



Audit and Standards Committee

Date and Time - **Monday 24 June 2019 - 6.30 pm**

Venue - **Council Chamber, Town Hall, Bexhill-on-Sea**

Councillors appointed to the Committee:

K.D. Dixon (Chairman), J. Barnes, Mrs M.L. Barnes, A.K. Jeeawon, Mrs E.M. Kirby-Green, L.M. Langlands, Rev H.J. Norton and H.L. Timpe.

AGENDA

1. MINUTES

To authorise the Chairman to sign the Minutes of the meetings of the Audit and Standards Committee held on the 25 March and 22 May 2019 as correct records of the proceedings.

2. APOLOGIES FOR ABSENCE

3. ADDITIONAL AGENDA ITEMS

To consider such other items as the Chairman decides are urgent and due notice of which has been given to the Head of Paid Service by 12 Noon on the day of the meeting.

4. DISCLOSURE OF INTERESTS

To receive any disclosure by Members of personal and disclosable pecuniary interests in matters on the agenda, the nature of any interest and whether the Member regards the personal interest as prejudicial under the terms of the Code of Conduct. Members are reminded of the need to repeat their declaration immediately prior to the commencement of the item in question.

5. ROLE AND FUNCTIONS (Pages 1 - 8)

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PART A - STANDARDS REPORTS

6. **CODE OF CONDUCT COMPLAINTS MONITORING AND OTHER STANDARDS MATTERS** (Pages 9 - 10)
7. **OMBUDSMAN COMPLAINTS MONITORING** (Pages 11 - 14)
8. **THE COMMITTEE ON STANDARDS IN PUBLIC LIFE'S REVIEW OF LOCAL GOVERNMENT ETHICAL STANDARDS** (Pages 15 - 24)

PART B - AUDIT REPORTS

9. **INTERNAL AUDIT REPORT TO 31 MARCH 2019** (Pages 25 - 54)
10. **TREASURY MANAGEMENT REPORT - 2018/19 OUTTURN** (Pages 55 - 68)
11. **WORK PROGRAMME** (Pages 69 - 70)

Dr Anthony Leonard
Executive Director

Agenda Despatch Date: 14 June 2019

Invitees in respect of Standards Related Reports only:

Independent Persons: Mrs Susan Fellows, Mrs Jan Gray and Mr Robert Tye.

Parish/Town Councillor Representatives: Councillors Mrs W.M. Miers and T.A. Stainsby.

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Agenda Item 5.

Rother District Council

Report to	-	Audit and Standards Committee
Date	-	24 June 2019
Report of the	-	Executive Directors
Subject	-	Role and Functions

Recommendation: It be RESOLVED that the report be noted.

Introduction

1. As part of the Members' Induction process for 2019, it has been agreed that a report outlining each Committee's roles and responsibilities will be presented to the first meeting of each Committee in the new municipal year.
2. Up until May 2017, the Council operated stand-alone Audit and Standards Committees. However, following a review of the committee structure in 2016, it was agreed to merge the two committees with effect from May 2017 to form the current Audit and Standards Committee (A&SC). The A&SC had its first full combined meeting in June 2017.
3. Attached at Appendix A is a diagram of the Council's decision making structure.

Composition and Meetings

4. The A&SC is made up of eight Members appointed in accordance with political balance rules. All Members of the Council are entitled to attend meetings of this Committee and are able to address it with the Chairman's consent. Although the A&SC is governed by the Council Procedure Rules that apply to Committees (Part 4-1 of the Constitution), meetings are usually conducted with a degree of informality and wide debate is encouraged.
5. The A&SC meets five times per year on a Monday at 6:30pm with Standards related matters being reported to the June and December meetings only. The dates arranged for the 2019/20 municipal year are as follows: 24 June 2019, 24 July 2019 (Wednesday), 23 September 2019, 9 December 2019 and 23 March 2020. However, the Chairman may call additional meetings throughout the year as required, according to business.
6. At the June and December meetings the Agenda is compiled in two parts, Part A, standards related items and Part B, audit related items.
7. The Council's three Independent Persons (IPs), namely Mrs Susan Fellows, Mrs Jan Gray and Mr Robert Tye, appointed in accordance with the Localism Act to support the Council's Standards regime and the two Parish and Town Council representatives, namely Mrs Wendy Miers (Dallington Parish Council) and Alan Stainsby (Crowhurst Parish Council) attend the June and December meetings as a Member of the Committee for the Part A items. At these meetings they can speak on all matters but have no vote. Whilst they are

