

**Audit and Governance
Committee
3 July 2023**



Lewes District Council

Time and venue:

10:00am in Room 209/210 on the Second Floor, The Marine Workshops, Railway Quay, Newhaven, East Sussex, BN9 0ER

Membership:

**Councillor Stephen Gauntlett (Chair);
Councillors Graham Clews, Cathy Gallagher, Olivia Honeyman, Charlotte Keenan,
James Meek and Daniel Stewart-Roberts**

Quorum: 4

Published: Thursday, 22 June 2023

Agenda

1 Election of Deputy-Chair

To elect a Deputy-Chair of the Audit and Governance Committee for the remainder of the 2023/2024 municipal year.

2 Minutes (Pages 5 - 10)

To confirm and sign the minutes of the previous meeting held on 20 March 2023 (attached herewith).

3 Apologies for absence/declaration of substitute members

4 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.

5 Urgent items

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

6 Written questions from councillors

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

7 External Audit progress

Verbal update by Interim Deputy Chief Finance Officer

8 Treasury Management Annual Report 2022/23 (Pages 11 - 28)

Report of Director of Finance and Performance

9 Annual Governance Statement (Pages 29 - 60)

Report of Chief Internal Auditor

10 Internal Audit and Counter Fraud report for the financial year 2022-2023 - 1st April 2022 to 31st March 2023 (Pages 61 - 84)

Report of Chief Internal Auditor

11 Strategic Risk Register Quarterly Review (Pages 85 - 96)

Report of Chief Internal Auditor

12 Date of next meeting

To note that the next meeting of the Audit and Governance Committee is scheduled to be held on Monday, 4 September 2023, in Room 209/210 on the Second Floor, Marine Workshops, Railway Quay, Newhaven, East Sussex, BN9 0ER, commencing at 10:00am.

Information for the public

Accessibility:

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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 and Telscombe Rooms, Southover House, Southover Road, Lewes, BN7 1AB on 20 March 2023 at 10:00am

Present:

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

Officers in attendance:

Jackie Humphrey (Chief Internal Auditor), Jennifer Norman (Committee Officer, Democratic Services) and Ola Owolabi (Deputy Chief Finance Officer, Corporate Finance)

36 Minutes

The minutes of the meeting held on 16 January 2023 were submitted and approved, and the Chair was authorised to sign them as a correct record.

37 Apologies for absence/declaration of substitute members

Apologies for absence were received from Councillors Julian Peterson (Chair) and Sean MacLeod. In the absence of the Chair, the meeting was chaired by Councillor Adrian Ross (Vice-Chair).

38 Declarations of interest

There were none.

39 Urgent items

The Chair of the meeting agreed that Agenda Item 4a, The External Auditor's (Deloitte) progress report on the draft 2019/20 Statement of Accounts, 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.

40 The External Auditor's (Deloitte) progress report on the draft 2019/20 Statement of Accounts

Agenda Item 6, External Audit Progress, was considered concurrently with this item.

The Deputy Chief Finance Officer (DCFO) provided Members with an update in respect of the External Auditor's (Deloitte) progress on the Council's draft 2019/20 Statement of Accounts.

The DCFO summarised the report and detailed the Officer recommendations. He noted that although the delayed final audit was now nearing completion, Officers were disappointed that the previously agreed revised completion deadlines had not been met by Deloitte.

The DCFO highlighted that Deloitte's delayed final audit of the 2019/20 Statement of Accounts was presenting the Council with a significant and serious risk of the existing auditors not being in the position to hand over the final audit function to the Council's newly appointed auditors, Grant Thornton LLP. The DCFO further highlighted that every day the final audit of the 2019/20 Statement of Accounts was delayed, the Council could face additional financial, reputational and governance costs.

Discussions included penalty notices, the revised projected completion dates for the outstanding External Audits as set out in paragraph 1.4, questions in relation to delegations following the results of the elections on 4 May 2023 and further letters of representation to Deloitte by Officers, on behalf of the Committee.

The Committee highlighted the elections on 4 May 2023 and queried who would be acting as Chair in respect of the delegation to sign-off the audited LDC 2019/20 Statement of Accounts in consultation with the Director of Finance and Performance. The Committee Officer confirmed that she would review the Council's constitution and consult the Committee Team Manager and Head of Democratic Services to clarify the position of the Chair from the elections on 4 May 2023 to the appointment of the new Chair of the Audit and Standards Committee during the Annual Full Council meeting on 22 May 2023.

The Committee queried if Deloitte had given an indication of the amount of additional applied fees as a result of its delayed External Audit on the 2019/20 Statement of Accounts. The DCFO explained that Deloitte had not provided an indication of the amount of additional fees, but that Officers had been requesting the proposed amount of additional fees, as the fees needed to be agreed before they were presented to the Public Sector Audit Appointments (PSAA).

The Chair queried whether Officers could once again write to Deloitte on behalf of the Committee in respect of outstanding external audits. The DCFO agreed.

Resolved:

1. That Officers write to the Council's External Auditor, Deloitte, on behalf of the Committee in respect of the outstanding external audits on the 2019/20, 2020/21, 2021/22 and 2022/23 Statement of Accounts;
2. That the Independent Auditor's (Deloitte) progress report to those charged with governance on LDC Accounts and the Value for Money conclusion report, be noted;
3. That authority be delegated to the Chair of the Audit and Standards Committee in consultation with the Director of Finance and Performance (Chief Finance Officer/S151 Officer) to sign-off the audited LDC 2019/20

- Statement of Accounts; and
4. That the Director of Finance and Performance (Chief Finance Officer/ S151 Officer) to sign the formal Letter of Representation to Deloitte.

41 **Written questions from councillors**

There were none.

42 **External Audit progress**

This item was considered concurrently with Urgent Agenda Item 4a, The External Auditor's (Deloitte) progress report on the draft 2019/20 Statement of Accounts.

Resolved: That the verbal update be noted.

43 **Treasury Management**

The Committee received the report which provided details regarding the Treasury Management Activity for the period 1 January to 28 February 2023.

The Deputy Chief Finance Officer summarised the report, confirming that all Treasury Management Activity was fully in compliance with the approved Treasury Strategies.

Discussions included fixed term deposits, prudential limit indicators, capital programme expenditure and a list of surplus assets, as previously requested by the Vice-Chair.

The Committee queried an extra line that had been put in the capital programme in respect of buying land at Landport Brooks and how this affected the already agreed 2022/23 budget. The DCFO clarified that the purchase of the land was part of the Council's new budget for 2023/24, but that he would review to the document to clarify and correct any related information.

The Chair queried the expiration of some grants in the event that they were not being utilised, when funding expired and if the grants would have to be paid back if they were not being utilised. The DCFO confirmed that he would review the information and confirm the results with the Committee.

Resolved: That it be noted that the Treasury Management activity for the period 1 January to 28 February has been in accordance with the approved Treasury Strategies.

44 **Draft Internal Audit Plan for 2023/24**

The Committee considered the report which proposed the Council's internal audit plan for 2023/24.

The Chief Internal Auditor (CIA) summarised the report, highlighting that

although the Internal Audit team was still carrying a vacancy, the team was in a good position.

Resolved: That the internal audit plan for 2023/24 be agreed.

45 Internal Audit and Counter Fraud report for the three quarters of the financial year 2022-2023 - 1st April 2022 to 31st December 2022

The Committee received the report which provided a summary of the activities of Internal Audit and Counter Fraud for the three quarters of the financial year 2022/2023, from 1 April 2022 to 31 December 2022.

The Chief Internal Auditor (CIA) summarised the report, highlighting the work of Internal Audit carried out in the first three quarters and the work of Counter Fraud carried out in the third quarter of the financial year 2022/23.

Discussions included right to buy savings and prosecutions, the position of audits requiring follow up (as set out in Appendix B) and recommendations from audit reports which remain outstanding after follow-up (as set out in Appendix C).

The Chair queried if the CIA could include the actual date of follow-up rather than the anticipated time frame in respect of the audit reports which remain outstanding after follow-up, as set out in Appendix C, and whether Officers encounter any issues. The CIA agreed.

Resolved: That the report be noted.

46 Strategic Risk Register Quarterly Review

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

The Chief Internal Auditor (CIA) summarised the report, highlighting changes to the economic environment which make the Council economically less stable, as set out in paragraph 3.3 of the report and Appendix A.

Discussions included possible reputational and governance costs in relation to SR28 as set out in Appendix A, fixed desks and available desk space for staff and costs in respect of the potential risks of the Council's work from home culture.

The Chair queried if a separate risk could be included in the SRR relating to the significant increase of Council staff working from home, so that any possible additional controls and procedures may assist in keeping the risk as low as possible. The CIA agreed to review the information and consider this option for the SRR.

Resolved: That the report be noted.

47 Date of next meeting

It was noted that the next meeting of the Audit and Standards Committee which was scheduled to commence at 10:00am on Monday, 3 July 2023, will take place at a location to be confirmed (TBC).

The meeting ended at 11:21am.

Councillor Adrian Ross (Chair)

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Agenda Item 8

Report To:	Audit and Governance Committee
Date:	3 July 2023
Report Title:	Treasury Management Annual Report 2022/23
Report of:	Director of Finance and Performance (Chief Finance Officer - S151 Officer)
Ward(s):	All
Purpose of report:	To report on the activities and performance of the Treasury Management service during 2022/23.
Officer Recommendations:	To recommend to Full Council (via Cabinet): 1. That Members consider and approve the Annual Treasury Management report 2022/23. 2. To approve the 2022/23 Prudential and Treasury Indicators included in the report (Section 9.1).
Reasons for recommendations:	Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code).
Contact Officer(s):	Name: Steven Houchin Post title: Interim Deputy Chief Finance Officer E-mail: steven.houchin@lewes-eastbourne.gov.uk Telephone number: 01323 415378

1 Introduction

- 1.1 This Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2022/23. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 1.2 During 2022/23 the minimum reporting requirements were that the full Council should receive the following reports:
- an annual treasury strategy in advance of the year (Council 21 February 2022)
 - a mid-year (minimum) treasury briefing.
 - an annual report following the year describing the activity compared to the strategy (this report)
- 1.3 In addition, Treasury Management updates were included in the quarterly performance management reports, considered by both the Cabinet and Policy and Performance Advisory Committee.

- 1.4 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 outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
- 1.5 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny of all the above treasury management reports by the Audit & Governance Committee before they were reported to the full Council. Member training on treasury management issues was undertaken in autumn 2022, which is to support Members' scrutiny role. Further training will be undertaken in October 2023.
- 1.6 This report summarises:
- Capital activities during the year.
 - Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement).
 - The actual prudential and treasury indicators.
 - Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances.
 - Summary of interest rate movements in the year.
 - Debt activity and investment activity.

2 The Council's Capital Expenditure and Financing 2022/23

- 2.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:
- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
 - If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need (Capital Financing Requirement).
- 2.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

General Fund £'000	31/03/2022	2022/23	31/03/2023
	Actual	Budget	Actual
Capital expenditure	8,625	26,056	9,849
Financed in year	(5,864)	(15,077)	(7,469)
Unfinanced capital expenditure	(2,760)	(10,979)	(2,379)

HRA £'000	31/03/2022	2022/23	31/03/2023
	Actual	Budget	Actual
Capital expenditure	5,604	12,628	8,668
Financed in year	(1,294)	(12,628)	(8,668)
Unfinanced capital expenditure	(4,310)	-	-

3 The Councils Overall Borrowing Need

- 3.1 The Capital Financing Requirement (CFR) represents the Council's total underlying need to borrow to finance capital expenditure, i.e. capital expenditure that has not been resourced from capital receipts, capital grants and contributions or the use of reserves. Some of this borrowing is from the internal use of cash balances.
- 3.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the PWLB or the money markets), or utilising temporary cash resources within the Council.
- 3.3 Reducing the CFR – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR. The total CFR can also be reduced by:
- the application of additional capital financing resources (such as unapplied capital receipts); or
 - charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).
- 3.4 The Council's 2022/23 MRP Policy (as required by Department for Levelling Up, Housing and Communities Guidance) was approved as part of the Treasury Management Strategy Report for 2022/23 on 21 February 2022. The Council's CFR for the year is shown below and represents a key prudential indicator.

