explain about the considerations to be made when hiring consultants and the new IR35 procedures should be accessed from this page.	IR35 page being set up on the Hub where there will be a procedure, guidance notes and a downloadable RAF and SDS. This part of the process will be owned by the HR team. Will be done by end of August.
	Medium	The working group should carry out occasional review of the process.	Future meetings will be set up as and when appropriate, and at least once a year e.g. to review new proposed IR35 documentation; review IR35 process and outcomes. <u>Audit note</u> To be tested at next follow up to ensure occasional meetings are taking place.
	High	Consideration should be given to awareness training for staff either via Olle or training via Teams.	Awareness session will be given to SMF as they are the group most likely to consider taking someone on who may be impacted. Will be done by end of September (to use new procedure and guidance documents).

APPENDIX B OUTSTANDING RECOMMENDATIONS AFTER FOLLOW UP/ACTIONS

AUDIT REPORT	RISK LEVEL	OUTSTANDING RECOMMENDATION	CLIENT COMMENTS
IR35 (continued)	Medium	Finance should investigate the use of the IR35 fields on Cafi and use if possible.	<p>Information regarding these fields has been obtained from Civica. In Civica Financials the IR35 functionality is an optional add on that is chargeable. Costs are not known at this point. It would allow the IR35 flags against suppliers to be set and dependent on input could lead to invoices being put in dispute where a supplier was determined to be subject to IR35 regulations. It would enable IR35 status determination results to be recorded on the system against suppliers.</p> <p><u>Audit note</u> Work still needs to be undertaken to establish whether this will be used or not.</p>
	Medium	The first time an invoice is processed for payment for a consultant, the payment must not be made until paperwork which supports the decision for/against IR35 is passed to the Creditors team.	<p>Creditors are manually raising any issues they spot with payments entered onto the Creditors system which would generate a payment to single officer consultancy firm.</p> <p><u>Audit note</u> It should be noted that no payment should be made without a self-determination and it is not clear whether this is the “issues” noted here. As there are few cases a check of any payments made will be carried out at the next follow up.</p>
	Medium	A centralised list of determinations should be held and this should be managed by HR.	As part of the new process, an IR35 drive is being set up by the HR team where all documentation regarding both the process and individual IR35 employment records will be kept. Will be done by end of August.

APPENDIX B OUTSTANDING RECOMMENDATIONS AFTER FOLLOW UP/ACTIONS

OTHER REPORTS TO COMMITTEE	OUTSTANDING ACTION	COMMENTS
Risk Management	Hold facilitated workshops for CMT and Members to refresh understanding of roles and responsibilities.	Currently writing an in-house Olle course.
	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.

	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		£93,000.00							£0.00	£93,000.00
RTB value saved through intervention									£0.00	£0.00
Housing intervention/fraud									£0.00	£0.00
Revenues										
NNDR	£63,582.19								£63,582.19	£0.00
Council Tax	£4,170.46								£4,170.46	£0.00
Value of ongoing CT increase per week		£17,836.16							£0.00	£17,836.16
Council Tax Penalties									£0.00	£0.00
CTR & Housing Benefit										
SPOC Cases									£0.00	£0.00
Council Tax Reduction									£0.00	£0.00
CTR weekly incorrect benefit (WIB)									£0.00	£0.00
Housing Benefit									£0.00	£0.00
HB weekly incorrect benefit (WIB)									£0.00	£0.00
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	£67,752.65	£110,836.16	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£67,752.65	£110,836.16

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STRONGER together



Lewes District Council



Working in partnership with Eastbourne Homes

Document name:	Internal Audit Charter
Document type:	Charter

Authority(ies) covered:	Aligned
Responsible (Executive Lead):	Chief Finance Officer
Accountable (Operational Lead):	Chief Internal Auditor
Version (e.g. first draft, final report):	First Draft Update
Approved by:	
Date of publication:	
Revision due:	
Final Equality and Fairness Analysis (EaFA) report approved by:	Not applicable
Date final EaFA report approved:	Not applicable

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1. Powers

- 1.1 The Audit and Standards Committee, Lewes District Council, and the Audit and Governance Committee, Eastbourne Borough Council, (the committees) have established Internal Audit with the authority, purpose, responsibilities and duties as are set out in this Charter.
- 1.2 The committees empower Internal Audit to be able to conduct its work in accordance with the agreed plan, with free and unfettered access to people and information, consistent with the purpose, responsibilities and duties as set out in this Charter and any other matters that may be delegated by the Audit Committee to Internal Audit from time to time.

2. Role and Mandate

- 2.1 Internal Audit is an independent and objective, assurance and consulting activity forming part of the system of governance and internal control.
- 2.2 The primary role of Internal Audit is to help the Corporate Management Team (CMT) and the committees to protect assets, reputation and sustainability of the councils. Internal Audit will achieve this through assessing whether all significant risks are identified and appropriately reported to CMT and the committees, assessing whether they are adequately controlled and by assisting senior management to improve the effectiveness of governance, risk management and internal controls.
- 2.3 It assists the councils in accomplishing their objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of their risk management, control and governance processes.

3. Authority

- 3.1 Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free and unrestricted access to any of the business records, physical properties and personnel pertinent to carrying out any engagement.
- 3.2 All employees are requested to assist the internal audit activity in fulfilling its rules and responsibilities.

4. Organisation

- 4.1 The Chief Internal Auditor (CIA) will communicate with, and report quarterly to, the audit committees.
- 4.2 The CIA reports functionally to the Chief Finance Officer.
- 4.3 The CIA also has right of access directly to the Chief Executive, the Chairs of the Audit Committees and the Head of Legal Services should this be deemed necessary.
- 4.4 All work undertaken by the audit team is carried out in accordance with the Public Sector Internal Audit Standards.