able to remain for the Part B items (audit items) they would do so as a member of the public and have no right to contribute to the debate.

8. The Work Programme reported elsewhere on this agenda will give an understanding of the types of reports to be submitted to the Committee over the coming municipal year. Consideration of the Work Programme at each meeting is the main opportunity for Members to propose additional items for consideration.

Audit Function

9. The function of the Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process. The core functions of the A&SC include internal audit, external audit and inspections, control strategies and financial statements. The full Terms of Reference for the Committee in respect of its audit functions are reproduced at Appendix B.
10. The Committee can report directly to Council, if necessary, and retains independence from Cabinet for these activities:
 - monitor internal audit activity;
 - monitor external audit activity;
 - monitor the Council's compliance with its own and other published standards and controls;
 - consider the council's arrangements for corporate governance;
 - monitor risk management arrangements;
 - review the annual statement of accounts; and
 - maintain an overview of the Council's Constitution in relation to the Contract and Financial Procedure Rules.

Standards Function

11. This function of the Committee deals with the following matters:
 - to promote and maintain high standards of conduct by Members and Co-opted Members of the Council;
 - to adopt a Code of Conduct dealing with the conduct expected of Members and Co-opted Members of the Council when acting in that capacity and including provision in respect of the registration and disclosure of pecuniary and non-pecuniary interests;
 - to put in place arrangements to investigate and make decisions on written allegations that a Member or Co-opted Member of the Council has failed to comply with the Code of Conduct;
 - to appoint one or more Independent Persons;
 - to make Standing Orders to provide for the exclusion of a Member or Co-opted Member of the Council from a meeting while any discussion or vote takes place in which that person may not participate; and
 - Overview of complaints handling and Local Government Ombudsman investigations, including the power to make payments or other benefits in

cases of maladministration etc. (section 92 of the Local Government Act 2000).

Complaints Process

12. Under the Localism Act 2011, the District Council must have in place “arrangements” under which allegations that a Member or Co-opted Member of the authority or of a Parish or Town Council within the District, or of a Committee or Sub-Committee of the authority, has failed to comply with that authority’s Code of Conduct can be investigated and decisions made on such allegations.
13. The A&SC has delegated responsibility to the Monitoring Officer (MO) to make the initial assessment on whether any Member complaints should be investigated, consulting one of the IPs as necessary. The MO retains the discretion to refer the decision as to whether a complaint merits an investigation to the A&SC if it appears appropriate to do so. The view of the IP may be sought by the Council at any other stage, or by a Subject Member, or a Member or Co-opted Member of a Parish or Town Council within the District, against whom an allegation has been made that they have breached the relevant Code of Conduct.
14. Following an investigation, should a complaint merit a hearing, a Hearing Panel is established which is a Sub-Committee of the Council’s A&SC. The Hearing Panel will comprise of three elected Members, appointed thereto other than on a political basis, i.e. any three Members of the A&SC, dependent on availability and not political group. Since the introduction of the local arrangements it has not been necessary to convene a meeting of a Hearing Panel.