CFR (£'000): General Fund	31/03/2022	2022/23	31/03/2023
	Actual	Budget	Actual
Opening balance	18,589	21,014	21,014
Add unfinanced capital expenditure	2,760	10,979	2,379
Less MRP	(334)	(367)	(359)

Less Loan repayments	(2)	-	(133)
Closing balance	21,014	31,626	22,902

CFR (£'000): HRA	31/03/2022	2022/23	31/03/2023
	Actual	Budget	Actual
Opening balance	70,679	74,989	74,989
Add unfinanced capital expenditure	4,310	-	-
Closing balance	74,989	74,989	74,989

- 3.5 The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the Authorised Limit.
- 3.6 Net borrowing and the CFR - to ensure that borrowing levels are prudent over the medium term, the Council's external borrowing net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure.
- 3.7 Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2021/22 plus the expected changes to the CFR over 2022/23 and 2023/24. This indicator allows the Council some flexibility to borrow in advance of its immediate capital need in 2022/23. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

£'000	31/03/2022	2022/23	31/03/2023
	Actual	Budget	Actual
Gross borrowing position	51,673	53,673	51,673
CFR	96,003	106,615	97,891
Over / (Under) Funding of CFR	(44,330)	(52,942)	(46,218)

- 3.8 The Authorised limit - the Authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2022/23 the Council has maintained gross borrowing within its Authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the Authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

£'000	2022/23
Authorised limit	139,277
Maximum gross borrowing position during the year	51,673
Operational boundary	126,615
Average gross borrowing position	51,673
GF Financing costs as a proportion of net revenue stream	-4.6%
HRA financing costs as a proportion of rental income	12.5%
Income from Commercial and Service Delivery Investments as a proportion of net revenue stream	12.2%

4 Treasury Position as at 31 March 2023

- 4.1 The Council's debt and investment position is organised by staff within Financial Services to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities.
- 4.2 Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2022/23, the Council 's treasury position was as follows:

DEBT PORTFOLIO	31/3/22 Principal	Rate/ Return %	31/3/23 Principal	Rate/ Return %
Fixed rate funding:				
-PWLB	46,673	3.1%	46,673	3.1%
-Market	5,000	4.5%	5,000	4.5%
Total debt	51,673		51,673	
CFR	96,003		97,891	
Over / (under) borrowing	(44,330)		(46,218)	
Total investments	33,267	0.14%	19,907	1.61%
Net debt	18,406		31,766	

- 4.3 The maturity structure of the debt portfolio was as follows:

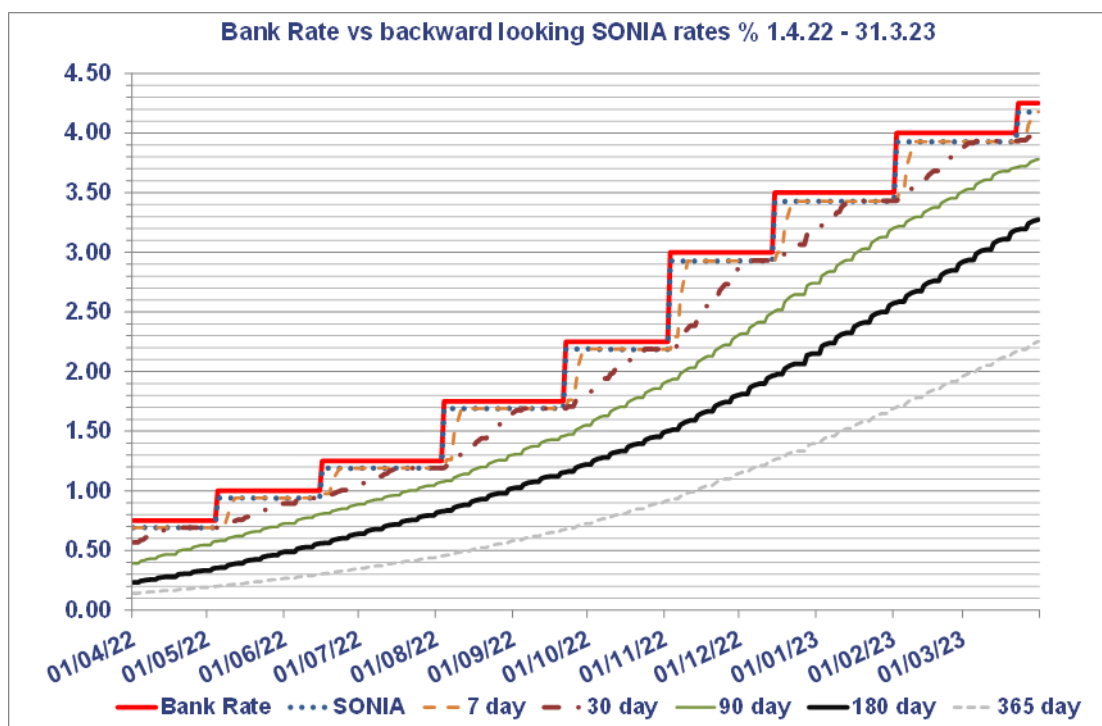
	31.3.22	2022/23	31.3.23
	Actual £'000	Original limits £'000	Actual £'000
Under 12 months	-	8,000	8,000
12 months and within 24 months	8,000	2,000	2,000
24 months and within 5 years	10,000	10,000	10,000
5 years and within 10 years	12,000	10,000	10,000
10 years and within 20 years	16,673	18,673	16,673
20 years and within 30 years	-	-	-
30 years and within 40 years	5,000	5,000	5,000
40 years and within 50 years	-	-	-

The exposure to fixed and variable rates was as follows:

	31 March 2022 Actual £'000	31 March 2023 Actual £'000
Principal - Debt Fixed rate	51,673	51,673
Principal – Investments Variable rate	0	0

5 Investment Strategy and Control of Interest Rate Risk

- 5.1 The investment strategy during the financial year made reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Whilst greater returns are usually obtainable by investing for longer periods, there was the greater emphasis on ensuring cash balances were available to manage the ups and downs of the council's cash flow. Where cash sums were identified that could be invested for longer periods, the value to be obtained from longer term, investments were carefully assessed.
- 5.2 Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for. Starting April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for a further one or two increases in 2023/24.
- 5.3 The tables below illustrate the change in Sterling Overnight Index Average (SONIA) compared to the Bank of England Base Rate throughout the year.



FINANCIAL YEAR TO QUARTER ENDED 31/03/2023							
	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	4.25	4.18	4.18	4.00	3.78	3.27	2.25
High Date	23/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023
Low	0.75	0.69	0.69	0.57	0.39	0.23	0.14
Low Date	01/04/2022	28/04/2022	29/04/2022	01/04/2022	01/04/2022	01/04/2022	01/04/2022
Average	2.30	2.24	2.20	2.09	1.81	1.42	0.90
Spread	3.50	3.49	3.49	3.43	3.39	3.04	2.11

- 5.4 The sea-change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and “laddering” deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.
- 5.5 With bond markets selling off, equity valuations struggling to make progress and, latterly, property funds enduring a wretched Q4 2022, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration) became more actively used.
- 5.6 Meantime, through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.
- 5.7 Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the 2008/9

6 Borrowing Strategy and Control of Interest Rate Risk

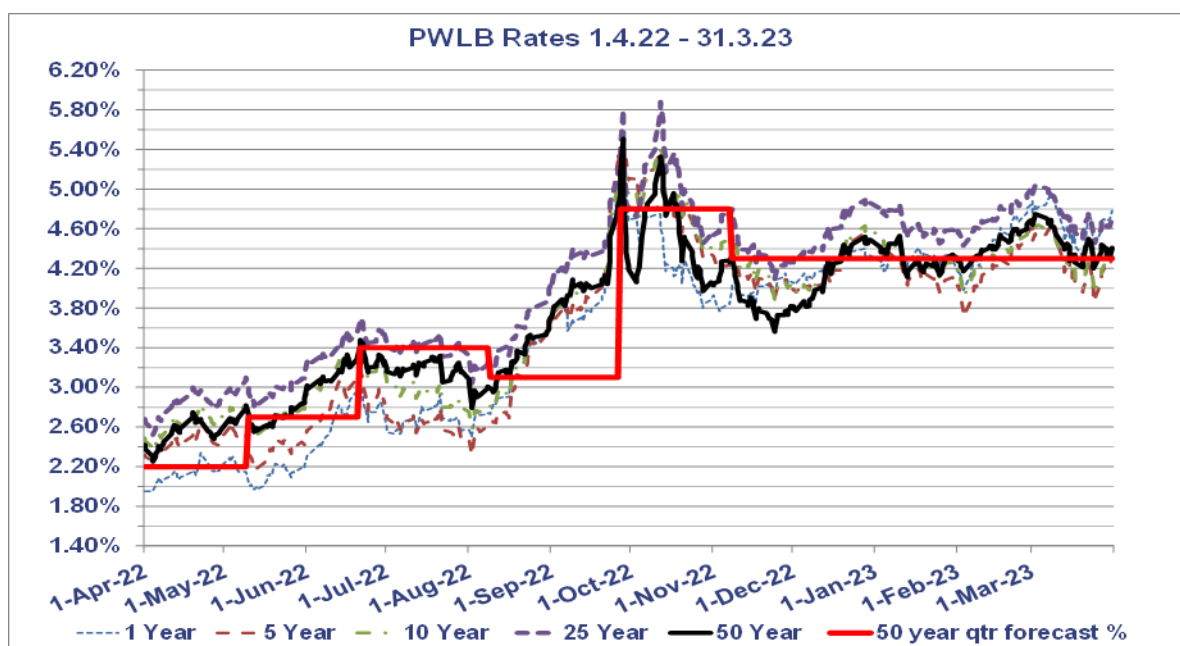
- 6.1 During 2022/23, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council’s reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were very low and minimising counterparty risk on placing investments also needed to be considered.
- 6.2 The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 6.3 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. No new loans were drawn down from PWLB in 2022/23 to fund the net unfinanced capital expenditure and/or to replace maturing loans.

6.4 In taking this decision, the Council carefully considered achieving best value, the risk of having to borrow at higher rates at a later date, the carrying cost of the difference between interest paid on such debt and interest received from investing funds which would be surplus until used, and that the Council could ensure the security of such funds placed on temporary investment.

7 Interest Rates

7.1 Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. Currently the CPI measure of inflation is still above 10% in the UK but is expected to fall back towards 4% by year end. Nonetheless, there remain significant risks to that central forecast.

7.2 The tables below illustrate the change in Public Work Loans board (PWLB) rates throughout the year.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.45%	5.88%	5.51%
Date	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
Average	3.57%	3.62%	3.76%	4.07%	3.74%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

7.3 PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main

influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields.

- 7.4 Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and 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.
- 7.5 This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.
- 7.4 However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods.
- 7.5 In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.
- 7.6 There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate first rises to dampen inflationary pressures and a tight labour market, and is then cut as the economy slows, unemployment rises, and inflation (on the Consumer Price Index measure) moves closer to the Bank of England's 2% target.
- 7.7 As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.
- 7.8 The Bank of England is also embarking on a process of Quantitative Tightening, but the scale and pace of this has already been affected by the Truss/Kwarteng "fiscal experiment" in the autumn of 2022 and more recently by the financial market unease with some US (e.g., Silicon Valley Bank) and European banks (e.g., Credit Suisse). The gradual reduction of the Bank's original £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

8 Investment Outturn for 2022/23

- 8.1 The Council's investment policy is governed by DLUHC guidance, which was implemented in the annual investment strategy approved by the Council on 9

February 2022. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

- 8.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 8.3 Resources – the Council’s longer-term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Council’s core cash resources comprised as follows, and met the expectations of the budget:

Balance Sheet Resources - General Fund (£'000)	31/03/2022	31/03/2023
GF Balances	3,723	3,723
Earmarked reserves	10,219	8,476
Capital Grants & Contributions	9,139	9,326
Provisions	-	-
Usable capital receipts	956	10,096
Total	24,037	31,621

Balance Sheet Resources - HRA (£'000)	31/03/2022	31/03/2023
HRA Balances	4,495	3,342
Earmarked reserves	86	86
Major Repairs Reserve	10,041	10,051
Usable capital receipts	9,815	8,779
Total	24,437	22,258

8.4 Investments held by the Council

- 8.5 Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority’s objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 8.6 At 31 March 2023 the Council held investments totalling £25.255m in a mixture of Treasury and Non-Treasury investments illustrated in the tables below. Interest received on Treasury Investments was £0.55m in 2022/23 compared to £0.02m in the previous year because of base rate increases during the financial year. Interest received on Non-Treasury Investments was £0.69m in 2022/23 compared to £0.3m in the previous year. Additional interest was on loans to a council owned subsidiary company (Aspiration Homes Limited)

Investment Portfolio	31/03/2022	31/03/2022	31/03/2023	31/03/2023
	Actual	Actual	Actual	Actual
	£'000	%	£'000	%
Treasury investments				
Banks	15,966	48.0%	18,907	95.0%
Building Societies - rated	-	0.0%	-	0.0%
Building Societies – unrated	-	0.0%	-	0.0%
Local authorities	-	0.0%	-	0.0%
DMADF (H M Treasury)	17,300	52.0%	1,000	5.0%
Money Market Funds	1	0.0%	-	0.0%
Total managed in house	33,267	100.0%	19,907	100.0%
Bond funds	-	0.0%	-	0.0%
Property funds	-	0.0%	-	0.0%
Cash fund managers	-	0.0%	-	0.0%
Total managed externally	-	0.0%	-	0.0%
Total Treasury Investments	33,267	100%	19,907	100%
Non-Treasury investments				
Third party loans	612	22.3%	517	19.5%
Subsidiaries	2,132	77.7%	2,132	80.5%
Companies	-	0.0%	-	0.0%
Property	-	0.0%	-	0.0%
Total Non-Treasury Investments	2,743	100.0%	2,648	100.0%
Total Investments	36,010	100%	22,555	100%

9 Executive Summary and Conclusion

- 9.1 During 2022/23, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:-

Prudential and treasury indicators	31.3.22	2022/23	31.3.23
	Actual	Original	Actual
	£'000	£'000	£'000
Capital expenditure			
Non-HRA	8,625	26,056	9,849
HRA	5,604	12,628	8,668
Total	14,229	38,684	18,517

Capital Financing Requirement:			
Non-HRA	21,014	31,626	22,902
HRA	74,989	74,989	74,989
Total	96,003	106,615	97,891
Gross borrowing	75,774	67,931	79,374
External debt	51,673		51,673
Treasury Investments			
Longer than 1 year	33,267		19,907
Under 1 year	0		0
Total	33,267		19,907
Net borrowing	18,406		31,766

9.2 Other prudential and treasury indicators are to be found in the main body of this report. The Chief Finance Officer also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the Authorised limit), was not breached. The financial year 2022/23 continued the challenging environment of previous years; low investment returns, and continuing counterparty risk continued.