5. Independence and Objectivity

- 5.1 The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessarily independent and objective service.
- 5.2 Internal auditors will have no direct operational responsibility or authority over any of the activities audited. They will therefore not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair an internal auditor's judgement.
- 5.3 Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors must not allow themselves to be unduly influenced, by their own interests or by others, in forming judgements.
- 5.4 The CIA will confirm to the audit committees, at least annually, the organisational independence of the internal audit activity.

6. Responsibilities

- 6.1 The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the councils' governance, risk management and internal control processes in relation to the defined goals and objectives.

Appendix D

- 6.2 Internal Audit is responsible for evaluating all processes (Audit Universe) including governance processes and risk management processes with its approach set out in 7 and 8.
- 6.3 Internal Audit may perform consulting and advisory services related to governance, risk management and control as appropriate. Other areas of consultancy may be considered.
- 6.4 Internal Audit is responsible for reporting significant risk exposures and control issues, identified through its work, to the committees.

7. Internal Audit Plan

- 7.1 At least annually the CIA will submit an internal audit plan to the committee to review and approve.
- 7.2 Internal Audit's plan will be risk based and aligned to the councils' objectives where appropriate.
- 7.3 The CIA will report any resourcing limitations within the team, and their impact, to the committees.
- 7.4 The internal audit plan will be developed using the Audit Universe and by identifying areas of risk or current concern. The suggested plan will be considered by CMT before submission to the committees for approval.
- 7.5 Progress against the plan will be reported quarterly to the committees.
- 7.6 The scope of internal audit will include:
 - completeness, reliability and integrity of financial, management and performance information
 - design and effectiveness of controls
 - means of safeguarding assets, employees and interests
 - processes for identifying, reporting and managing risks
 - systems established to ensure compliance with policies, plans, contracts, legislation and regulations including those set by the councils and those established externally
 - economy, efficiency and effectiveness in the use of resources
- 7.7 Internal Audit will continually seek to maintain independence and objectivity and will use professional judgement when considering rotation of staff on audit assignments.

8. Reporting and Monitoring

- 8.1 Findings may be prepared and issued by Internal Audit following the conclusion of internal audit engagements and will be distributed as

Appendix D

appropriate. Internal Audit results will be communicated to the committees where appropriate.

- 8.2 The internal audit report may include management's response and corrective action to be taken in regard to the specific finding and recommendations. Management's response, whether included within the original audit report or provided thereafter by management of the audited area, should include an action plan and timescales for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.
- 8.3 The internal audit activity will be responsible for appropriate follow up on audit recommendations. All significant observations/recommendations will remain open until the responsible manager has provided assurance or, if relevant, further testing has shown that the necessary mitigating action has been carried out.

9. Periodic Assessment

- 9.1 The CIA is responsible for providing a self-assessment, at least annually, of the internal audit activity. This will be via reports to the committees on performance and a review of how the function meets the Public Sector Internal Audit Standards.
- 9.2 The CIA will also ensure that an external assessment is conducted at least every five years.

10. Quality Assurance and Improvement Programme

- 10.1 Internal audit activity will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The programme will include an evaluation of the internal audit activity's conformance to the Definition of Internal Auditing, Public Sector Internal Audit Standards and an evaluation of whether internal auditors apply the Code of Ethics for Internal Auditors. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

11. Review of the Charter

- 11.1 The charter will be reviewed annually and will be presented to the committees when changes are made.

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Report to:	Audit and Standards Committee
Date:	27 September 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 Process

- 2.1 The Strategic Risk Register is the top level of the risk management process. Whilst the Strategic Risk Register is considered quarterly at the Corporate Management Team, this is a simply a review of the register itself.

- 2.2 There are many different risks and pieces of work that feed into the Strategic Risk Register. These are managed and monitored on a day to day basis within the relevant sections and departments.
- 2.3 The quarterly meeting of the Corporate Management Team to discuss the Strategic Risk Register allows the relevant Director/Assistant Director to provide feedback on risks in their area. This information is then used to consider changes that may need to be made to the Strategic Risk Register.
- 2.4 The Corporate Management Team will also carry out “horizon scanning” at these meetings: considering issues that are arising and considering whether they need to be included in the register.

3 September 2021 Review

- 3.1 The Strategic Risk Register was taken to Corporate Management Team on 1st September 2021 for the quarterly review.
- 3.2 Risks SR_022 and SR_023 – at the last committee meeting it was questioned whether the reference to Brexit in these two risks was still necessary. This was discussed by the Corporate Management Team and it was agreed that these references should be removed.
- 3.3 Risk SR_027 – there was a discussion to consider whether climate change should be specifically mentioned in the register. It was agreed that it should and that the risk sits under “Council materially impacted by the medium to long term effects of an event under the Civil Contingencies Act”. The following has therefore been added:

Description: Emergency caused by a climate change event.

Internal control: Adoption of, and action to implement, the council's Climate Change and Sustainability Strategy.

- 3.4 SR_022 and SR_025 – Consideration was given to whether the risks around the current Recovery and Reset programme should be specifically mentioned in the register. It was agreed that these sit under two risks:
- Changes to the economic environment makes the council economically less sustainable
- and
- Not being able to sustain a culture that supports organisational objectives and future development.

Under both the following has been added:

Description: The council's Recovery and Reset programme fails to meet its objectives.

Internal control: Regular monitoring of the progress and outcomes of the Recovery and Reset programme.

3.5 The changes can be seen on the attached Strategic Risk Register.

4. Financial appraisal

4.1 There are no financial implications arising from this report.

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 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.

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. Appendices

8.1 Appendix A - Strategic Risk Register.

9. Background papers

9.1 None.

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Strategic Risk Register (Lewes)

Report Type: Risks Report
Generated on: 02 September 2021

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Current Risk Matrix		<p>LIKELIHOOD</p> <p>1 - Unlikely 2 - Possible 3 - Likely 4 - Highly Likely 5 - Almost Certain</p>	<p>IMPACT</p> <p>1 - Minor 2 - Moderate 3 - Significant 4 - Major 5 - Critical</p>
	The numbers relate to the amount of risks currently positioned in each box.		