Independent Persons

15. The role of the IPs is to represent the public interest. The Term of Office for the current IPs commenced on the 11 July 2017 for four years and consequently expires in July 2021. IPs can only re-apply twice, thereby serving a maximum 8 years before they are considered no longer “independent”. Two of our current IPs, namely Mrs Fellows and Mrs Gray are both serving their current second term of office and will therefore need to be placed in 2021.
16. The IPs also have a statutory role under the Local Authorities (Standing Orders) (England) (Amendment) Regulations 2015 concerning disciplinary procedures that involve one of the three statutory Local Government post-holders; these posts being the Head of Paid Service, Section 151 Officer and Monitoring Officer. A decision to make a binding recommendation on disciplinary action against a statutory post-holder will be taken transparently by full Council, who must consider any advice, views or recommendations from an independent panel, of at least two persons, comprising the IPs appointed under section 28(7) of the Localism Act 2011.
17. An IP CANNOT be:
 - (i) a Member, Co-opted Member or officer of the authority,

- (ii) a Member, Co-opted Member or officer of a Parish or Town Council of which the authority is the principal authority, or
- (iii) a relative, or close friend, of a person within sub-paragraph (i) or (ii) above.

Parish and Town Council Representatives

18. Rother District Council is the principle authority for the 32 Parish and Town Councils across Rother and as such, is responsible for elements of the Standards regime, including the "arrangements" that are put in place for the determination of complaints and the registration of parish councillors' interests.
19. The role of the Parish and Town Council representatives co-opted onto the A&SC are to make sure that the Parish and Town Councils are represented throughout discussions and to give a Parish and Town perspective that may not otherwise be known by the other Members serving on the Committee.

Training and Development Requirements

20. As part of the Council's commitment to Member training and development, specific Committee training will be provided; this will include specific mandatory audit-related training e.g. Treasury Management, as well as other related training to enable Members to fulfil the A&SC functions.
21. Members are encouraged to raise any individual training needs with either the Committee Chairman or the Democratic Services Manager. The Executive Directors, Assistant Director and Heads of Service are available to answer queries and respond to comments pertaining to each agenda and report both prior to and at the meetings.

Openness of Local Government Bodies Regulations

22. The Openness of Local Government Bodies Regulations 2014 allow any person to attend a public meeting of a "relevant local government body", which includes District Councils, for the purposes of reporting, and allow any persons with the aim of reporting to use any communication methods, including the internet, to publish, post or otherwise share the results of their reporting activities, during or after the meeting.
23. 'Reporting' is defined as:
 - filming, photographing or audio recording of proceedings;
 - using any other means for enabling persons not present to see or hear proceedings of a meeting as it takes place or later; and
 - reporting or providing commentary on proceedings of a meeting, orally or in writing.
24. The Regulations provided the Council with an opportunity to include these new provisions within the Constitution and to clarify the parameters under which this activity can take place.