10 The Economy and Interest Rates Forecast

10.1 The Council's treasury advisor, Link, provides the Economy and Interest Rates Forecast, which is attached as Appendix A.

11 Other

11.1 **IFRS 9 fair value of investments:** Following the consultation undertaken by the Department of Levelling Up, Housing and Communities [DLUHC] on IFRS 9, the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

11.2 **IFRS 16:** The implementation of the new IFRS 16 Leases accounting standard to currently off-balance sheet leased assets onto the balance sheet was due to come into force for local authorities from 1st April 2022. Following a consultation of CIFPA/LASAAC it was agreed that implementation of the standard would be deferred until 1 April 2024, impacting financial statements for the period 2024/25 onwards.

12 Investment Consultants

12.1 The Council has a contract with Link Treasury Services Limited who act as the Council's Treasury Adviser. The Link Treasury Services has been

appointed to support both the Lewes District Council and Eastbourne Borough Council, given that a shared finance team (with treasury management responsibility) has been established. The Link contract was extended on 30 May 2023 for a further two years.

13 Corporate plan and council policies

- 13.1 The priority themes were considered as part of the overall Capital Programme which forms part of the Treasury Management Strategy.

14 Financial appraisals

- 14.1 Financial appraisals were considered as part of the overall Capital Programme which forms part of the Treasury Management Strategy.

15 Legal implications

- 15.1 Comment from the Legal Services Team is not necessary for this routine monitoring report.

16 Risk management implications

- 16.1 Risks relating to the timing of borrowing and terms of borrowing are considered and advice is provided by Link. Risk management is considered for each of the schemes within the Capital Programme.

17 Equality analysis

- 17.1 Equality issues are considered.

18 Appendices

- 18.1 Appendix A – The Economy and Interest Rates
18.2 Appendix B – Glossary - Local Authority Treasury Management Terms

19 Background papers

The Background Papers used in compiling this report were as follows:

CIPFA Treasury Management in the Public Services code of Practice (the Code)

Cross-sectorial Guidance Notes

CIPFA Prudential Code

Treasury Management Strategy and Treasury Management Practices.

Link Asset Services Citywatch and interest rate forecast

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Appendix A

The Economy and Interest Rates by Link Treasury Services Limited

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022/23.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps in 2022. The table below provides a snapshot of the conundrum facing central banks, inflation is elevated but labour markets are extraordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	4.25%	3%	4.75%-5%
GDP	0.1%q/q Q4 (4.1%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.6% Q4 Annualised
Inflation	10.4%y/y (Feb)	6.9%y/y (Mar)	6.0%y/y (Feb)
Unemployment Rate	3.7% (Jan)	6.6% (Feb)	3.6% (Feb)

Q2 of 2022 saw UK GDP deliver growth of +0.1% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing.

Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.

Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

Appendix A

Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

In the interim, following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17th of November gave rise to a net £55bn fiscal tightening, although much of the “heavy lifting” has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have reversed the increases seen under the previous tenants of No10/11 Downing Street, although they remain elevated in line with developed economies generally.

As noted above, GDP has been tepid throughout 2022/23, although the most recent composite Purchasing Manager Indices for the UK, US, EZ and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). Whether that means a shallow recession, or worse, will be avoided is still unclear. Ultimately, the MPC will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets.

Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels. At present, the bigger rise in employment kept the ILO unemployment rate unchanged at 3.7% in January. Also, while the number of job vacancies fell for the ninth consecutive month in February, they remained around 40% above pre-pandemic levels. Our economic analysts, Capital Economics, expect real GDP to contract by around 0.2% q/q in Q1 and forecast a recession this year involving a 1.0% peak-to-trough fall in real GDP.

Sterling has remained resilient of late, recovering from a record low of \$1.035, on the Monday following the Truss government’s “fiscal event”, to \$1.23. Notwithstanding sterling’s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

As for equity markets, the FTSE 100 started 2023 strongly, rising to a record high of 8,014 on 20th February, as resilient data and falling inflation boosted earnings. But global equities fell sharply after concerns over the health of the global banking system emerged early in March. The fall in the FTSE 100 was bigger than the drop in the US S&P 500. Indeed, at around 7,600 now, the FTSE is 5.2% below its record high on 20th February, while the S&P 500 is only 1.9% lower over the same period. That’s despite UK banks having been less exposed and equity prices in the UK’s financial sector not falling as far. It may be due to the smaller decline in UK interest rate expectations and bond yields, which raise the discounted value of future earnings, compared to the US.

GLOSSARY

Local Authority Treasury Management Terms

Terms	Descriptions
Bond	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets
Borrowing	Usually refers to the stock of outstanding loans owed, and bonds issued.
CFR	Capital Financing Requirement. A council's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with capital expenditure and decreases with capital finance and MRP.
Capital gain or loss	An increase or decrease in the capital value of an investment, for example through movements in its market price.
Collective investment scheme	Scheme in which multiple investors collectively hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
Cost of carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.
Counterparty limit	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
Covered bond	Bond issued by a financial institution that is secured on that institution's assets, usually residential mortgages, and is therefore lower risk than unsecured bonds.
CPI	Consumer Price Index - the measure of inflation targeted by the Monetary Policy Committee.
Deposit	A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.
Diversified income fund	A collective investment scheme that invests in a range of bonds, equity and property in order to minimise price risk, and also focuses on investments that pay income.
Dividend	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
DMADF	Debt Management Account Deposit Facility – a facility offered by the DMO enabling councils to deposit cash at very low credit risk. Not available in Northern Ireland.
DLUHC	Department for Levelling Up, Housing and Communities (<i>formerly known as Ministry of Housing, Communities & Local Government - MHCLG</i>).
DMO	Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments.
Equity	An investment which usually confers ownership and voting rights

Appendix B

Terms	Descriptions
Floating rate note (FRN)	Bond where the interest rate changes at set intervals linked to a market variable, most commonly 3-month LIBOR or SONIA
FTSE	Financial Times stock exchange – a series of indices on the London Stock Exchange. The FTSE 100 is the index of the largest 100 companies on the exchange, the FTSE 250 is the next largest 250 and the FTSE 350 combines the two
GDP	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
Income Return	Return on investment from dividends, interest and rent but excluding capital gains and losses.
GILT	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
LIBID	London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than LIBOR.
LIBOR	London interbank offer rate - the benchmark interest rate at which banks offer to lend cash to other banks. Published every London working day at 11am for various currencies and terms. Due to be phased out by 2022.
LOBO	Lender's Option Borrower's option
MMF	Money Market Funds. A collective investment scheme which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to Constant Net Asset Value (CNAV) and Low Volatility Net Asset Value (LVNAV) funds with a Weighted Average Maturity (WAM) under 60 days which offer instant access, but the European Union definition extends to include cash plus funds
Pooled Fund	Scheme in which multiple investors hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
PWLB	Public Works Loan Board – a statutory body operating within the Debt Management Office (DMO) that lends money from the National Loans Fund to councils and other prescribed bodies and collects the repayments. Not available in Northern Ireland.
Quantitative easing (QE)	Process by which central banks directly increase the quantity of money in the economy to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money.
SONIA	Sterling overnight interest average – a benchmark interest rate for overnight deposits.
Short-dated	Usually means less than one year
Total return	The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses.

Report to:	Audit and Governance Committee
Date:	3rd July 2023
Title:	Annual Governance Statement
Report of:	Chief Internal Auditor
Ward(s):	All
Purpose of report:	To seek Councillors' approval of the Annual Governance Statement.
Officer recommendation(s):	To comment on and approve the draft Annual Governance Statement for 2022-23.
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 Governance 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 Governance Framework

2.1 The Annual Governance Statement is the report produced at the end of the year on the control environment of the council. However this is just the end product of the framework of governance operating within the authority throughout the year.

- 2.2 Appendix 1 shows the framework for gathering the assurances and how this is affected by, and effects, the relationship with partners, stakeholders and the community. Following this framework should ensure that the council meets the principles of corporate governance.
- 2.3 Use of this framework also allows the council to demonstrate how its assurance gathering process links the strategic objectives and statutory requirements of the authority and how these objectives are to be delivered.
- 2.4 Appendix 2 shows a timetable for the gathering of assurances to produce the Annual Governance Statement. Certain elements are ongoing throughout the year whereas others are specifically produced at the year-end in order to feed directly into the Annual Governance Statement.
- 2.5 It is important to have a defined timeline for the gathering of information on assurance as there is a deadline for the publication of the Statement of Accounts alongside of which the Annual Governance Statement must be published.
- 2.6 Appendix 3 shows the areas covered by the Managers' Assurance Statement which includes coverage of the Bribery Act, Safeguarding, the Regulation of Investigatory Powers Act (RIPA) and frauds over £10k as well as items of general governance. The statements are intended to cover the operational, project and partnership responsibilities of Heads of Service. These can also be used to highlight concerns and actions required to improve governance throughout the council.
- 2.7 These statements are completed by Directors, Assistant Directors and Heads of Service. The comments made on the statements are considered for inclusion in the Annual Governance Statement.

3 Content of the Annual Governance Statement

- 3.1 The Annual Governance Statement is a document that provides a structure in which to consider the council's governance arrangements and their effectiveness. This ensures that major control issues are identified and action taken to address these issues.
- 3.2 There are essentially three parts to the statement:
- a statement of responsibility and purpose
 - a description of the components of the governance framework that exist in the council
 - the resulting issues and actions arising from those arrangements
- 3.3 It is important that the Annual Governance Statement is accessible but this has to be balanced by a need to ensure that all relevant information is included. Wherever possible, the Annual Governance Statement includes hyperlinks or URLs to link to relevant information. A table is also included which covers companies and gives details of the council's relationship with these bodies.

4 The 2022-2023 review

- 4.1 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, Assistant Directors and Heads of Service. 21 statements were sent out and 20 were returned.
- 4.2 Appendix 4 lists the feedback noted in the Managers' Assurance Statements. It should be noted that the feedback received records the subjective descriptions of the officers responding. Therefore, these have been grouped under relevant headings to make these easier to consider. The list also shows the number of comments that contained similar feedback and the level of concern. This list was considered by the Corporate Management Team to decide whether any are significant governance issues and should be included in the Annual Governance Statement.
- 4.3 The Corporate Management Team considered the feedback listed in Appendix 4. The Corporate Management Team believe that mitigating actions have been put in place to address the risks in these areas and the following comments were made.
- 4.4 Digital by Design
This was raised by just one person and affects just one area. The relevant director assured the Corporate Management Team that this was not a significant issue and any issues were being addressed.
- 4.5 Capacity
This is acknowledged to be an issue across the local government sector in general. However, the shared service provides resilience and both authorities have a lower turnover by comparison with other authorities. It is recognised that there are pressure points where it is hard to recruit nationally. HR and the Director of Finance and Performance are working together to consider how to attract applicants. (See also 4.8)
- 4.6 Governance/Policies
All relevant policies are readily available to all staff on the councils' intranet and managers are responsible for ensuring that their staff are aware of those relevant to their work. With regard to data protection, home working in some form has been in place since 2010 and the councils' history of few data breaches speaks for itself.
- 4.7 Delegated Powers
Work is progressing on updating the scheme of delegation and this will be concluded in 2023-24.

4.8 Performance

Salary points in the contribution zone are designed to recognise and reward employees who demonstrate the highest level of contribution and performance. Progression in this zone is not automatic and is determined by outstanding performance in the role. The contribution zone may also be used where there are demonstrable recruitment and retention difficulties. Contribution zone increments should be discussed and agreed with the budget holder and Head of Service/Senior Managers before being passed to the relevant Corporate Management Team representative for their authorisation.

4.9 Waste Vehicles

There is a programme of proactive fleet replacement and alternative fuel is also being investigated.

4.10 The Corporate Management Team are therefore of the opinion that there are no significant governance issues. However, the concerns noted above have been included in the body of the Annual Governance Statement for transparency.

4.11 The committee is requested to consider the attached draft Annual Governance Statement (Appendix 5). Once agreed by the committee the Annual Governance Statement will be passed to the Leader of the Council and the Chief Executive to sign off and it will then be published on the council's website.

5. Managing the Risk of Fraud and Corruption

5.1 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.