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
SR_021	No political and partnership continuity/consensus with regard to organisational objectives	Sudden changes of political objectives at either national or local level renders the organisation, its current corporate plan and Medium-Term Financial Strategy unfit for purpose.	4	4	16	<p><u>Reduces Likelihood</u></p> <p>1. Create inclusive governance structures which rely on sound evidence for decision making.</p> <p><u>Reduces Impact</u></p>	Chief Executive	2	3	6	Amber	02-Nov-2021

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						<p>2. Annual review of corporate plan and Medium-Term Financial Strategy</p> <p>3. Creating an organisational architecture that can respond to changes in the environment.</p>						
SR_022	Changes to the economic environment makes the Council economically less sustainable	<p>1. Economic development of the district suffers.</p> <p>2. Council objectives cannot be met.</p> <p>3. Council will need to provide a new service for inspecting imports at the port.</p> <p>4. Covid-19 has had a significant impact on the council's finances.</p> <p>5. The council's Recovery and Reset programme fails to meet its objectives.</p>	5	5	25	<p><u>Reduces Impact</u></p> <p>1. Robust Medium-Term Financial Strategy reviewed annually and monitored quarterly. Refreshed in line with macro-economic environment triennially.</p> <p>2. Creating an organisational architecture that can respond to changes in the environment.</p> <p>3. Working with the port authority to provide support, advice and to help explore funding options.</p> <p>4. Council seeking funding from DEFRA to set up new service for inspecting imports.</p> <p><u>Reduces Likelihood</u></p> <p>5. The council is currently in ongoing discussions with the</p>	Chief Finance Officer	4	5	20	Red	02-Nov-2021

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						Ministry of Housing, Communities and Local Government around financial support to cover costs related to expenditure on responses to the Covid-19 pandemic. 6. Regular monitoring of the progress and outcomes of the Recovery and Reset programme,						
SR_023	Unforeseen socio-economic and/or demographic shifts creating significant changes of demands and expectations.	1. Unsustainable demand on services. 2. Service failure. 3. Council structure unsustainable and not fit for purpose. 4. Heightened likelihood of fraud. 5. Failure to support Newhaven Port Authority in the changes could result in an economic downturn in the town.	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). 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.	Director of Service Delivery	3	3	9	Amber	02-Nov-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 seeking funding from DEFRA to set up new service for inspecting imports which could result in new jobs						
SR_024	The employment market provides unsustainable employment base for the needs of the organisation	Employment market unable to fulfil recruitment and retention requirements of the Council resulting in a decline in performance standards and an increase in service costs.	4	4	16	<p><u>Reduces Likelihood</u></p> <p>1. Changes increase non-financial attractiveness of LDC to current and future staff.</p> <p>2. Appropriate reward and recognition policies reviewed on a regular basis.</p> <p><u>Reduces Likelihood and Impact</u></p> <p>3. Review of organisation delivery models to better manage the blend of direct labour provision. Pursuit of mutually beneficial shared service arrangements.</p>	Asst Director for HR and Transformation	3	2	6	Amber	02-Nov-2021
SR_025	Not being able to sustain a culture that supports organisational objectives and future development.	<p>1. Decline in performance.</p> <p>2. Higher turnover of staff.</p> <p>3. Decline in morale.</p> <p>4. Increase in absenteeism.</p> <p>5. Service failure</p>	4	4	16	<p><u>Reduces Likelihood</u></p> <p>1. Deliver a fit for purpose organisational culture.</p> <p>2. Continue to develop our performance management capability to ensure early intervention where service and/or cultural issues arise.</p>	Asst Director for HR and Transformation	3	4	12	Amber	02-Nov-2021

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		6. Increased possibility of fraud. 7. The council's Recovery and Reset programme fails to meet its objectives.				3. Continue to develop communications through ongoing interactions with staff. 4. Regular monitoring of the progress and outcomes of the Recovery and Reset programme.						
SR_026	Council prevented from delivering services for a prolonged period of time.	1. Denial of access to property 2. Denial of access to technology/information 3. Denial of access to people	5	5	25	<u>Reduces Likelihood</u> 1. Adoption of best practice IT and Asset Management policies and procedures. <u>Reduces Likelihood and Impact</u> 2. The council has created a more flexible, less locationally dependent service architecture. <u>Reduces Impact</u> 3. Regularly reviewed and tested Business Continuity Plans. 4. Regularly reviewed and tested Disaster Recovery Plan.	Chief Executive	2	4	8	Amber	02-Nov-2021
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	5	5	25	<u>Reduces Likelihood and Impact</u> 1. Working in partnership with other public bodies. 2. Robust emergency planning and use of Council's emergency powers.	Chief Executive	2	3	6	Amber	02-Nov-2021

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		<p>as a result of the impact of the event.</p> <p>3. Work adversely affected by reduced staff numbers owing to effects of pandemic virus.</p> <p>4. Emergency caused by a climate change event.</p>				<p><u>Reduces Impact</u></p> <p>3. Ongoing and robust risk profiling of local area (demographic and geographic).</p> <p>4. Review budget and reserves in light of risk profile.</p> <p><u>Reduces Likelihood</u></p> <p>5. Adoption of, and action taken to implement, the council's Climate Change and Sustainability Strategy</p>						
SR_028	Failure to meet regulatory or legal requirements	<p>1. Trust and confidence in the Council is negatively impacted.</p> <p>2. Deterioration of financial position as a result of regulatory intervention/penalties</p> <p>3. Deterioration of service performance as a result of regulatory intervention/penalties</p>	3	4	12	<p><u>Reduces Likelihood</u></p> <p>1. Developing, maintaining and monitoring robust governance framework for the Council.</p> <p>2. Building relationships with regulatory bodies.</p> <p>3. Develop our Performance Management capability to ensure early intervention where service and/or cultural issues arise.</p> <p>4. The Council has adopted and published an Asset Management Strategy (AMS) that set out how</p>	Chief Executive	2	4	8	Amber	02-Nov-2021