Conclusion

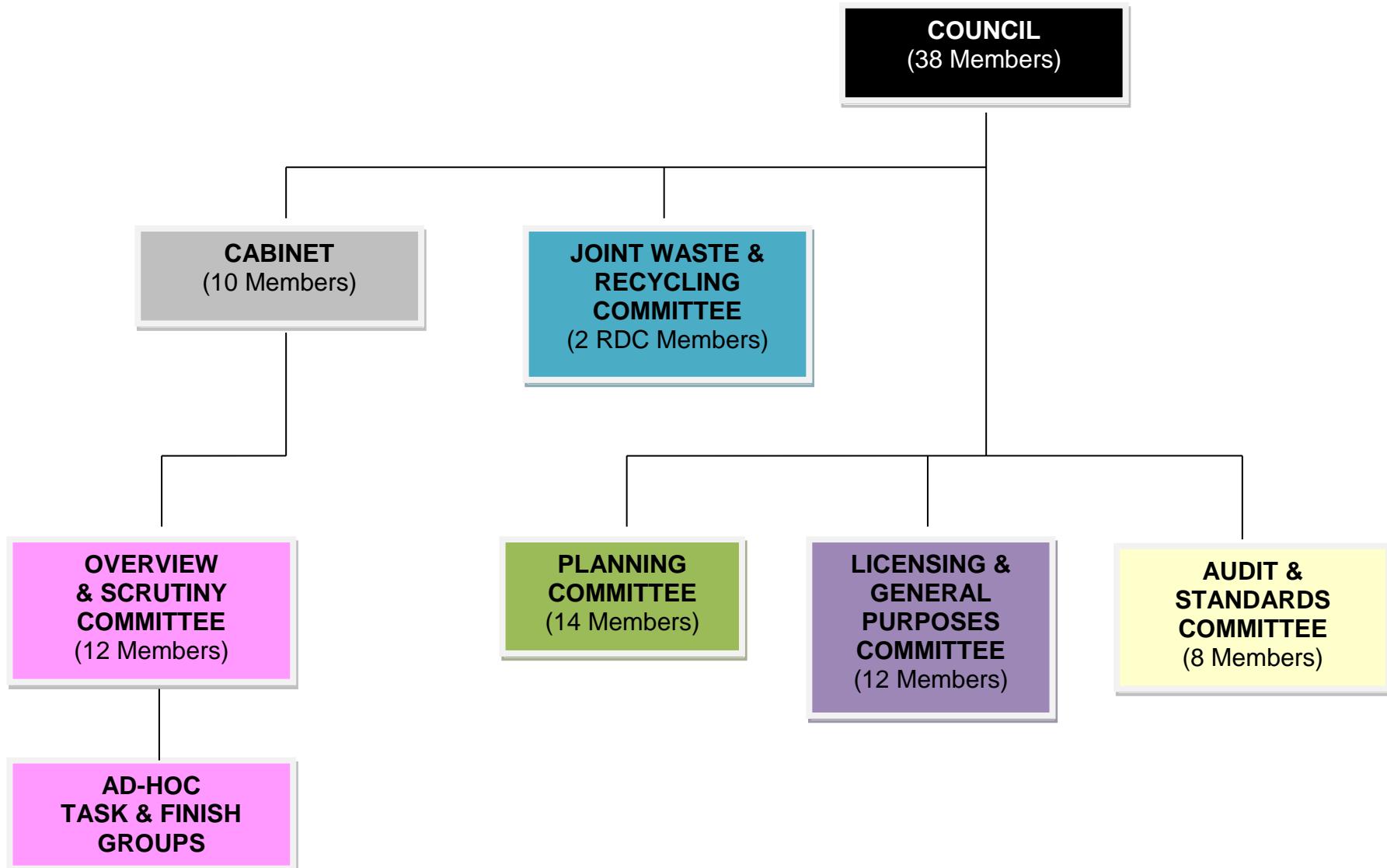
25. This report outlines the key role and functions of the A&SC.

Malcolm Johnston
Executive Director

Dr Anthony Leonard
Executive Director

Risk Assessment Statement

There are no risks associated with this report.



Audit Committee - Terms of Reference**Statement of Purpose**

The purpose of the Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

Audit Activity

- a) To consider the Audit Manager's annual audit report and opinion, and a summary of internal audit activity.
- b) To approve the internal audit strategy, plan and monitor performance.
- c) To consider summaries of internal audit reports setting out the main audit findings and level assurance given to each area reviewed.
- d) To consider reports from internal audit on agreed recommendations not implemented and consider their impact on the overall control environment.
- e) To ensure there is an effective working relationship between external audit and internal audit.
- f) To consider the external auditor's annual planning letter and comment on the scope and depth of external audit work and ensure it gives value for money.
- g) To consider the external auditor's annual governance report regarding issues affecting the control environment and governance reporting.
- h) To consider specific reports as agreed with the external auditor.
- i) To consider the governance arrangements for the management and monitoring of the Council's significant partnerships.