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 Governance 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

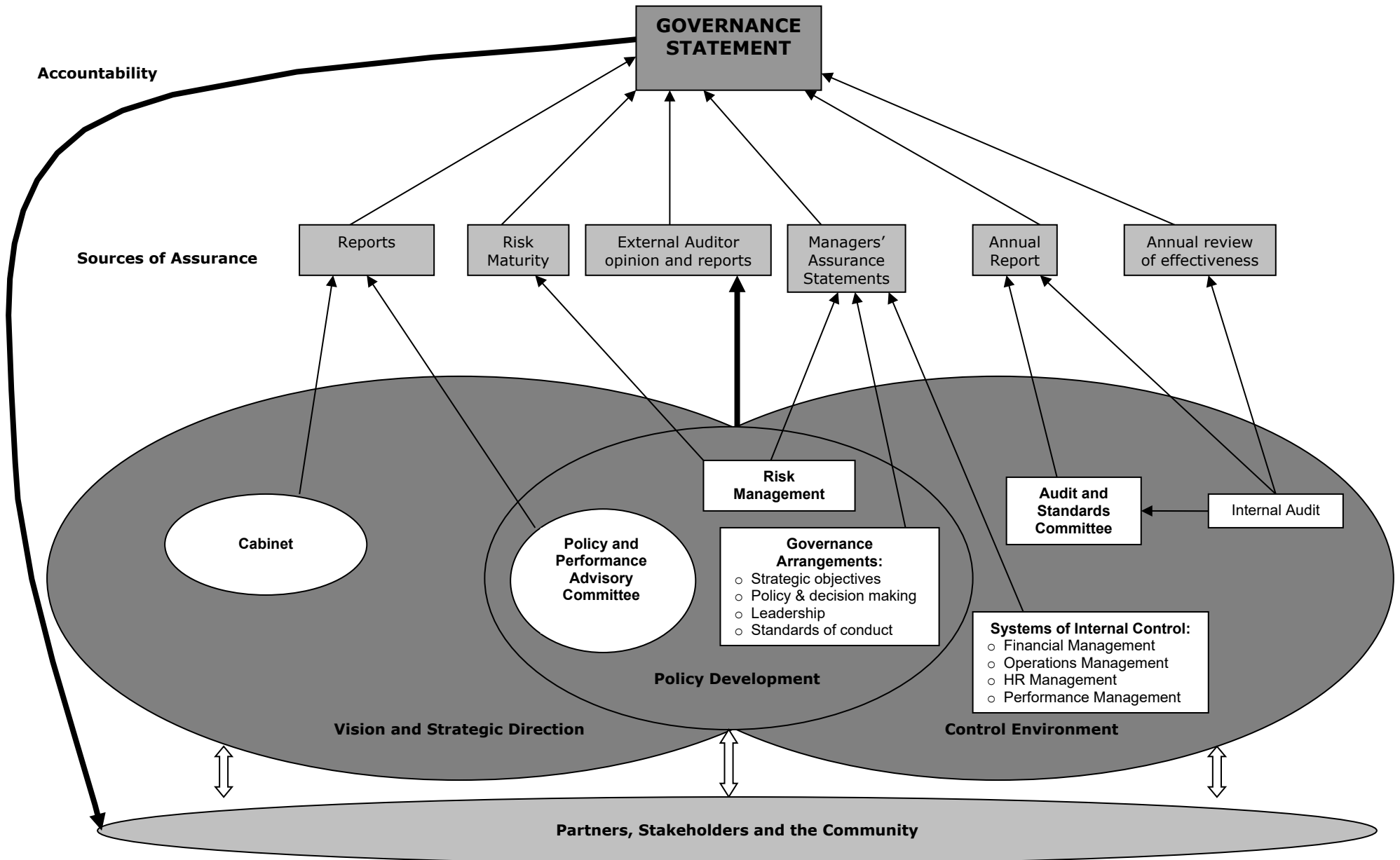
- 10.1 Appendix 1 – Governance Framework
10.2 Appendix 2 – Annual Governance Statement Timetable
10.3 Appendix 3 – Managers' Assurance Statement
10.4 Appendix 4 – Feedback from the Managers' Assurance Statements
10.5 Appendix 5 – Annual Governance Statement

11 Background papers

- 11.1 Internal Audit Report for the financial year 2022-2023.

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APPENDIX 1



This diagram is correct for the financial year 2022-23

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Appendix 2

ANNUAL GOVERNANCE STATEMENT TIMETABLE

Deadline	Responsibility	Action
Throughout year		1/4ly updates of the Strategic Risk Register
	Chief Internal Auditor	Internal Audit reports
	External Auditor	External Audit reports
	All Managers	Management reports
		Other sources of assurance
April/May	All Managers	Managers Assurance Statements completed (to include RIPA statement)
	Director of Finance and Performance (Chief Finance Officer – S. 151 Officer)	Preparation of the Annual Governance Statement
	CMT	Annual Governance Statement considered
June/July	Chief Internal Auditor	Internal Audit Annual report presented to Audit Committee
	Chief Internal Auditor	Internal Audit Annual report presented to Audit Committee
	Director of Finance and Performance (Chief Finance Officer – S. 151 Officer), Leader and Chief Executive	Annual Governance Statement signed by Leader and Chief Executive
	Audit Committee	Annual Governance Statement published

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APPENDIX 3 – Managers’ Assurance Statement and Governance Statement for the Corporate Management Team.

Governance Responsibility	Demonstrated by:
<p>Services are planned and managed to implement the priorities of Lewes District Council.</p>	<ul style="list-style-type: none"> • Service plan aligned to the Council’s priorities • Plans in place to monitor the quality of service to users and seek continuous improvements • Making best use of resources to ensure excellent service and value for money is achieved • Dealing effectively with any failures in service delivery.
<p>There are good working relationships with Members and officers responsibilities are clearly defined.</p>	<ul style="list-style-type: none"> • Statutory Officers have clearly defined scope and status to fulfil their roles • Delegated powers are clearly defined and understood • Member/officer protocol operates effectively in practice • Partnership governance arrangements are clearly defined and appropriate
<p>The values of good governance are demonstrated and high standards of conduct and behaviour.</p>	<ul style="list-style-type: none"> • Effective communication to all staff of the code of conduct, standing orders, Financial Procedure Rules, Contract Procedure Rules and Anti Fraud and Corruption Policy • Effective performance management of staff and regular appraisals • The Council’s values are understood and promoted
<p>Management decision making and advice to Members are well founded and involve consideration of professional advice and identified risks.</p>	<ul style="list-style-type: none"> • Effective arrangements to ensure data quality (complete, accurate, timely and secure) • The internal control framework operates effectively • Professional advice is obtained where appropriate and is recorded • Risk management operates effectively in strategic, project and operational areas

APPENDIX 3 – Managers’ Assurance Statement and Governance Statement for the Corporate Management Team.

	<ul style="list-style-type: none"> • Decisions made are in accordance with delegated powers and the Council’s constitution • Arrangements are in place to obtain assurance on the management of key risks
The capacity and capability of officers has been developed to ensure effective performance.	<ul style="list-style-type: none"> • Training and development of staff • Workforce planning to ensure there are adequate staffing levels • Statutory officers have sufficient resources to fulfil their role
Robust public accountability is ensured by engaging with local people and stakeholders	<ul style="list-style-type: none"> • Arrangements to communicate with relevant sections of the community • Undertaking effective consultation with public and other stakeholders • Consultation with staff and engagement in decision making is undertaken
Adequate processes have been put in place for the safeguarding of children and vulnerable adults.	
Adequate action has been taken to ensure compliance with the requirements of the Bribery Act.	<ul style="list-style-type: none"> • Proportionate procedures have been put in place to prevent bribery • The risks of bribery have been assessed and added to the departmental risk register • Procedures and risks are regularly monitored and reviewed.
Are you satisfied that documents are held and disposed of in accordance with data protection requirements and the Councils’ Retention and Disposal Schedule?	
Has any external review been carried out in your department?	
Have you had reason for using/considering using surveillance which would fall under RIPA?	
Have you used or considered using covert/directed surveillance either under RIPA or outside it?	

APPENDIX 3 – Managers’ Assurance Statement and Governance Statement for the Corporate Management Team.

Are you aware of any frauds over £10k that have not already been informed to the Internal Audit section.	
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APPENDIX 4 – FEEDBACK RECEIVED FROM MANAGERS’ ASSURANCE STATEMENTS

Subject	Governance or Operational	Number of responses	Level of concerns	Feedback Received	How these are being addressed/mitigated
Digital By Design	Operational	1	Major	Move to new software “disbanded” with integration incomplete so not achieving outcomes agreed with Corporate Management Team. This has led to double handling of processes and a negative impact on staff morale.	IT to action all tasks on submitted priority schedules.
Waste Vehicles	Operational	2	1 Substantial 1 Minor	Aging fleet with some replaced by hire vehicles. Fuel shortages and high fuel prices.	Fleet Replacement Plan is ongoing. Maintaining vigilance and relationships with suppliers.
Capacity	Operational	14	6 – Some 8 - Minor	Very lean organisations which are tested by sickness ad recruitment issues. Recruitment issues means a lack of professionally trained staff for specialist roles and a general impact on services,	Look at new ways to structure and prioritise services. Train up existing staff and consider wider use of apprenticeships. Keep under review and inform Corporate Management Team of pressure points.
Governance/ Policies	Governance	12	3 – Some 9 - Minor	Risk of minor non-compliance with data protection because of home working. Policies (such as Financial Procedure Rules, Contract Procedure Rules and Anti-Bribery Policy) are not understood. Some information held beyond scheduled disposal dates and no disposal schedules on some software systems.	Training to be given with regard to policies in place. Investigation of the use of data cleansing tools. Procurement page on the intranet is being developed. Bribery risks to be reinforced at team meetings.

APPENDIX 4 – FEEDBACK RECEIVED FROM MANAGERS’ ASSURANCE STATEMENTS

Subject	Governance or Operational	Number of responses	Level of concerns	Feedback Received	How these are being addressed/mitigated
Members	Both	4	2 – Some 2 - Minor	Monitoring Officer capacity dealing with code of conduct complaints. Members contacting staff out of hours. Demands on time made by Members.	Training to Members on the Code of Conduct. Remind staff they do not need to answer calls from Members out of hours. Keep demands on officer time under review.
Delegated Powers	Governance	5	1 – Some 4 - Minor	Lack of understanding of delegated powers for officers. The schemes of delegation for the two authorities are not aligned in all respects.	An updated scheme of delegation is currently being considered by the Constitution Working Group before being taken to Full Council for adoption in Autumn 2023.
Service Plan/Strategy	Both	1	Some	No Tourism strategies or destination management plans in place so little chance for benchmarking.	Strategy being drawn up with separate plans for each authority.
Performance	Operational	5	Minor	Appraisals process is not really in place. Not aware of plans to monitor quality of service to users in service areas. Need to build up confidence and resilience.	Continue to build confidence, skills and resilience. Maintain honest relations with HR. Could do more to improve performance measures for quality.
Hybrid Meetings	Governance	2	Minor	Awaiting response from Government to the call for evidence about hybrid meetings in use during Covid.	Any response could indicate whether there is a likelihood of new legislation enabling councils to have the option of holding hybrid or remote meetings.
Companies	Operational	2	Minor	Capacity and financial pressures driven by high inflation and economic downturn.	Ongoing monitoring and review.

APPENDIX 4 – FEEDBACK RECEIVED FROM MANAGERS’ ASSURANCE STATEMENTS

Subject	Governance or Operational	Number of responses	Level of concerns	Feedback Received	How these are being addressed/mitigated
Decision Making	Governance	1	Minor	There is always room for improvement	Training, feedback, early engagement.
Risk Management	Governance	1	Minor	Risk management works well at the strategic level but the practice is mixed at the operational level.	Needs to be a greater understanding of risk management.
Economy	Operational	1	Minor	The state of the economy affects the value of work in Planning and has an influence on fee income	Monitor work to assess demand, initiate a service improvement group. Use feedback to improve the service

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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.

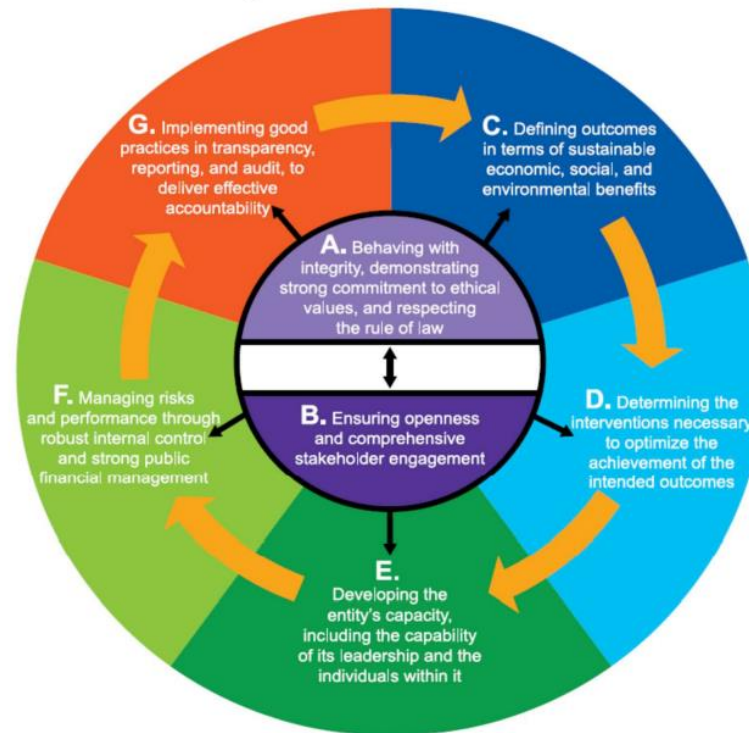
What is governance?

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/SOLACE 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)

The principles of good governance are given in the CIPFA/SOLACE *Delivering Good Governance in Local Government Framework 2016* from which the following diagram is taken.

**Achieving the Intended Outcomes
While Acting in the Public Interest at all Times**



Source: CIPFA 2016

The Code of Corporate Governance contains a table which demonstrates how the council meets the core principles.

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.