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						<p>the Council uses its land and property assets effectively to deliver its service and the rules by which the Council can purchase assets in the future. These strategies are updated on a yearly basis as part of the Capital and Medium-Term Financial Strategies.</p> <p>5. Ensure there is full understanding the impact of new legislation.</p> <p>6. All managers are required to abide by the Council's procurement rules.</p> <p>7. Ensure that fire risk regulations are adhered to and that Fire Risk Assessments are regularly reviewed.</p>						
SR_029	Commercial enterprises that are fully controlled by the authority do not deliver financial expectations or do not meet governance requirements.	<p>1. Unfamiliar activity with staff inexperienced in this area</p> <p>2. Council finances affected if projects do not meet financial expectations.</p>	5	5	25	<p><u>Reduces Likelihood</u></p> <p>1. Hire suitably qualified/experienced staff to give legal and specialist support.</p> <p>2. Ensure that projects meet core principles.</p>	<p>Director of Regeneration and Planning</p> <p>And</p> <p>Chief Executive</p>	3	3	9	Amber	02-Nov-2021

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		<p>3. Reputational damage if governance procedures are inadequate.</p> <p>4. Failure to abide by company law.</p>				<p>3. Up or re-skill staff to maximise commercial opportunities.</p> <p>4. Ensure governance processes are set up and adhered to.</p>						
SR_030	The Council suffers a personal data breach by inadequate handling of data or by an IT incident	<p>1. Trust and confidence in the Council is negatively impacted.</p> <p>2. Deterioration of financial position as a result of regulatory intervention/penalties</p> <p>3. Deterioration of service performance as a result of regulatory intervention/penalties</p> <p>4. Increased probability of compensation claims by persons affected by a personal data breach.</p>	3	4	12	<p><u>Reduces Likelihood</u></p> <p>1. Ongoing corporate training for data protection.</p> <p>2. Ensure all staff complete the e-learning Data Protection course.</p> <p>3. Ensure that the Data Protection Policy is regularly reviewed.</p> <p>4. Ensure the Data Protection Officer is afforded the resources to discharge their statutory functions.</p> <p>5. Ensure that managers regularly remind staff of their responsibilities under data protection, including personal data breach reporting arrangements.</p>	Chief Executive	2	4	8	Amber	02-Nov-2021

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						6. Ensure the suite of IT policies is kept up to date. 7. Ensure that IT security is in place and regularly tested. <u>Reduces Impact</u> 8. Incident management procedures to mitigate loss or breach of data are in place.						

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Report to:	Audit and Standards Committee
Date:	27 September 2021
Title:	Annual Governance Statement
Report of:	Chief Internal Auditor
Ward(s):	All
Purpose of report:	To seek the Committee's approval of the amended Annual Governance Statement.
Officer recommendation(s):	To comment on and approve the changes to the Annual Governance Statement.
Reasons for recommendations:	To meet the Council's legal requirement to produce an Annual Governance Statement.
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 Corporate governance involves everyone in local government. Two definitions are:
- “Ensuring the organisation is doing the right things, in the right way, for the right people, in an open, honest, inclusive and timely manner” – Audit Commission.
- “How the local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.” – CIPFA/SOLACE
- 1.2 The Council has a legal requirement to produce an Annual Governance Statement each year in accordance with the Accounts and Audit Regulations, 2015. The statement accompanies the Statutory Statement of Accounts once adopted.
- 1.3 The Audit and Standards Committee is tasked with overseeing the risk management, internal control and reporting to the council. A key component of this work is to approve the Annual Governance Statement.

2 Background

- 2.1 The Annual Governance Statement was brought to the committee in July. Some issues were raised by committee members at the meeting and it was agreed that the Chair could approve the Annual Governance Statement if the changes were made.
- 2.2 However, following the meeting the Deputy Chief Finance Officer questioned part of the Annual Governance Statement which led to a further review. For this reason the amended Annual Governance Statement has been brought back to the committee for review and approval.

3 Councillors Questions

- 3.1 One councillor questioned that this issue of document retention was not being shown as a significant governance issue. At the meeting the Head of Legal Services was asked for his opinion and stated that he did not feel that it was significant. Following the meeting the opinion of the Chief Finance Officer/s. 151 Officer was sought. She stated that she was happy to rely on the opinion of the Head of Legal Services in this matter. The Head of Legal Services was therefore requested to give further consideration to the issue. After further consideration he was of the same opinion. The Annual Governance Statement has therefore been updated to state that the opinion of the Head of Legal Services was sought.
- 3.2 A councillor pointed out an issue with page numbering. It appears that there was a formatting issue in the document and this has now been corrected.
- 3.3 Under the section on the Covid-19 pandemic there was a sentence that stated that the council had received £3.2m toward "homelessness". A councillor questioned this, saying that it was incorrect. This was checked with the officer that had provided the information for the Annual Governance Statement. It was confirmed that this was an error and should have read "rough sleeping". The Annual Governance Statement has been amended accordingly.

4 Change raised by Deputy Chief Finance Officer

- 4.1 There was a question raised by the Deputy Chief Finance Officer over the Housing Software being shown as a significant governance issue. He believed that the issues had either been addressed or were currently being resolved. He therefore did not feel that any of this was having a significantly detrimental effect on producing the accounts.
- 4.2 This was therefore discussed with the Chief Finance Officer/s. 151 Officer, who stated that she was happy to defer to the opinion of the Deputy Chief Finance Officer as he is responsible for the day to day work on the accounts and is therefore aware of any issues and how they are affecting the accounts.
- 4.3 A decision was therefore made to remove Housing Software as a significant governance issue. Whilst it is no longer showing as a significant issue, it has not been completely removed from the statement. As it was shown as a significant

governance issue last year, there is a requirement for an update on the issue. Housing Software has therefore been moved to a table "Update on Significant Governance Issues 2019/20".