Regulatory Framework

- j) To maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour (other than the Code of Conduct for Members).
- k) To review any issue referred to it by the Head of Paid Service, Executive Directors, or any council body.
- l) To monitor the effective development and operation of risk management and corporate governance in the council.
- m) To monitor council policies on 'Raising Concerns at Work' and the anti-fraud and corruption strategy and the council's complaints process.

- n) To oversee the production of the Council's Annual Governance Statement and to recommend its adoption.
- o) To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
- p) To consider the Council's compliance with its own and other published standards and controls.

Accounts

- q) To review the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council. To agree the signing of the accounts following the review.
- r) Approving the authority's statement of accounts, income and expenditure and balance sheet or records of receipts and payments (as the case may be). (The Accounts and Audit Regulations).
- s) To consider the external auditor's annual governance report on issues arising from the audit of the accounts.

Agenda Item 6.

Rother District Council

Report to	-	Audit and Standards Committee
Date	-	24 June 2019
Report of the	-	Monitoring Officer
Subject	-	Code of Conduct Complaints Monitoring and Other Standards Matters

Recommendation: It be **RESOLVED:** That the report be noted.

Monitoring Officer: Lisa Cooper

Introduction

1. This routine report sets out brief details of the complaints received since the Committee's last meeting that considered standards matters (December 2018); as previously agreed by the Committee, this report will present cases on a six monthly rolling basis. It also advises the Committee of other standards related matters that have been dealt with since the Committee's last meeting.

Complaints Received

2. There have been no valid Code of Conduct complaints against any Parish, Town or District Councillor received since the last meeting of the Audit and Standards Committee in December 2018.

Other Standards Matters

3. As Members may be aware, within this Committee's functions and delegations is a duty to promote and maintain high standards of conduct by Members of the Council.
4. I can advise that following the elections on 2 May, 17 new Members were elected. In accordance with the Code of Conduct each new Member has been requested to advise me of their disclosable pecuniary and other interests and these are now all published on the Council's website.
5. All returned Members have also reviewed their existing register of disclosable pecuniary and other interests and made any amendments and additions thereto.
6. There is a training session on ethics and probity taking place on Thursday 25 July to which all Members have strongly been advised to attend. The training is being delivered by Hoey Ainscough Associates Ltd, a company set up in 2012 following the demise of Standards for England, to support local authorities in managing their arrangements for handling councillor conduct issues. The training will explore the importance of maintaining high standards of conduct and examines the requirements of the local Code of Conduct, using real case scenarios for Members to discuss. Areas which will be

explored will also include the use of social media, disclosure of confidential information and Member-officer relations. To date, 8 Members have confirmed their attendance at this training session.

Parish and Town Councils

7. As Members may be aware, as Monitoring Officer for Rother District Council, I also act as the Monitoring Officer for all 31 of Parish and Town Councils across the Rother District in terms of standards related matters. I must ensure that a copy of each of the parish council's registers are available for inspection here at the Town Hall at all reasonable hours, secure that the registers are published on Rother District Council's website, and secure that the registers are published on the relevant Parish and Town Council website, if it has one.
8. Following the elections in May, a significant number of new parish and town councillors were either elected or co-opted onto their relevant parish or town Council and I am in the process of receiving and collating and publishing the completed registers of interests.

Conclusion

9. It is pleasing to report that there were no valid complaints received in the six months since the Committee's last meeting. The Committee is asked to note the training and development opportunities undertaken since the elections to duty to promote and maintain high standards of conduct by Members of the Council.

Mrs Lisa Cooper
Monitoring Officer

Risk Assessment Statement

The Audit and Standards Committee has a duty to promote and maintain high standards of conduct by Members and co-opted Members of the Council. Monitoring the number of complaints received and the nature of the complaints will enable the Committee to identify any trends and make recommendations for additional training and guidance as appropriate. Failure to do so could result in continued poor Member conduct, an increase in complaints administration and reputational damage for the Council.

Agenda Item 7.