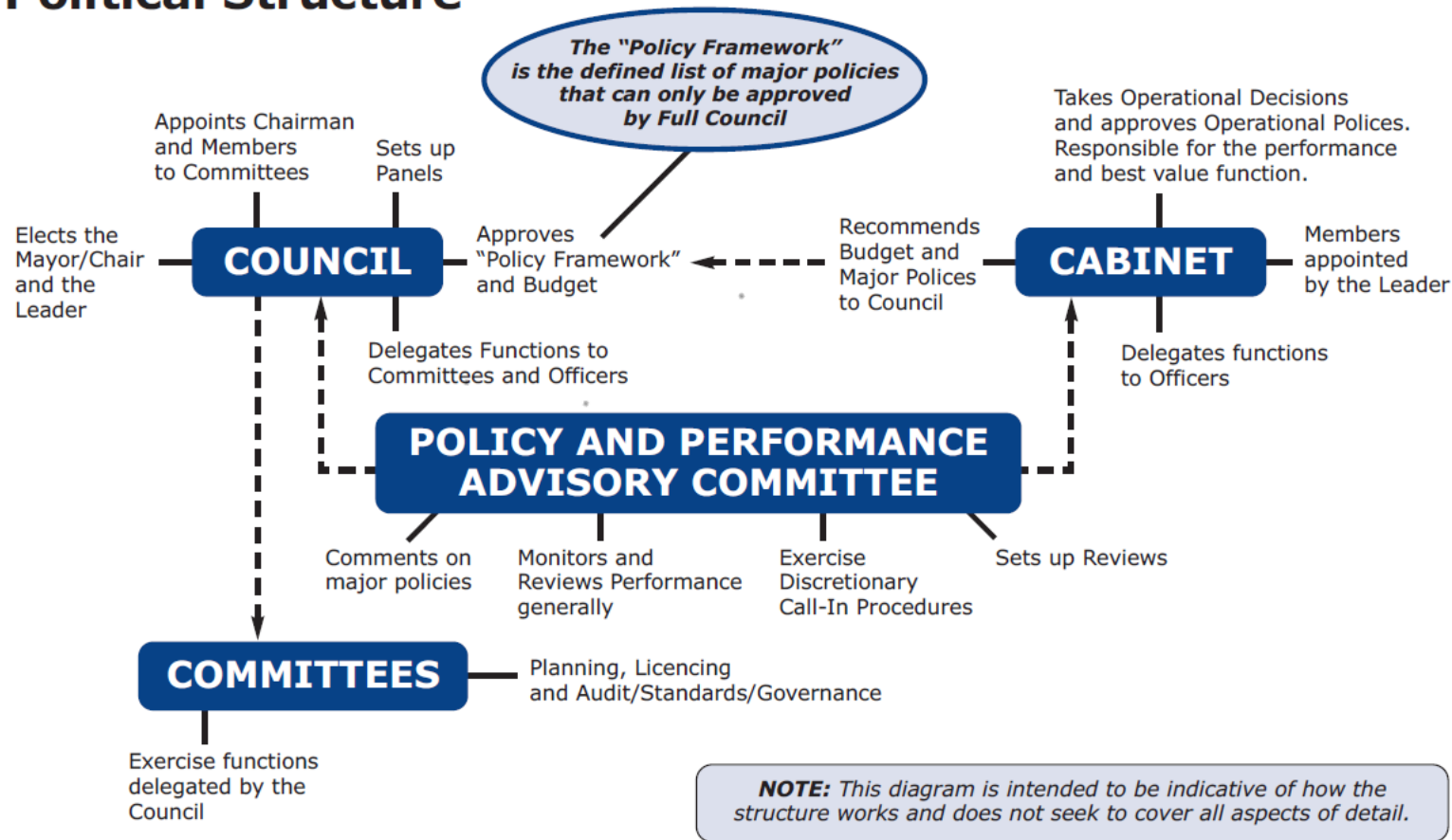
The production of this Annual Governance Statement forms part of the governance framework by providing a review of the governance arrangement in operation during the financial year.

The Governance Framework

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

How it Works...

The Modernised Political Structure



Roles and Responsibilities

Head of Internal Audit

The head of internal audit (Chief Internal Auditor) provides an independent opinion on the control environment. This is based on the work of the internal audit team in delivering a risk-based audit plan of a breadth sufficient for the head of internal audit to place reliance on it to base their opinion on.

Monitoring Officer

The Head of Legal Services was the designated Monitoring Officer during the financial year, but this post moved to the Head of Democratic Services at the year end. The Monitoring Officer has the duty to ensure that the council, its officers and its elected Councillors, maintain high standards of conduct.

Director of Finance and Performance (Chief Finance Officer – S. 151 Officer)

The Director of Finance and Performance (Chief Finance Officer) has been designated as the s.151 Officer. They are responsible for ensuring that the council controls and manages its money efficiently.

Scrutiny and Review

Scrutiny and review is provided by the following:

Audit and Standards Committee (Changed to Audit and Governance in May 2023)

The committee provides assurance by carrying out independent scrutiny of areas such as audit, risk management, counter fraud and financial accountability. It does this by way of reviewing reports provided to its quarterly meetings.

For more information see: <https://democracy.lewes-eastbourne.gov.uk/mgCommitteeDetails.aspx?ID=423>

Policy and Performance Advisory Committee

The committee reviews the delivery of services and performance and supports the work of the Cabinet and Council. It allows Councillors outside the Cabinet, and members of the public, to have a greater say in council matters by investigating issues of local concern.

Appendix 5

For more information see: <https://democracy.lewes-eastbourne.gov.uk/mgCommitteeDetails.aspx?ID=641>

Cabinet

The Cabinet is responsible for most day-to-day decisions of the council. Each member is assigned a portfolio identifying areas of responsibility for which they provide a political lead at Cabinet meetings and for working in consultation with officers.

For more information see: <https://democracy.lewes-eastbourne.gov.uk/mgCommitteeDetails.aspx?ID=417>

Corporate Management Team

The team provides strategic management and planning. The team also considers the annual Internal Audit plan, Strategic Risk Register and Annual Governance Statement.

External Audit

The external auditors audit the financial statements and provide an opinion on these. They produce an Annual Audit Letter which assesses how the council manages its resources and delivers value for money.

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 governance framework has been in place at the council for the year ended 31 March 2023.

One element used to gain assurance is information gathered from Managers' Assurance Statements. These statements contain questions based on the core principles of good governance as well as other areas such as safeguarding, the Bribery Act and the Regulation of Investigatory Powers Act. These are completed by senior managers and any issues raised are considered.

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)	<p>Company Active</p> <p>Incorporated on 30 June 2017.</p> <p>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.</p>	<p>Limited Liability Partnership LDC and EBC</p> <p>Company number: OC41800</p>	<p>Governed by LLP Agreement and an Executive Committee of 6 - made up of 3 elected members from each authority.</p>	<p>Lewes District Council</p> <p>Ownership of voting rights - More than 25% but not more than 50%</p> <p>Right to surplus assets - More than 25% but not more than 50%</p> <p>Eastbourne Borough Council</p> <p>Ownership of voting rights - More than 25% but not more than 50%</p> <p>Right to surplus assets - More than 25% but not more than 50%</p>	<p>Aspiration Homes will act as the asset holding vehicle for affordable housing properties developed through the EHICL and LHICL commercial development programmes.</p> <p>Support has included a £10 million loan to be funded from borrowing by LDC to Aspiration Homes LLP.</p> <p>www.lewes-eastbourne.gov.uk/about-the-councils/wholly-owned-companies-and-other-incorporated-entities</p>
Lewes Housing Investment Company Ltd (LHICL)	<p>Company Active</p> <p>Incorporated on 4th July 2017</p> <p>To undertake more commercial development, place shaping 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.</p>	<p>Company LDC only</p> <p>Company number: 10848011</p>	<p>Governed by Articles of Association and a Board of 5 directors made up of senior staff and Elected Members from Lewes District Council.</p>	<p>Wholly owned by Lewes District Council</p>	<p>To enable the council to undertake non HRA development and use associated forms of tenancies</p> <p>www.lewes-eastbourne.gov.uk/about-the-councils/wholly-owned-companies-and-other-incorporated-entities</p>

Managing the Risk of Fraud and Corruption

The CIPFA Code of Practice on Managing the Risk of Fraud and Corruption 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

With local authorities across the UK facing the challenges of reduced funding and increased demand for services, the need for robust financial management has never been more important. The CIPFA Financial Management Code (FM Code) sets out the principles by which authorities should be guided in managing their finances and the specific standards that they should seek to achieve. The self-regulation approach is also to prevent local authorities 'failing' and avoid any need for any external control or reductions in current powers. It is up to each authority to determine the extent to which it complies with the FM Code and to identify what action it may wish to take to better meet the standards that the FM Code sets out.

In 2022/23 the Director of Finance and Performance (Chief Finance Officer – S151 Officer) has taken account of the requirements of the CIPFA Financial Management Code and has acknowledged the approaches to Value for Money and the Council's financial resilience. A significant amount of the Code activities continues to be implemented by various teams across the Council including – the Finance Service, Internal Audit, other service departments, etc.

The Director of Finance and Performance (Chief Finance Officer – S151 Officer) has identified the Lewes District Council long-term financial viability as the key risk area regarding future compliance with the Code and this is being assessed through a combination of: the budget setting process; the Medium Term Financial Strategy; regular reviews of the Council's capital programme; Treasury

Management Strategy and the provision of clear and regular financial updates/training to 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 areas where further actions/consideration needs to be given to ensure full compliance with every aspect of the FM Code.

Local Government Association – Peer Challenge

Lewes District Council undertook a peer challenge jointly with Eastbourne Borough Council, coordinated by the Local Government Association, in September 2022. This was originally scheduled for March 2020, but deferred due to the pandemic. The challenge focused on a standard set of 5 criteria;

1. Local priorities and outcomes - Are the council's priorities clear and informed by the local context? Is the council delivering effectively on its priorities?
2. Organisational and place leadership - Does the council provide effective local leadership? Are there good relationships with partner organisations and local communities?
3. Governance and culture - Are there clear and robust governance arrangements? Is there a culture of challenge and scrutiny?
4. Financial planning and management - Does the council have a grip on its current financial position? Does the council have a strategy and a plan to address its financial challenges?
5. Capacity for improvement - Is the organisation able to support delivery of local priorities? Does the council have the capacity to improve?

In addition, the council asked that they also considered its approach to sustainability and net zero.

A report with recommendations for improvement was received by the council in January 2023. Work is currently being undertaken to respond to the recommendations in the report. Due to the election there has been a delay in presenting the report to Cabinet. This will be done in June 2023, after which time the report will be made public.

Strategic Risk Register

The council maintains a strategic risk register which is reviewed quarterly by the Corporate Management Team and changes are reported to the Audit and Governance Committee. The review considers the internal controls, to ensure early prevention and/or mitigation of risks and governance concerns, and the risk scores.

Quarterly meetings to discuss governance

During the financial year, quarterly meetings were set up to discuss any governance issues. The members of the meeting were the Chief Internal Auditor, Director of Finance and Performance (Chief Finance Officer – S. 151 Officer), Monitoring Officer, Head of Democratic Services and the Governance & Compliance Lead & Group Company Secretary. No significant issues were raised.

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, Regulation of Investigatory Powers Act. The senior manager can highlight concerns and the necessary actions required to improve governance. Assurance statements are sent out to Directors, Assistant Directors and Heads of Service. Once completed their contents are used to inform the governance statement.

Issues raised this year that were considered by the Corporate Management Team were:

Digital by Design

This was raised by just one person and affects just one area. The relevant director assured the Corporate Management Team that this was not a significant issue and any issues were being addressed.

Capacity

This is acknowledged to be an issue across the local government sector in general. However, the shared service provides resilience and both authorities have a lower turnover by comparison with other authorities. It is recognised that there are pressure points where it is hard to recruit nationally. HR and the Director of Finance and Performance are working together to consider how to attract applicants. (See also performance)

Governance/Policies

All relevant policies are readily available to all staff on the councils' intranet and managers are responsible for ensuring that their staff are aware of those relevant to their work. With regard to data protection, home working in some form has been in place since 2010 and the councils' history of few data breaches speaks for itself.

Delegated Powers

Work is progressing on updating the scheme of delegation and this will be concluded in 2023-24.

Performance

Salary points in the contribution zone are designed to recognise and reward employees who demonstrate the highest level of contribution and performance. Progression in this zone is not automatic and is determined by outstanding performance in the role. The contribution zone may also be used where there are demonstrable recruitment and retention difficulties. Contribution zone increments should be discussed and agreed with the budget holder and Head of Service/Senior Managers before being passed to the relevant Corporate Management Team representative for their authorisation.

Waste Vehicles

There is a programme of proactive fleet replacement and alternative fuel is also being investigated.

The Corporate Management Team are therefore of the opinion that there are no significant governance issues. However, the concerns noted above have been included here in the body of the Annual Governance Statement for transparency.

Statement by Head of Democratic Services (and Monitoring Officer):

As Head of Democratic Services (and Monitoring Officer), I am not aware of any major governance issues in my area or elsewhere in the organisation. Work is progressing on updating the scheme of delegations to officers to improve clarity and the council's constitution continues to be reviewed and updated, where appropriate. An additional piece of work will look to incorporate into the Code of Conduct for Members, the best elements of the Local Government Association's model code. It should be noted that there is nothing inherently inadequate or defective with the existing code or the council's arrangements for dealing with complaints about councillor conduct (in so far as legislation allows).