5 Actions

- 5.1 All of the changes reported above have been highlighted on the attached amended Annual Governance Statement.
- 5.2 A review of the process of producing the Annual Governance Statement was already being considered. The issues this year have underlined that changes are necessary and these will be put in place for the production of the Annual Governance Statement for 2021-22.
- 5.3 The Committee is asked to review and consider these changes and approve the amended Annual Governance Statement.

6 Financial appraisal

- 6.1 There are no financial implications arising from this report.

7 Legal implications

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

8 Risk management implications

- 8.1 Failure to produce an Annual Governance Statement, and to maintain proper assurance arrangements to support its production, can reduce the likelihood of the council meeting its objectives, and attract criticism from the Council's stakeholders and the Council's external auditor. The Audit and Standards Committee review of the Annual Governance Statement significantly reduces these risks.

9 Equality analysis

- 9.1 A detailed Equality analysis is not required for this report.

10 Appendices

- 10.1 Appendix A - Annual Governance Statement.

11 Background papers

- 11.1 Internal Audit Report for the financial year 2020-2021.
- 11.2 Report on the Annual Governance Statement taken to Audit and Standards Committee on 26th July 2021.

Lewes District Council

Annual Governance Statement

Responsibility

Lewes District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It also needs to ensure that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

In discharging this overall responsibility, the council is required to put in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

What is governance?

Governance is about how the council ensures that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems, processes, cultures and values by which the council is directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

Lewes District Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE¹ Framework *Delivering Good Governance in Local Government*. A copy of the code is available on the website (www.lewes-eastbourne.gov.uk/access-to-information/financial-information/corporate-governance)

This statement explains how the council has complied with the code and also meets the requirements of Part 2, 6(1) of the Accounts and Audit Regulations 2015 which requires all relevant bodies to prepare an annual governance statement.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it is accountable to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The Governance Framework

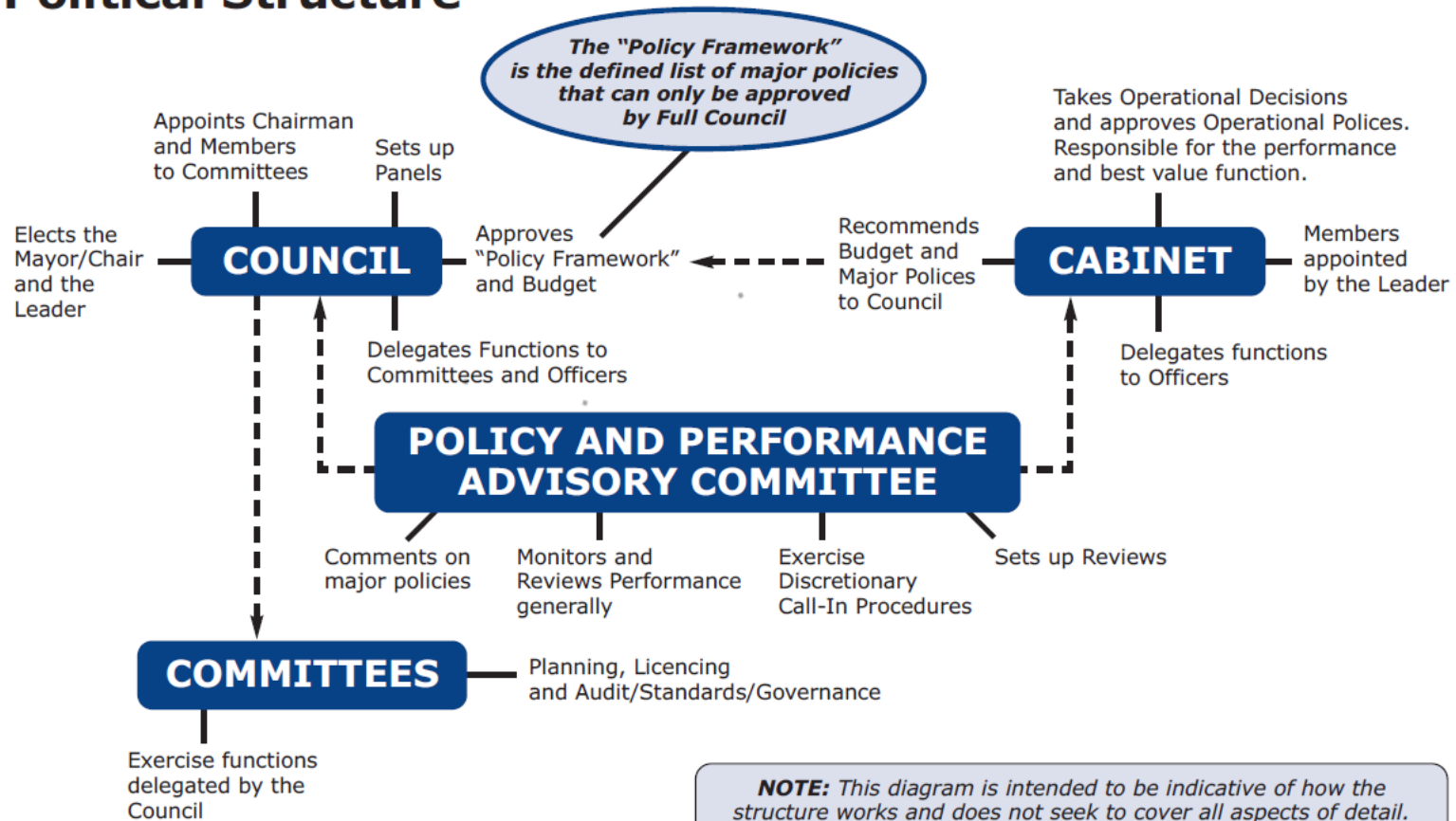
Key elements of the systems and processes that comprise the authority's governance arrangements are listed below with links to the council's website where relevant information can be found.