Rother District Council

Report to	-	Audit and Standards Committee
Date	-	24 June 2019
Report of the	-	Executive Director
Subject	-	Ombudsman Complaints Monitoring

Recommendation: It be RESOLVED: That the report be noted.

1. Details of the complaints made to the Local Government Ombudsman are reported to the Committee as and when they are determined throughout the year. A number of cases have been determined since the Committee's last meeting as detailed below:

Reference	Details of the Allegation	Outcome
18 000 220	The complainant alleges that the Council is guilty of maladministration and has failed to respond to a series of enforcement complaints regarding planning applications.	The Ombudsman found that the Council was at fault in not properly communicating its enforcement decisions to the complainant. The Council has apologised to them for these failings and is taking action to prevent them happening again. In view of this the Ombudsman does not propose the Council takes any further action.
18 004 352	The complainant alleges that the Council revoked his premises alcohol licence illegally.	The Ombudsman will not investigate this complaint. This is because it would be reasonable for him to have appealed to the Magistrates' Court.
18 006 133	The complainant alleges that his property has been damaged by his neighbour and his land has suffered flooding. He says the neighbour was carrying out works for which the Council granted planning permission.	The Ombudsman will not investigate this complaint. This is because they are unlikely to find evidence of fault by the Council. The complainant could take legal action if he considers the neighbour responsible for damage to his property.

18 007 338	<p>The complainant alleges that the Council repeatedly missed household waste collections at his address over the course of six months during 2018.</p>	<p>The Ombudsman completed their investigation with a finding of fault causing injustice. The Council was ordered to pay compensation to the complainant:</p> <ul style="list-style-type: none"> • £250 to reflect the distress caused by repeated missed collections of household waste; and • a further payment of £100 to reflect the time and trouble he has been to in pursuing this matter.
18 009 027	<p>The complainant alleges that the Council:</p> <ul style="list-style-type: none"> • included incorrect information in its consideration of a planning application for a development in the village where he lives; • failed to publicise a representation when it received it; • failed to answer a request under the Freedom of Information Act; • officers may have committed fraud by misleading him about plans for the application site; and • failed to deal with his complaint according to its complaints procedure. 	<p>The Ombudsman will not investigate this complaint because:</p> <ul style="list-style-type: none"> • they do not consider the Council's delay in publishing a document on its planning website caused the complainant a significant personal injustice; • his complaint about the way the Council dealt with his request for information has already been investigated by the ICO and it is unlikely that further investigation will lead to a different outcome; • the Ombudsman cannot consider criminal allegations, these are matters for the Police; • the Ombudsman cannot involve itself in disciplinary matter and cannot investigate matters which occurred more than 12 months ago; and • any injustice to the complainant because of any failings in the complaints process alone is insufficient to warrant the Ombudsman's

		involvement.
18 010 319	The complainant alleges that errors made by Rother District Council amount to maladministration with regard to application RR/2017/2097/P by producing a non-impartial Planning Committee report which favoured the developers' side by the inclusion of false information and supported a false premise.	The Ombudsman will not investigate this complaint because there is insufficient injustice caused to the complainant to warrant investigation.
18 010 882	Complainant alleges that the Council has failed to provide reasonable adjustments under s20 of the Equalities Act 2010 in relation to indirect discrimination as a result of a TPO (Tree Preservation Order) they claim has been unlawfully affixed to their property in 1998.	The Ombudsman will not investigate this complaint about the Council's refusal to allow works to a protected tree. The complainant can appeal to a government minister about the central issue in his complaint. It would not be a good use of public funds to investigate his related concerns.
18 010 897	The complainants alleged that the Council had failed to use its powers to act against a neighbour who they claimed was harassing and threatening them. They said this neighbour was using a boundary dispute to harass them.	The Ombudsman will not investigate this complaint. This is because it is unlikely an investigation would find fault or add anything to the Council's own investigation.
18 011 033	Complainant alleges that the Council cancelled the paid for garden waste collection service in March 2018 so it could catch up with missed collections during bad weather. She complains residents pay for this service separately and the Council should have offered a reduction in the cost, or provided another collection.	The Ombudsman will not investigate this complaint. This is because further consideration of the complaint is unlikely to find fault by the Council or a significant personal injustice to the complainant.
18 011 967	Complainant alleges the Council failed to properly investigate application RR/2018/266/FN and the background to it. They allege the Council: <ul style="list-style-type: none">• relied on information provided by the applicant without properly validating or verifying the factual accuracy of this	The Ombudsman will not investigate this complaint as he has not seen evidence of fault in the way the Council made its decision on the prior approval planning application.