Opinion of the Chief Internal Auditor

The work of the Internal Audit team was impacted by carrying a vacancy throughout the year and training new staff. This impacted the audit plan and reduced the number of audits that could be undertaken during the year. However, it is considered that there were still a reasonable number of new and follow up reviews carried out across the authority and did not significantly limit the scope of the work.

The Chief Internal Auditor is required to give an opinion of the overall adequacy and effectiveness of the control environment. The control environment is considered in three ways: the production of the Annual Governance Statement the effectiveness of Internal Audit, and the results of the work of Internal Audit.

Effectiveness of Internal Audit: A self-assessment against the Public Sector Internal Audit Standards has been carried out and shows that the work of the Internal Audit team is carried out in accordance with the standards.

Appendix 5

The work of Internal Audit: It has been noted that, during the majority of the year, a number of recommendations remained outstanding after following up reviews. However, during the last quarter there was a drive to address recommendations and the number of those outstanding was greatly reduced.

While the governance framework is in place and working and Internal Audit are carrying out their work in accordance with standards, the opinion on the control environment has to be caveated by the number of outstanding recommendations that were outstanding during the year and there being three reviews where there are recommendations outstanding after three to five follow ups.

The Chief Internal Auditor has some concerns about risk management at the operational level and whether thorough business case/background information for projects is being given to committees to make informed decisions. Work will be carried out to look into these areas thoroughly in 2023/24 and the findings will inform the audit opinion for that year.

DRAFT

UPDATE ON SIGNIFICANT GOVERNANCE ISSUES 2021/22

No significant issues were reported in 2021/22.

SIGNIFICANT GOVERNANCE ISSUES 2022/2023

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 Governance 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:

.....
Leading Member

.....
Chief Executive

Date:

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Report to:	Audit and Governance Committee
Date:	3rd July 2023
Title:	Internal Audit and Counter Fraud Report for the financial year 2022-2023 – 1st April 2022 to 31st March 2023
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 financial year 2022-2023 – 1st April 2022 to 31st March 2023.
Officer recommendation(s):	That the information in this report be noted and Members identify any further information requirements. That Committee agree the approach to having an external assessment carried out.
Reasons for recommendations:	The remit of the Audit and Governance 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. The Public Sector Internal Audit Standards require an external assessment to be carried out.
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 Governance 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 financial year 2022-23.

2 Review of the work of Internal Audit carried out in the financial year 2022-23

- 2.1 During the year 13 audits were carried out and issued in Final. Also, 31 follow up reviews were undertaken and reports issued detailing the updated position.
- 2.2 Appendix A lists all the audit reports issued during the year. The first table shows all the follow up reports issued and the second table is the list of all other

audit report issued. At the end of the year there were no outstanding draft reports.

- 2.3 At the last committee meeting, it was reported that there were a large number of recommendations outstanding after several follow ups had been undertaken. It was also reported that the Chief Executive had asked for managers to view the outstanding recommendations and to try to address them. Internal Audit was contacted by various managers about outstanding recommendations and the situation has now improved – but it still needs to be carefully monitored.
- 2.4 Appendix B is the list of all the audits that are still subject to follow up reviews. It shows the results of all the follow ups carried out and when the next follow up is due. When all recommendations have been addressed this will be reported once and then that audit will be removed from the list. This appendix shows the results of the request from the Chief Executive, with six audits closed as all the recommendations have been addressed.
- 2.5 Of the reviews in Appendix B where follow ups are overdue, the following is noted:
- Business Continuity Plans – progress is being made with only three areas outstanding.
 - Members Allowances – delayed because of other follow ups and need to ensure that there are enough claims to test
 - Film Liaison Unit – currently ongoing
 - Contract Management – currently ongoing
- 2.6 Appendix C has now been updated following the responses from management with regard t outstanding recommendations. Last quarter, before the report was taken to Corporate Management Team, this appendix included 12 audits with 33 outstanding recommendations. It now shows 6 of these audits with 16 outstanding recommendations still on the list, with one new audit, with 6 outstanding recommendations, added.
- 2.7 Whilst the number of outstanding recommendations has now greatly improved, this has only happened in the last quarter and the number of follow up reviews carried out during the year greatly impacted the ability to carry out new reviews
- 2.8 This has been exacerbated by having two new Auditors in the team who required training and having to chase information and responses from officers. The former will be less of a problem moving forward and the latter was improved by the message from the Chief Executive. One Auditor also caught Covid and has, unfortunately, suffered symptoms for a lengthy period. Thankfully the symptoms are now subsiding and they are back at work.
- 2.9 One member of the Audit team resigned in October. There have been two recruitment attempts but it has not been possible to fill the post. Another attempt will be made but other options are being considered.

3 Review of the work of Counter Fraud carried out in the financial year 2022-23

- 3.1 The team continues to target the high risk and value areas of tenancy housing while also undertaking other exercises as detailed below. An increase in fraud referrals and information from the public during and post Covid-19 restrictions has also been noted – this is partly explained by more people working from home but also the work to increase fraud awareness, particularly tenancy fraud.

- 3.2 Crown Court prosecutions – A trial at Chichester Crown Court was heard in December 2021 where a former Lewes District Council tenant was found guilty of two counts of fraud for two separate Right to Buy applications. The sentence hearing was delayed until April 2022 where the judge handed down two 24-month prison sentences for each offence to run concurrently, this is suspended for 24 months. The former tenant was also required to complete 40 hours of unpaid work within 12 months, pay a victim surcharge order and prosecution costs of £15,887.
- In an additional case, a father and daughter who attempted to dishonestly buy a council property in Lewes through the Right to Buy scheme pleaded guilty to two counts of false misrepresentation at Lewes Crown Court in December 2022. They were both handed 10-month prison sentences (suspended for 20 months) and ordered to pay £3000 costs to the council and 200 hours of unpaid work.
- A considerable amount of work was undertaken in the investigation and legal process of this case with the Judge Van der Zwart adding at the sentencing hearing in January 2023 “It’s a testament to the diligence of the local authority enquiry team that they uncovered your dishonesty”.
- 3.3 Housing Tenancy – The team continue to work closely with colleagues in Homes First and Legal to build on the existing investigations and find possible solutions in response to the backlog of cases generated and delayed by Covid-19 restrictions. There are 44 ongoing sublet/abandonment tenancy cases at various stages. Four properties were returned to the council during the year generating a saving of £372,000. Five other investigations were closed with no further action.
- 3.4 Right To Buy - There continues to be a steady volume of cases throughout the year. Four cases are currently either being checked to prevent and detect fraud and protect the authority against money laundering with 26 previously withdrawn applications still requiring a home visit to verify residential status. 14 applications were withdrawn during this year resulting in a net preventative saving of £1,202,200. 13 other applications were verified for sale.
- 3.5 Housing Applications/Homeless Placement – the team worked closely with the Housing Allocations team to incorporate additional counter-fraud measures when undertaking reviews of Applications on the Housing Register. This intervention is a result of concern around unreported changes in circumstances prior to allocation of a council property. In June 2022, all households were contacted as part of the review, this activity has now been concluded which has resulted in the removal of 592 applications either due to withdrawal or no response. The National Fraud Initiative (NFI) estimate the average cost of a fraudulent housing application to a local authority at £4283 per application, the combined preventive saving figure for this exercise stands at over £2,500,000.
- 3.6 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. Additional counter-fraud training was delivered during this period to new triage officers undertaken pre-assessment of any new presentations for housing assistance.
- 3.7 Council Tax – 51 cases have been investigated during the year where discounts/exemptions were incorrectly being claimed. This activity has resulted in Council Tax rebilling with a net recoverable income of £113,851.03 generated for the authority and a preventative saving of £47,390.08. A review of Council Tax exemptions/disregards is ongoing and includes work with National Fraud

Initiative matching data held between Council Tax Records and Electoral roll, a further 5 cases have been reviewed with a net recoverable income of £5,498.65 generated along with a preventative saving of £16,355.68 (these figures are included within NFI savings below).

- 3.8 Council Tax Reduction – Five cases have been reviewed in this period generating a total overpayment of £1,484.54 and a preventative saving of £959.68. Three other cases are currently under investigation.
- 3.9 Housing Benefit – The team continue to work closely with the Department for Work and Pensions (DWP) and colleagues in the benefit section. Due to resource restrictions and pressing need to assess Universal Credit applications, the DWP have limited their capacity to investigated Housing Benefit. However, this has begun to change with 41 cases closed in the year generating recoverable overpayment of £753.80 and a weekly incorrect saving of £110.40.
- 3.10 National Fraud Initiative – The final 82 cases from the 2021/22 exercise have now been closed with no further action. The data collection for the 2022/23 exercise has now been completed, with the first batch of high risk cases currently under investigation. 80 cases have been reviewed so far with no further action required.
- 3.11 Data Protection Requests – the team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. During the year the team have dealt with 36 requests from the Police and other authorities. 20 Gas safety checks were also completed where the housing tenant had failed to engage with the annual compliance reviews.
- 3.12 Following on from the government’s announcement to support businesses through the Covid-19 pandemic, the team have been undertaking post verification checks to include evidence sampling of random cases selected by the Department for Business, Energy and Industrial Standards (BEIS). BEIS have confirmed all sample evidence has been received for the 10 different schemes and further checks are now being made by BEIS and the National Audit Office with the outcome expected in 2023.
- 3.13 Six payments of the £150 support paid to the liable Council Taxpayer to assist with the increase in energy bills have been found to have been received in error, recovery work on these payments is ongoing.
- 3.14 A table showing the savings made by the Counter Fraud team in 2022-2023 can be found at Appendix D.

4 Managing the Risk of Fraud and Corruption

- 4.1 Cipfa suggests that it is good practice to make a statement on the adequacy of an authority’s counter fraud arrangements in the annual governance report. Cipfa has published a Code of Practice on managing the risk of fraud and corruption which contains five principles:
- Acknowledge responsibility
 - Identify risks
 - Develop a strategy
 - Provide resources
 - Take action
- 4.2 Having considered all the principles the Chief Internal Auditor is satisfied that the council meets these by having fully resourced counter-fraud and audit teams who review the 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 policy.

5 Conforming with the Public Sector Internal Audit Standards

- 5.1 The Public Sector Internal Audit Standards came into effect from 1st April 2013 and the work of the Internal Audit section is assessed for compliance against these standards annually.
- 5.2 A checklist for compliance has been completed and it is found that the Internal Audit function is “generally conforming” to the standards. Conformance remains at about 98% of the points listed in the standards.
- 5.3 There are two areas of non-compliance. These are both to do with meeting, and co-ordinating activities, with the external auditors. However, since Deloitte took over as the external auditors, they have not interacted regularly with Internal Audit, though they do meet with the Director of Finance and Performance (Chief Finance Officer – S. 151 Officer) and Deputy Chief Finance Officer
- 5.4 There are two areas of partial compliance. These are both to do with the Chief Internal Auditor’s annual appraisal having the input of the Chief Executive and the Chair of the Audit Committee. It has been agreed that although these two posts are not specifically asked to contribute, they are both able to give feedback on the work of the Chief Internal Auditor throughout the year through various meetings or be comment to the Director of Finance and Performance (Chief Finance Officer – S. 151 Officer).
- 5.5 The standards require an external review to be carried out at least every five years. A review of the audit function was carried out by a peer review by other members of the Sussex Audit Group in 2018. As the Audit team now covers both authorities, the next review is about due. The Sussex Audit Group has experienced a number of Heads of Audit retiring or leaving and some authorities have chosen to have their internal audit provided by the private sector or partnerships. If the external review were to be carried out by a private sector provider, this would cost anything from around £9,000. However, a meeting has been held with the audit functions from Wealden, Rother and Hastings who are all in the same position. All have agreed that they would be willing to participate in a reciprocal peer review, with cost being just in terms of the time of the relevantly qualified person in the department. It is suggested that the reciprocal peer review is the most cost-effective method. Also, the review would be carried out by auditors working in the public sector who understand specific issues/requirements relating to the public sector. All four authorities are required to obtain the approval of their committees. If the committee agrees, the assessment will be carried out in the financial year 2023-24. It is recommended that this committee agrees to this approach.

6 Opinion on the control environment

- 6.1 As stated earlier in this report, the work of the Internal Audit team was impacted by carrying a vacancy and the absence of a team member for an extended period of time at the beginning of the year. Later in the year, the restructure in the team led to a vacancy while a new position was filled. This impacted the audit plan and reduced the number of audits that could be undertaken during the year. However, it is considered that there were still a reasonable number of

reviews carried out across the authority and did not significantly limit the scope of the work.

- 6.2 The Chief Internal Auditor is required to give an opinion of the overall adequacy and effectiveness of the control environment. The control environment is considered in three ways: the production of the Annual Governance Statement the effectiveness of Internal Audit, and the results of the work of Internal Audit.

Annual Governance Statement: see separate report being brought to this committee meeting.

Effectiveness of Internal Audit: Section 5 of this report covers the self-assessment against the Public Sector Internal Audit Standards and shows that this work is carried out in accordance with the standards.

The work of Internal Audit: It has been noted that, during the majority of the year, a number of recommendations remained outstanding after following up reviews. However, during the last quarter there was a drive to address recommendations and the number of those outstanding was greatly reduced.