- Corporate plan (priority themes for four years) - <https://www.lewes-eastbourne.gov.uk/about-the-councils/corporate-plans/>
- Constitution (inc. statutory officers, scheme of delegation and financial procedure rules) - <https://www.lewes-eastbourne.gov.uk/about-the-councils/constitutions/>
- Council, Cabinet, Committees and Panels - <https://democracy.lewes-eastbourne.gov.uk/mgListCommittees.aspx?CT=13215>
- Corporate and service plans - <https://www.lewes-eastbourne.gov.uk/about-the-councils/corporate-plans/>
- Risk Management Policy
- Anti-Fraud and Anti-Corruption Policy (including Whistleblowing and Anti Bribery)
- Project Management methodology
- Medium Term Financial Strategy - <https://www.lewes-eastbourne.gov.uk/access-to-information/financial-information/medium-term-financial-statement-and-annual-budget/>
- Complaints procedure - <https://www.lewes-eastbourne.gov.uk/about-the-councils/make-a-complaint/>
- Head of Paid Service, Monitoring Officer and S. 151 Officer
- HR policies and procedures
- Staff and Member training
- Codes of conduct for staff and Members
- Corporate Management Team
- Internal Audit and Counter Fraud
- External sources

The diagram on the next page shows how the political structure of the council works and interacts.

How it Works...

The Modernised Political Structure



Review of Effectiveness

The council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The table below shows the areas where assurance is required and the sources of that assurance.

The governance framework has been in place at the council for the year ended 31 March 2021 and up to the date of approval of the Annual Accounts.

	GOVERNANCE FRAMEWORK	
ASSURANCE REQUIRED ON	SOURCES OF ASSURANCE	ASSURANCES RECEIVED
Delivery of corporate priorities	<ul style="list-style-type: none"> • Corporate Plan • Council, Cabinet, Committees and Panels • Corporate and service plans • Medium term financial strategy • Corporate Management Team 	<ul style="list-style-type: none"> • Weekly meetings of the Corporate Management Team • Policy and Performance Advisory Committee meetings • Cabinet meetings
Economy, efficiency and effectiveness	<ul style="list-style-type: none"> • Council, Cabinet, Committees and Panels • Corporate and service plans • Medium term financial strategy • Corporate Management team • Internal Audit and Counter Fraud • External sources 	<ul style="list-style-type: none"> • Internal Audit reports and quarterly reports to Corporate Management Team and Audit and Standards committee • Weekly meetings of the Corporate Management Team • Quarterly meetings of the Audit and Standards Committee • Policy and Performance Advisory Committee meetings • Cabinet meetings
Management of risk	<ul style="list-style-type: none"> • Council, Cabinet, Committees and Panels • Corporate and service plans 	<ul style="list-style-type: none"> • Internal Audit reports and quarterly reports to Corporate Management Team and Audit and Standards committee

	<ul style="list-style-type: none"> • Risk management policy • Anti-fraud and anti-corruption policy • Complaints procedure • Corporate Management Team • Internal Audit and Counter Fraud • External sources 	<ul style="list-style-type: none"> • Weekly meetings of the Corporate Management Team • Quarterly meetings of the Audit and Standards Committee • Policy and Performance Advisory Committee meetings • Managers' Assurance Statements
Financial planning and performance	<ul style="list-style-type: none"> • Constitution (including the Financial Procedure Rules) • Corporate and service plans • Medium term financial strategy • External sources 	<ul style="list-style-type: none"> • Weekly meetings of the Corporate Management Team • Quarterly meetings of the Audit and Standards Committee • Policy and Performance Advisory Committee meetings • Cabinet meetings • External Auditor's Annual Audit Letter
Effectiveness of internal controls	<ul style="list-style-type: none"> • Anti-fraud and Anti-corruption Policy • Complaints procedure • S. 151 Officer • Corporate Management Team • Internal Audit and Counter Fraud • External sources 	<ul style="list-style-type: none"> • Internal Audit reports and quarterly reports to Corporate Management Team and Audit and Standards committee • Weekly meetings of the Corporate Management Team • Quarterly meetings of the Audit and Standards Committee • Policy and Performance Advisory Committee meetings • External Auditor's Annual Audit Letter • Other external reviews carried out from time to time • Managers' assurance statements
Community Engagement	<ul style="list-style-type: none"> • Council, Cabinet, Committees and Panels • Corporate and service plans • Corporate Management Team 	<ul style="list-style-type: none"> • Community consultations • Weekly meetings of the Corporate Management Team

Shared service governance	<ul style="list-style-type: none"> • Council, Cabinet, Committees and Panels • Corporate and service plans • Corporate Management Team • Internal Audit and Counter Fraud 	<ul style="list-style-type: none"> • Internal Audit reports and quarterly reports to Corporate Management Team and Audit and Standards committee • Weekly meetings of the Corporate Management Team
Project management and delivery	<ul style="list-style-type: none"> • Project management methodology • Internal Audit and Counter Fraud 	<ul style="list-style-type: none"> • Internal Audit reports and quarterly reports to Corporate Management Team and Audit and Standards committee • Weekly meetings of the Corporate Management Team • Policy and Performance Advisory Committee meetings
Procurement processes	<ul style="list-style-type: none"> • Constitution (including the Contract Procedure Rules) • Internal Audit and Counter Fraud 	<ul style="list-style-type: none"> • Internal Audit reports and quarterly reports to Corporate Management Team and Audit and Standards committee • Weekly meetings of the Corporate Management Team • Quarterly meetings of the Audit and Standards Committee • Policy and Performance Advisory Committee meetings
Roles and responsibilities of Members and officers	<ul style="list-style-type: none"> • Constitution • Head of Paid Service, Monitoring Officer and S.151 Officer 	<ul style="list-style-type: none"> • Weekly meetings of the Corporate Management Team
Standards of conduct	<ul style="list-style-type: none"> • Anti-fraud and anti-corruption policy • HR policies and procedures • Codes of conduct for staff and Members • Complaints procedure • Monitoring Officer 	<ul style="list-style-type: none"> • Weekly meetings of the Corporate Management Team
Training and development for Members and officers	<ul style="list-style-type: none"> • HR policies and procedures • Staff and Member training • Monitoring Officer 	<ul style="list-style-type: none"> • Council's democratic arrangements