	<p>information and without establishing the true level and nature of the activities on the site;</p> <ul style="list-style-type: none"> • relied fully on the recommendations of the Rural Estate Surveyor who had not visited the site prior to making his final decision; and • failed to give sufficient consideration to the first-hand knowledge and comments made and submitted to it by residents in the local community and the two Parish Councils with regard to the activities on the relevant site. 	
18 016 451	<p>The complainant alleges the Council has refused to vary a Tree Preservation Order (TPO) which wrongly locates the TPO tree as being on his property and which he says will cause confusion to any potential buyers of his property.</p>	<p>The Ombudsman will not investigate this complaint. This is because an investigation by the Ombudsman is unlikely to add to the investigation already carried out by the Council or lead to a different outcome.</p>
18 016 623	<p>The complainant complained about the Council's handling of her neighbour's retrospective planning application to retain a newly-built garage. She said:</p> <ul style="list-style-type: none"> • it failed to take enforcement action over the garage; • it put a site notice advertising the application in a place where few people would see it; and • it did not consider the sewer beneath the new garage or contact Southern Water about the sewer. 	<p>The Ombudsman will not investigate this complaint about the Council's handling of a retrospective planning application. It is unlikely they would find fault with the Council, and in any event, the alleged fault has not caused the complainant any injustice.</p>
18 016 693	<p>Complainant is complaining about a Council Tax bill that he is disputing.</p>	<p>The Ombudsman will not investigate this complaint. This is because it can be appealed to a Valuation Tribunal.</p>

Malcolm Johnston
Executive Director

Risk Assessment Statement

There are no risks attributed to this report.

Agenda Item 8.

Rother District Council

Report to	-	Audit and Standards Committee
Date	-	24 June 2019
Report of the	-	Executive Directors
Subject	-	The Committee on Standards in Public Life's Review of Local Government Ethical Standards

Recommendation to COUNCIL: That the proposed amendments to the Council's Code of Conduct be approved and adopted, as detailed within the report.

AND

It be **RESOLVED:** That:

- 1) the outcome and recommendations of the Review be noted and welcomed by the Committee;
 - 2) the proposed resulting changes to legislation be considered if and when enacted by Government; and
 - 3) an assessment of the Council's current practice against the best practice guidelines outlined in the report be made and presented to the Committee at the December 2019 meeting.
-

Monitoring Officer: Lisa Cooper

Introduction

1. In May 2018, this Committee responded to the Committee on Standards in Public Life's (CSPL) Review of Local Government Ethical Standards. The independent CSPL advises the Prime Minister on ethical standards across the whole of public life in the UK; it monitors and reports on issues relating to the standards of conduct of all public office holders.
2. It was anticipated that the outcome of the review would be published in time for consideration at this Committee's December 2018 meeting; however the publication was delayed until January 2019 and an update report to this effect was made to this Committee in December 2018.
3. The CSPL's report was published in January 2019 and Audit and Standards Committee Members at that time were sent the link to the report ahead of this meeting. A brief report for all Members was also made within the March edition of the Members' Bulletin. The full report and recommendations can be found at the following link:

<https://www.gov.uk/government/organisations/the-committee-on-standards-in-public-life>

4. All Parish Clerks were also sent the link as there are a number of recommendations directed at parish and town councils. These are considered at Chapter 5 of the report and Clerks were encouraged to consider these with their parish and town councils.