While the governance framework is in place and working and Internal Audit are carrying out their work in accordance with standards, the opinion on the control environment has to be caveated by the number of outstanding recommendations that were outstanding during the year and there being three reviews where there are recommendations outstanding after three to five follow ups.

- 6.3 The Chief Internal Auditor has some concerns about risk management at the operational level and whether thorough business case/background information for projects is being given to committees to make informed decisions. Work will be carried out to look into these areas thoroughly in 2023/24 and the findings will inform the audit opinion for that year.

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 D.

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 reports issued during the year

12.2 Appendix B – Position of audits requiring follow-up

12.3 Appendix C – Recommendations outstanding after follow-ups

12.4 Appendix D – Counter Fraud savings

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LIST OF ALL REPORTS ISSUED DURING THE YEAR 2022-23**Follow Up Reports Issued In Current Year**

AUDIT	FOLLOW UP	DATE FOLLOW UP ISSUED	ASSURANCE LEVEL	
Officers Expenses	Second	12.04.22	Substantial	See Third Follow Up
Use of Social Media	First	09.05.22	Full	All recommendations addressed
Business Continuity Planning	Fourth	11.05.22	Substantial	See Fifth Follow Up
Love Clean Streets	First	20.05.22	Partial	See Second Follow Up
Arrears Collection	Third	24.05.22	Substantial	See Fourth Follow Up
Implementation of Housing Software	Third	16.06.22	Full	All recommendations addressed
Leaseholder Management and Recharges	Third	27.06.22	Partial	See Fourth Follow Up
Fly Tipping	Third	13.07.22	Full	All recommendations addressed
Love Clean Streets	Second	22.09.22	Partial	See Third Follow Up
Film Liaison Unit	First	28.09.22	Minimal	See Appendix B for full details
Procurement	Third	30.09.22	Partial	See Fourth Follow Up
Furloughing	First	03.10.22	Full	See Second Follow Up
Leaseholder Management and Recharges	Fourth	04.10.22	Partial	See Fifth Follow Up
Members Allowances	Third	10.10.22	Substantial	See Appendix B for full details
Covid – New Ways of Working	First	10.10.22	Substantial	See “Updated”
Information Governance	First	11.10.22	Substantial	See Second Follow Up
Covid – New Ways of Working	Updated First	04.11.22	Full	All recommendations addressed
Arrears Collection	Fourth	07.11.22	Substantial	See Appendix B for full details
Rent Sense	First	22.11.22	Substantial	See Second Follow Up
Officers Expenses	Third	06.12.22	Partial (lowered)	See Fourth Follow Up
Business Continuity Planning	Fifth	06.12.22	Partial (lowered)	See Appendix B for full details
Regeneration Projects	First	21.12.22	Substantial	See Second Follow Up
Construction Industry Scheme	First	01.02.23	Partial	See Appendix B for full details
Regeneration Projects	Second	20.02.23	Full	All recommendations addressed
Rent Sense	Second	21.02.23	Substantial	See Appendix B for full details

Appendix A – Quarterly Report On Internal Audit and Counter Fraud Work

Leaseholder Management and Recharges	Fifth	24.02.23	Full	All recommendations addressed
Love Clean Streets	Third	24.02.23	Partial	See Appendix B for full details
Information Governance	Second	02.03.23	Full	All recommendations addressed
Procurement	Fourth	06.03.23	Substantial	All recommendations addressed
Officers Expenses	Fourth	10.03.23	Full	All recommendations addressed
Furloughing	Second	2.03.23	Full	All recommendations addressed

Audit Reports Issued In Current Year

AUDIT	FINAL DATE	FINAL ASSURANCE LEVEL	FIRST FOLLOW-DUE
Treasury Management 2021-22	07.04.22	Substantial	N/A
Housing Rents 2021-22	23.06.22	Substantial	N/A
Payroll 2021-22	28.06.22	Substantial	N/A
Council Tax 2021-22	29.06.22	Substantial	N/A
Contract Management	03.08.22	Partial	December 22
Rent Sense	15.09.22	Partial	January 23
Benefits 2021-22	30.09.22	Substantial	N/A
National Non Domestic Rates 21-22	20.12.22	Full	No Recs
Main Accounting 2021-22	23.01.23	Partial	N/A
Cash and Bank 2021-22	14.02.23	Minimal	N/A
Creditors 2021-22	16.03.23	Substantial	N/A
Debtors 2021-22	31.03.23	Partial	N/A
ICT 2021-22	31.03.23	Partial	N/A

Draft Reports Issued In the Current Year That Are Awaiting Responses

AUDIT	DATE DRAFT ISSUED

Key to assurance levels

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.

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APPENDIX B – Quarterly Report on Internal Audit and Counter Fraud Work

POSITION OF AUDITS REQUIRING FOLLOW UP

AUDIT	FINAL DATE		FIRST FOLLOW-UP DATE		SECOND FOLLOW-UP DATE		THIRD FOLLOW-UP DATE		FOURTH FOLLOW UP DATE		FIFTH FOLLOW UP DATE		SIXTH FOLLOW UP DUE
	FINAL DATE	FINAL ASSURANCE LEVEL	FIRST FOLLOW UP DATE	FIRST FOLLOW UP ASSURANCE LEVEL	SECOND FOLLOW UP DATE	SECOND FOLLOW UP ASSURANCE LEVEL	THIRD FOLLOW- UP DATE	THIRD FOLLOW- UP ASSURANCE LEVEL	FOURTH FOLLOW UP DATE	FOURTH FOLLOW UP ASSURANCE LEVEL	FIFTH FOLLOW UP DATE	FIFTH FOLLOW UP ASSURANCE LEVEL	
Business Continuity Plans	Nov 20	Minimal	May 21	Partial	Aug 21	Partial	Dec 21	Partial	May 22	Substantial	Dec 22	Partial	Ongoing
Procurement	Dec 20	Partial	Jul 21	Partial	Dec 21	Partial	Sep 22	Partial	Mar 23	Substantial			
Leaseholder Management and Recharges	Dec 20	Partial	Sep 21	Substantial	Mar 22	Substantial	Jun 22	Substantial	Oct 22	Substantial	Feb 23	Full	
Arrears Collection	Jan 21	Partial	Sep 21	Partial	Jan 22	Partial	May 22	Substantial	Nov 22	Substantial	Apl 23		
Members Allowances	Jan 21	Substantial	Jul 21	Substantial	Dec 21	Substantial	Oct 22	Substantial	Feb 23				
Officers Expenses	Feb 21	Substantial	Nov 21	Substantial	Apl 22	Substantial	Dec 22	Partial	Mar 23	Full			
Love Clean Streets	Dec 21	Partial	May 22	Partial	Sep 22	Partial	Feb 23	Partial	Jun 23				
Furloughing	Dec 21	Full	Oct 22	Full	Mar 23	Full							
Regeneration Projects	Dec 21	Substantial	Dec 22	Substantial	Feb 23	Full							
Film Liaison Unit	Jan 22	Minimal	Sep 22	Minimal	Ongoing								
Information Governance	Feb 22	Partial	Oct 22	Substantial	Mar 23	Full							
Construction Industry Scheme	Feb 22	Partial	Feb 23	Partial	Jun 23								
Contract Management	Aug 22	Partial	Ongoing										
Rent Sense	Sep 22	Partial	Nov 22	Substantial	Feb 23	Substantial	Jun 23						

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RECOMMENDATIONS FROM AUDIT REPORTS WHICH REMAIN OUTSTANDING AFTER FOLLOW UP

COLOUR KEY

High Risk
Medium Risk
Low Risk

REPORTS ISSUED 20/21

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
Business Continuity Planning November 20	Minimal	4	0	0	06.12.22	Fifth	Partial The assurance level of this review was downgraded to Partial because of the lack of progress.	1	0	0	Ongoing	Business Continuity Plans for every department must be completed and adopted as soon as possible. (6 months)	<p><u>AUDIT COMMENT</u></p> <p>The Regulatory Services Lead was contacted for an update on the production of departmental Business Continuity Plans. At the 4th follow up it was reported that guidance was being written for Heads of Service on how to convert their completed Business Impact Assessments into Business Continuity Plans.</p> <p>The Regulatory Services Lead responded that the majority of departments (as of late October 2022) had completed their Business Impact Assessments and were in the process of converting these into Business Continuity Plans. She added that training had been given and completed Business Continuity Plans were shown as examples as part of that training. A template for a Business Continuity Plan was also</p>

Appendix C – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
													<p>given out at the training. This was delivered as an alternative to writing guidance.</p> <p>She stated that there was a deadline of completing Business Continuity Plans by the end of October and that she was monitoring what was coming in.</p> <p>The Regulatory Services Lead was asked to send Audit a list of completed Business Continuity Plans that had already been returned so that it could be seen how many had been returned and to select a sample to check.</p> <p>No response has been received to this request so the report was issued.</p>
<p>Arrears Collection</p> <p>January 2021</p>	Partial	2	2	3	07.11.22	Fourth	Substantial	0	0	1	Apl 23	<p>An overarching corporate arrears collection strategy must be drawn up and adopted, under which the separate policies for the individual debt streams sit, to ensure council departments responsible for collecting monies are acting in accordance with approved guidelines.</p> <p>(3 months)</p>	<p>The Deputy Chief Finance Officer has indicated that, in order for a fully developed strategy to be written, the target for completion is for the new financial year (April 2023).</p>

Appendix C – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
Members Allowances January 2021	Substantial	0	3	0	10.10.22	Third	Substantial	0	2	0	Feb 23	<p>All expenditure must be evidenced by official VAT receipts. Where expenditure includes VAT, reimbursement must be claimed through the creditors system. (1 month)</p>	<p><u>Audit Comment</u> Audit identified errors when testing was carried out for the follow up review.</p> <p><u>Head of Democratic Services</u> On-line forms are being developed in an attempt to reduce the potential for errors.</p>
												<p>All expenditure must be charged to the correct general ledger code. (1 month)</p>	<p><u>Audit Comment</u> Audit identified errors when testing was carried out for the follow up review.</p> <p><u>Head of Democratic Services</u> On-line forms are being developed in an attempt to reduce the potential for errors.</p>

Appendix C – Quarterly Report on Internal Audit and Counter Fraud Work

REPORTS ISSUED 21/22

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
Love Clean Streets Application December 21	Partial	3	1	0	22.09.22	Third	Partial	1	0	0	Jun 23	A new contract must be negotiated with BBITS for the use of the Love Clean Streets service, in accordance with the Contract Procedure Rules. The contract must be passed through Legal Services. (3 months)	Will speak with IT to get pointed in the right direction to get this resolved.
Film Liaison Unit January 22	Minimal	13	2	0	28.09.22	First	Minimal	8	1	0	Ongoing	Governance, service standards and performance monitoring must be included in the contract. (3 months)	Initial contact made and information on the service supplied. Contract details to be defined in due course
												The Terms and Conditions issued by SFO on behalf of the council must be reviewed and agreed by Legal Services. (3 months)	Initial contact made and information on the service supplied. Contract details to be defined in due course.
												The invoicing process detailed in the contract and the invoicing process actually followed, must be aligned and the contract reworded as appropriate under the advice of the council's Legal Services department. (3 months)	Initial contact made and information on the service supplied. Contract details to be defined in due course.

Appendix C – Quarterly Report on Internal Audit and Counter Fraud Work

												<p>The permit cost schedule must be agreed by the council and any administration fees clearly defined within the contract.</p> <p>(3 months)</p>	<p>Not started</p>
												<p>There must be regular timetabled meetings to monitor the contract and to inform an annual meeting to discuss the extension of the contract, any changes to the contract, the performance over the previous year and any plans for the following year.</p> <p>(3 months)</p>	<p>Initial contact made and information on the service supplied. Contract details to be defined in due course.</p>
												<p>A specific, easily accessible folder must be created for contract and monitoring related documents.</p> <p>(1 month)</p>	<p>This will happen once the contact is in place.</p>
												<p>Procedures for the Film Liaison Unit must be drawn up and aligned across both councils.</p> <p>(1 month)</p>	<p>Written procedures have been written but will need to be aligned with the contract once it is in place.</p>
												<p>End of year reconciliation, between permits granted, invoices received from SFO and paid over the</p>	<p>Evidence of an end of year meeting was in place but no report. The next stage of Fame updates should provide the ability to complete this task with ease.</p>

Appendix C – Quarterly Report on Internal Audit and Counter Fraud Work

													year, must be carried out. (1 month)	
													The contract must be updated to include consideration of environmental, sustainability and carbon neutral polices when decisions are being made between the council and SFO, and when permits are being granted. (3 months)	Initial contact made and information on the service supplied. Contract details to be defined in due course.