Compliance with legislation, regulations, policies and procedures	<ul style="list-style-type: none"> • Constitution • Anti-fraud and anti-corruption policy • Complaints procedure • HR policies and procedures • Corporate Management Team • Internal Audit and Counter Fraud • External sources • Monitoring Officer 	<ul style="list-style-type: none"> • Internal Audit reports and quarterly reports to Corporate Management Team and Audit and Standards committee • Weekly meetings of the Corporate Management Team • Quarterly meetings of the Audit and Standards Committee • Policy and Performance Advisory Committee meetings • Managers' assurance statements
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Opinion of the Chief Internal Auditor

It must be noted that the impact of the Covid-19 pandemic has had a significant effect across the council. At the start of the financial year staff from the Internal Audit team were temporarily redeployed to help other departments with the initial responses to the pandemic. However, once it became clear that the effect of Covid-19 would be felt in the longer term, the staff returned to their Audit duties. Later in the year the team was running for six months with two vacancies. In spite of these issues the team managed to complete a range of audits across the departments of the council. The only areas not reviewed were Tourism and Events, however as these areas were not able to operate for any length of time during the year, it is not considered to be a reason for limiting the opinion on the control environment.

The opinion of the Chief Internal Auditor, as noted in the annual report on the work of Internal Audit and Counter-Fraud, was that the internal controls in processes and IT systems across the authority were generally found to be sound. This is slightly caveated by the somewhat limited, but considered to be still adequate, breadth of audit reviews carried out which had been caused by vacancies in the team and some redeployment at the beginning of the year.

Managing the Risk of Fraud and Corruption

The Cipfa Code of Practice on Managing the Risk of Fraud and guidance suggests it is good practice to make a statement on the adequacy of an authority's counter fraud arrangements in the annual governance statement.

This code contains five principles:

- Acknowledge responsibility
- Identify risks
- Develop a strategy
- Provide resources
- Take action

The Chief Internal Auditor is satisfied that the council meets these principles by having a Counter-Fraud and Audit team who review risks across the authority and direct their work as appropriate. It is therefore considered that the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud and uphold its zero tolerance.

Financial Management Code

The CIPFA (Chartered Institute of Public Finance and Accountancy) Financial Management (FM) Code's intention is to help create a culture of strong financial management and address the financial pressures that councils are facing. The self-regulation approach is also to prevent local authorities 'failing' and avoid any need for any external control or reductions in current powers.

An initial self-assessment of the council's current standing against each of the Financial Management Standards was carried by the Deputy Chief Finance Officers and Chief Internal Auditor in conjunction with the council's Section 151 Officer to determine the current situation and actions required to comply with the Code. Whilst there is a role for the Chief Finance Officer (S151 Officer) to manage compliance, this will be done with a joint responsibility of the council's Corporate Management Team (CMT) and Elected Members.

The council has a satisfactory record of financial management and so, analysing the council's structures, processes and procedures against the FM Code's Financial Management Standards, shows a reasonable level of compliance with these principles. However, there are a number of areas where further actions/consideration needs to be given to ensure compliance with every aspect of the FM Code.

Companies

The council is also expected to report on separate bodies set up by the council and to give a full picture of the relationship with those bodies. The following table gives the details of these bodies and, where appropriate, it includes a link to where information can be found in respect of information such as reports and accounts.

Name and incorporation date (where appropriate)	Current Status and summary purpose	Categorisation (Company number and nature where appropriate)	Governance and Board make up	Council shareholder interest where appropriate	Notes
Aspiration Homes LLP (Limited Liability Partnership)	Incorporated on 30 June 2017. To ensure the councils have the overall capacity to maximise housing investment and funding opportunities. To act as the asset holding vehicle for affordable housing properties that cannot, for financial accounting or other reasons be held in EBC or LDC respective Housing Revenue Accounts.	Limited Liability Partnership LDC and EBC Company number: OC41800	Governed by LLP Agreement and an Executive Committee of 6 - made up of 3 elected members from each authority.	Eastbourne Borough Council Ownership of voting rights - More than 25% but not more than 50% Right to surplus assets - More than 25% but not more than 50% Lewes District Council Ownership of voting rights - More than 25% but not more than 50% Right to surplus assets - More than 25% but not more than 50%	Aspiration Homes will act as the asset holding vehicle for affordable housing properties developed through the EHICL and LHICL commercial development programmes. Support has included a £10 million loan to be funded from borrowing by LDC to Aspiration Homes LLP. www.lewes-eastbourne.gov.uk/about-the-councils/wholly-owned-companies-and-other-incorporated-entities

Name and incorporation date (where appropriate)	Current Status and summary purpose	Categorisation (Company number and nature where appropriate)	Governance and Board make up	Council shareholder interest where appropriate	Notes
Lewes Housing Investment Company Ltd	Company Active To undertake more commercial development, place shaping	Company LDC only Company number:	Governed by Articles of Association and a Board of 5 directors made up of senior	Wholly owned by Lewes District Council	To enable the council to undertake non HRA development and use associated forms of tenancies

Name and incorporation date (where appropriate)	Current Status and summary purpose	Categorisation (Company number and nature where appropriate)	Governance and Board make up	Council shareholder interest where appropriate	Notes
(LHICL) (4 July 2017)	activities and hold associated respective assets, in a way which meets legal and regulatory requirements and ensures that the council has distinct control over such assets.	10848011	staff and Elected Members from Lewes District Council.		www.lewes-eastbourne.gov.uk/about-the-councils/wholly-owned-companies-and-other-incorporated-entities

Managers' Assurance Statements

One of the sources of assurance for the Annual Governance Statement should come from Senior Managers responsible for the operation, management and monitoring of controls within their area of responsibility. The Managers' Assurance Statement is intended to collect this assurance by covering operational, project and partnership responsibilities as well as the Bribery Act, Safeguarding, RIPA and frauds over £10k. The senior manager can highlight concerns and the necessary actions required to improve governance. Assurance statements are sent out to Directors and Assistant Directors and Heads of Service. Once completed their contents are used to inform the governance statement.

This year, extra questions were asked in the Managers' Assurance Statements. These were in respect of the effect of the response to the Covid-19 pandemic. These questioned related to:

- impact on governance arrangements
- suspended / weakened controls or work-arounds
- cessation / scaling back of business as usual causing gaps in governance arrangements
- other issues impacting on governance arrangements
- challenges caused by changes to working which will continue after the pandemic

A review of the returned statements highlighted two issues which were raised by several respondents.

- Financial pressures – a few statements raised concerns about the financial pressures caused by depleted income owing to the council's response to Covid-19.
- Adapted controls – some concerns were raised in a few statements around the issues of controls which were adapted to facilitate the council's response to the Covid-19 pandemic.

At a meeting of the Corporate Management Team several issues were considered for inclusion in the Annual Governance Statement. The following were considered to be issues to just be mentioned in the body of the Annual Governance Statement.

- Financial pressures – it is acknowledged that the council has been seriously affected by the depletion of income caused by the response to the Covid-19 pandemic. It is considered that this is not currently a significant governance issue as the council has been, and continues to be, in discussion with the Ministry of Housing, Communities and Local Government. The council has also developed plans to identify and deliver savings.
- Adapted controls – some controls needed to be adapted to allow the council to continue working in new ways as a response to the Covid-19 pandemic. Early on Internal Audit contacted all managers to offer help and advice on adapting controls and managers identified and monitored these without using sight of the need for the control. This issue is therefore not considered to be a significant governance issue.
- Document retention – document retention is still considered an issue. However, a project is ongoing to identify paper documents and arrange necessary destruction and storage. Work has also commenced to delete information held electronically. However, there is still work to be undertaken to fully identify all the electronically held documentation. The Corporate Management Team considered that, with the ongoing work, this is not considered a significant governance issue. This decision was checked with the Head of Legal Services who agreed and felt that this was not a significant governance issue.

Consideration was also given to the Housing software which has been noted as a significant governance issue for the past two years. It is recognised that significant progress has been made to resolve these issues. However, some of the problems caused by the issues are still working their way through processes and systems. Although the originating issue has been resolved, the problem caused still affected work in the financial year 2020-21. As this Annual Governance Statement covers 2020-21 it was agreed that the Housing software system should again be shown as a significant governance issue.

COVID-19 PANDEMIC

When lockdown began at the end of March 2020 the council had to act swiftly to be able to continue to provide the statutory services to the public whilst closing the contact centre and having the majority of staff change to working from home. Significant pieces of work were undertaken to ensure staff were set up to work from home as soon as possible, to ensure that as many services as possible were available on-line and to set up staff and members to be able to have virtual meetings through software. The response has given assurance that the council can cope with rapid and substantial changes within a short period of time.

Initially priorities changed to dealing with the immediate responses. These included dealing with increased benefit claims, handling and distributing government grants, welfare calls to tenants and provision of food parcels. Key functions and systems have been maintained partially aided by redeployment of staff.

As was reported to Cabinet and Council in February 2021, the financial impact of the pandemic on the council was expected to result in additional costs in 2020/21 in the region of £2.2m for homelessness prevention, redeployment costs, support for the Leisure services, community grants and cleaning costs.

The council's income streams were also affected, with projected losses in the region of £1.5m including trade waste, car parking, planning income and rental income.

The Government provided support to local authorities through £4.6bn new burdens funding and £3.2m towards rough sleeping. However, Lewes District Council's share of this was £1.449m, which fell short of the projected costs and losses in 2020/21. Despite this, the council continues to manage its finances effectively to ensure it can keep within the approved budget without the need to draw on reserves.

As the pandemic continues to impact on the council's finances further savings are still needed, and these are being delivered through the Recovery and Reset Programme.

It is expected that, with the anticipated recovery of the local economy, as the country moves forward out of the Covid-19 pandemic, the council's income will start to recover. This will then enable some of the unavoidable reductions in service levels, to be reconsidered and, where appropriate, reinstated and for the council to continue to move forward in delivering against its corporate plan commitments.

UPDATE ON SIGNIFICANT GOVERNANCE ISSUES 2019/20

Area	Issue	Actions Planned	Update
<p>Housing Software</p>	<p>A new housing system was implemented in December 2018 which did not meet the outcomes expected. These outcomes were critical in delivering greater efficiencies and improved financial reporting.</p> <p>There have been ongoing issues with Transformation and ICT staff resources, and Finance staff, being diverted to identify and rectify/mitigate issues and resolve reporting problems.</p> <p>Knock on effects mean that the statutory deadline for completion of the annual accounts was missed.</p>	<p>The issues have been monitored and mitigating actions which were put in place previously had to be reassessed and additional steps were taken.</p> <p>There were ongoing conversations with the supplier to rectify issues and a new contract negotiated and monitored.</p> <p>A post implementation review which was carried out by Internal Audit later in 2020/2021.</p>	<p>Working with the supplier the majority of the issues with the system have been addressed, though some work continues. A consultant is currently working with Finance to resolve some of the financial reporting issues.</p> <p>This is now no longer considered to be a significant issue.</p>

SIGNIFICANT GOVERNANCE ISSUES 2020/21

Internal controls across the authority were generally found to be sound.

There are no significant governance issues to report.

STATEMENT

We have been advised on the implications of the result of the review of effectiveness of the governance framework by the Audit and Standards Committee and that, subject to the actions identified above, the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Signed on behalf of Lewes District Council:

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Leading Member

.....
Chief Executive

Date:

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