REPORTS ISSUED 22/23

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
Rent Sense September 2022	Partial	2	6	0	2.11.22	Second	Substantial	0	2	0	Jun 23	The special payment arrangements being incorrectly reported must be investigated, with Mobysoft, to determine a resolution (3 months)	We are still working with Mobysoft on this issue – Rent Sense is not extracting Cx arrangements feeds accurately. More testing to follow
												An operational risk assessment should be carried out for reviewing the risks associated with using third party software to monitor and evaluate the councils' rent arrears. (6 months)	The operational risk assessment of Rent Sense is scheduled for April / May 2023

Appendix C – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
Construction Industry Scheme February 2022	Partial	0	6	0	01.02.23	First	Partial	0	6	0	Jun 23	Procedures for CIS payments must be written up and regularly updated as directives from HMRC change. (6 months)	Procedures for CIS payments will be developed and regularly updated in line with the HMRC changes.
												<ul style="list-style-type: none"> New starters working with CIS payments must have training and existing staff must be given refresher courses. All Payment Team members should sign up for the free HMRC advice, webinars and update alerts. (6 months)	No training has been carried out since the report, however the Systems and Transactional Manager confirmed that CIS training is on the agenda for 2022-23.
												When a new supplier is set up on the system, a visual refence (screenshot or HMRC document) must be saved to the supplier's file to establish the supplier's starting tax status. (6 months)	Auditor took 14 samples of new suppliers set up on CAFi in 2021/22 and only one had saved HMRC screenshot. The new Creditor Team Leader agreed that a reminder will be sent to relevant staff.
												CAFi Payment reports (Gross, Normal and Higher) and HMRC Returns Reports must	Payments reports for three out of 12 months were not available. The new Creditor Team Leader agreed that a

Appendix C – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
												be generated and filed for every month. (3 months)	reminder to be sent to all relevant staff regarding the filing of these reports.
												Regular Deduction Statements must be sent to contractors who have CIS deductions taken from their payments. The Statements must be filed chronologically. (3 months)	A Risk Assessment will be carried out to establish any weaknesses in controls and processes.
												A Risk Assessment must be carried out to establish any weaknesses in controls and processes. (6 months)	A Risk Assessment will be carried out to establish any weaknesses in controls and processes.

Appendix D – Quarterly report on Audit and Counter Fraud work

INCOME AND SAVINGS ACROSS THE FINANCIAL YEAR 2022-23

Areas of savings	QUARTER ONE		QUARTER TWO		QUARTER THREE		QUARTER FOUR		YEAR TOTAL	
	Income	Savings	Income	Savings	Income	Savings	Income	Savings	Income	Savings
Tenancy Housing										
Recovery of council properties	0	£93,000.00	0	0	0	£186,000.00	0	£93,000	0	£372,000
Right To Buy value saved through intervention	0	£335,400.00	0	£174,400.00	0	£261,600.00	0	£430,000	0	£1,202,200
Housing intervention/fraud	0	0	0	0	0	0	0	0	0	
Revenues										
National Non Domestic Rates	0	0	£15,903.06	0	0	0	0	0	£15,903.06	0
Council Tax	£33,460.07	0	£25,740.67	0	£27,478.55	0	£27,171.74	0	£113,851.03	0
Value of ongoing Council Tax increase per week	0	£15,492.16	0	£8,008.64	0	£10,546.56	0	£13,342.72	0	£47,390.08
Council Tax Penalties	0	0	0	0	0	0	0	0	0	0
CTR & Housing Benefit										
Council Tax Reduction	0	0		0	£1,481.54	0	0	0	£1,481.54	0
Council Tax Reduction weekly incorrect benefit	0	0	0		0	£959.68	0	0	0	£959.68
Housing Benefit	0	0	£295.61	0	£458.19	0	0	0	£753.80	0
Housing Benefit weekly incorrect benefit	0	0	0	£20.80	0	£89.60	0	0	0	£110.40
Income from Administrative penalty collection	0	0	0	0	0	0	0	0	0	0
National Fraud Initiative										
Overpayments identified	0	0	£5,860.75	0	£5,498.65	0	0	0	£11,359.40	0
Weekly incorrect benefit identified	0	0	0	£14,921.44	0	£16,355.68	0	0	0	£31,277.12
TOTALS	£33,460.07	£443,892.16	£47,800.09	£197,350.88	£34,916.93	£475,551.52	£27,171.74	£537,142.72	£143,348.83	£1,653,937.28

Appendix D – Quarterly report on Audit and Counter Fraud work

Explanation of Savings Recorded	
Tenancy Housing	
Recovery of council properties	Value of £93k per returned property based on NFI estimate
Right To Buy value saved through intervention	Value based on the discount saved for each withdrawn application (varies)
Housing intervention/fraud	Value based on an estimate of emergency placement costs £12k or removal from housing waiting list £3,400
Revenues	
National Non Domestic Rates	Value based on the outstanding liable bills now due following Counter-Fraud intervention
Council Tax	Value based on the outstanding liable bills now due following Counter-Fraud intervention
Value of ongoing Council Tax increase per week	Estimate of the amount saved based on a calculation of the length of undetected fraud - 32 weeks
Council Tax Penalties	Value of £70 or £280 penalty added to Council Tax Bill where discount/exemption fraud is found
CTR & Housing Benefit	
Council Tax Reduction	Value based on the re-assessment of entitlement following Counter-Fraud intervention
Council Tax Reduction weekly incorrect benefit	Weekly incorrect benefit - estimate of the amount saved based on the length of undetected fraud - 32 weeks
Housing Benefit	Value based on the re-assessment of entitlement following Counter-Fraud intervention
Housing Benefit weekly incorrect benefit	Weekly incorrect benefit - estimate of the amount saved based on the length of undetected fraud - 32 weeks
Income from Administrative penalty collection	The amount collected from Administrative Penalties following Dep for Work and Pension investigation
NFI	
Overpayments identified	Value of any overpayments detected in this quarter
Weekly incorrect benefit identified	Weekly incorrect benefit - estimate of the amount saved based on the length of undetected fraud - 32 weeks

Report to:	Audit and Governance Committee
Date:	3rd July 2023
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 and following an election.

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 May 2023 Review

3.1 The Strategic Risk Register was taken to Corporate Management Team on 3rd May 2023 for the quarterly review.

3.2 The Corporate Management Team reviewed the risk scores for all the risks and considered that the scores should remain at their current levels based on the cost of living crisis and issues with recruitment.

3.3 At the last meeting of this committee, questions were raised around the risks of working from home. This was discussed and the following points were made:

- Flexible working was brought in from 2017 which allowed for some staff to work from home. The response to Covid just made this the normal way of working.
- Officers have been managing staff working remotely since 2017 and risks are managed day to day.
- There are also many benefits to home working, currently it is specifically beneficial in improving the recruitment pool.
- Any risks associated with working from home are either dealt with at the operational level or fit under a number of the risks currently listed in the strategic risk register.

3.4 The Corporate Management Team therefore considered that no changes needed to be made to the strategic risk register.

3.5 The Chief Internal Auditor would like to point out that there is currently an audit review of risk management being carried out. The Auditor has been requested to check operational risk registers to ensure that any risks associated with working from home are considered.

3.6 The changes can be seen on the Strategic Risk Register at Appendix A.

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: 03 May 2023

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	<u>Reduces Likelihood</u> 1. Create inclusive governance structures which rely on sound evidence for decision making. <u>Reduces Impact</u> 2. Annual review of corporate plan and Medium-Term Financial Strategy. 3. Creating an organisational architecture that can respond to changes in the environment.	Chief Executive	2	3	6	Amber	01-Aug-2023
SR_022	Changes to the economic environment makes the council economically less sustainable.	1. Economic development of the district suffers. 2. Council objectives cannot be met. 3. Council will need to provide a new service for inspecting imports at the port. 4. Inflation affecting council costs is having a	5	5	25	<u>Reduces Impact</u> 1. Robust Medium-Term Financial Strategy reviewed annually and monitored quarterly. Refreshed in line with macroeconomic environment triennially. 2. Creating an organisational architecture that can respond to changes in the environment.	Director of Finance and Performance (Chief Finance Officer – S. 151 Officer)	4	5	20	Red	01-Aug-2023

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Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		<p>significant impact on the council's finances.</p> <p>5. The council's Recovery and Stabilisation programme fails to meet its objectives.</p> <p>6. Rising energy prices and inflation affecting the cost of living will affect customers ability to pay rent and council tax.</p> <p>7. Uncertainty over government fiscal policies such as Fair funding review, Rent cap and Business Rate Reset.etc.</p>				<p>3. Working with the port authority to provide support, advice and to help explore funding options.</p> <p><u>Reduces Likelihood</u></p> <p>4. Regular monitoring of the progress and outcomes of the Recovery and Stabilisation programme.</p> <p>5. Continuous monitoring and impact assessment of government fiscal policies.</p> <p>6. Responding to government consultation.</p> <p>7. Maintaining appropriate levels of earmarked provisions.</p> <p>8. Continuous review and monitoring of the council's Housing Revenue Business Plan in light of the recently introduced rent cap.</p>						
SR_02 3	Unforeseen socio-economic and/or demographic shifts creating significant changes of demands and expectations.	<p>1. Unsustainable demand on services.</p> <p>2. Service failure.</p> <p>3. Council structure unsustainable and not fit for purpose.</p> <p>4. Heightened likelihood of fraud.</p>	5	5	25	<p><u>Reduces Likelihood and Impact</u></p> <p>1. Grounding significant corporate decisions based on up-to-date, robust, evidence base. (e.g. Census; Corporate Plan Place Surveys; East Sussex in Figures data modelling).</p> <p>2. Ensuring community and interest group engagement in policy development (e.g. Neighbourhood</p>	Director of Service Delivery	3	3	9	Amber	01-Aug-2023

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		5. Failure to support Newhaven Port Authority in the changes could result in an economic downturn in the town.				Management Schemes; Corporate Consultation Programme). 3. Working with the Port Authority to provide support, advice and to help explore funding options.						
SR_024	The employment market provides unsustainable employment base for the needs of the organisation.	Employment market unable to fulfil recruitment, and council unable to retain staff, resulting in a decline in performance standards and an increase in service costs.	4	4	16	<u>Reduces Likelihood</u> 1. Changes increase non-financial attractiveness of the council to current and future staff. 2. Appropriate reward and recognition policies reviewed on a regular basis. <u>Reduces Likelihood and Impact</u> 3. Pursuit of mutually beneficial shared service arrangements. 4. Maximising flexibility around recruitment and retention.	Director of Organisational Development/ Director of Devonshire Quarter	5	2	10	Amber	01-Aug-2023
SR_025	Not being able to sustain a culture that supports organisational objectives and future development.	1. Decline in performance. 2. Higher turnover of staff. 3. Decline in morale. 4. Increase in absenteeism. 5. Service failure. 6. Increased possibility of fraud.	4	4	16	<u>Reduces Likelihood</u> 1. Build an organisational culture that supports equality and inclusivity through communication and support. <u>Reduces Likelihood and Impact</u> 2. Continue to develop our performance management capability to ensure early intervention where service and/or cultural issues arise. 3. Continue to develop communications through ongoing interactions with staff.	Director of Organisational Development/ Director of Devonshire Quarter	3	4	12	Amber	01-Aug-2023

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Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		7. The council's Recovery and Stabilisation programme fails to meet its objectives.				4. Regular monitoring of the progress and outcomes of the Recovery and Stabilisation programme.						
SR_02 6	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 and updated contingency plans actioned. 4. Regularly reviewed and tested Disaster Recovery Plan.	Chief Executive	2	4	8	Amber	01-Aug-2023
SR_02 7	Council materially impacted by the medium to long term effects of an event under the Civil Contingencies Act.	1. Service profile of the council changes materially as a result of the impact of the event. 2. Cost profile of the council changes materially as a result of the impact of the event. 3. Work adversely affected by reduced staff	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. 3. Working with the Environment Agency on climate change measures. <u>Reduces Impact</u>	Chief Executive	2	3	6	Amber	01-Aug-2023

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Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		<p>numbers owing to effects of pandemic virus.</p> <p>4. Emergency caused by a climate change event (e.g. increased flooding risks)</p>				<p>4. Ongoing and robust risk profiling of local area (demographic and geographic).</p> <p>5. Review budget and reserves in light of risk profile.</p> <p>6. Funds set aside to help fund responses to an event.</p> <p><u>Reduces Likelihood</u></p> <p>7. 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. The council has adopted and published an Asset Management Strategy (AMS) that set out how 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>3. Ensure there is full understanding the impact of new legislation.</p>	Chief Executive	2	4	8	Amber	01-Aug-2023

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						<p>4. All managers are required to abide by the council's procurement rules.</p> <p><u>Reduces Likelihood and Impact</u></p> <p>5. Building relationships with regulatory bodies.</p> <p>6. Develop our Performance Management capability to ensure early intervention where service and/or cultural issues arise.</p> <p>7. Ensure that fire risk regulations are adhered to and that Fire Risk Assessments are regularly reviewed.</p>						
SR_029	Commercial enterprises and investments 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> <p>3. Reputational damage if governance procedures are inadequate.</p> <p>4. Failure to abide by company law.</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. Up, or re, -skill staff to maximise commercial opportunities.</p> <p><u>Reduces Likelihood and Impact</u></p> <p>3. Ensure that projects meet core principles.</p> <p>4. Ensure governance processes are set up and adhered to.</p>	Director of Regeneration and Planning And Chief Executive	3	3	9	Amber	01-Aug-2023
SR_030	The council suffers a personal data breach by	1. Trust and confidence in the council is negatively impacted.	3	4	12	<p><u>Reduces Likelihood</u></p> <p>1. Ongoing corporate training for data protection.</p>	Chief Executive	2	4	8	Amber	01-Aug-2023

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	inadequate handling of data or by an IT incident.	<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>				<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> <p>6. Ensure the suite of IT policies is kept up to date.</p> <p>7. Ensure that IT security is in place and regularly tested.</p> <p><u>Reduces Impact</u></p> <p>8. Incident management procedures to mitigate loss or breach of data are in place.</p>						

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