Recommendations

5. The CSPL has made a total of 26 recommendations, the majority of which are for the Government, together with 15 best practice guidelines which are directed at local authorities. The recommendations are made to the Government and to specific groups of public officeholders; some of the recommendations will require a change to primary legislation, which is subject to Parliamentary timetabling and some to secondary legislation and the Local Government Transparency Code, which could be implemented more swiftly.
6. The recommendations are reproduced at Appendix 1 in their entirety, along with officer commentary. It is pleasing to note that a number of the recommended changes to legislation are to incorporate requirements that were previously mandatory under the old prescribed national Code of Conduct – all of which were retained in 2012 when this Council was free to adopt a new local code based on the seven principles of public life.
7. Those of particular note, some of which were raised by this Council as part of our consultation response, are as follows:
 - that an updated model code of conduct be created;
 - Councillors should be presumed to be acting in an official capacity in their public conduct, including statements on publicly-accessible social media;
 - local authorities should be given the power to suspend councillors, without allowances, for up to six months.

Best Practice Recommendations

8. With regard to the best practice recommendations for local authorities (Appendix 2 to this report), the CSPL consider these to be a benchmark of good ethical practice and expect that all local authorities can and should implement these. It is proposed that officers undertake an assessment of our current practice against the best practice guidelines and report back to this Committee at the December 2019 meeting.

Code of Conduct

9. The Council's current Code of Conduct was formulated and adopted by all the East Sussex District, Borough and County Councils in order to maintain a level of consistency across the geographical area, particularly in relation to twin-hatted Members.
10. Ahead of this Council's consideration of the best practice recommendations (and any revised model Code of Conduct that may emerge in the future), East Sussex County Council (ESCC) has undertaken a review and has recommended two amendments to the current Code of Conduct as a result of

best practice recommendations 1 and 2. The amendments are in respect of ensuring Councillor co-operation with any formal standards investigations and providing a definition of bullying. All the District and Borough Councils across East Sussex have been requested by ESCC to make these amendments.

11. To ensure that the Codes of Conduct across East Sussex remain consistent it is recommended that the following is inserted into this Council's current Code of Conduct as follows, with the additional text in italics:

Under the General Provisions, Introduction and Interpretation:

(6) Councillors are required to comply with any request regarding the provision of information in relation to a complaint alleging a breach of the Code of Conduct and must comply with any formal standards investigation.

AND the following under the General obligations:

(2) (b) bully or harass any person; Bullying may be characterised as: offensive, intimidating, malicious or insulting behaviour, an abuse or misuse of power through means that undermine, humiliate, denigrate or injure the recipient. Harassment may be characterised as unwanted conduct which has the purpose or effect of violating an individual's dignity or creating an intimidating, hostile, degrading, humiliating or offensive environment for an individual.

(c) intimidate or improperly influence or attempt to intimidate or improperly influence any person who is or is likely to be....

Conclusion

12. The outcome of the CSPL's review and resulting recommendations are welcome; further reports will be made to the Committee if and when the Government brings forward any changes to legislation as a result.
13. A further report will be made to the Committee in December 2019 on an assessment of the Council's current practice against the best practice guidelines and any resulting recommendations.
14. In accordance with the initial review undertaken by ESCC, two amendments are recommended to be made to our current Code of Conduct as outlined above. As the duty to adopt a Code of Conduct rests with full Council, this will need to be a recommendation to Council.

Malcolm Johnston
Executive Director

Dr Anthony Leonard
Executive Director

Risk Assessment Statement

Failure to adopt the suggested amendments to the Code of Conduct recommended by East Sussex County Council will result in an inconsistency of approach by the East Sussex Councils.

	Recommendation	Responsible body	Officer Comment
1	The Local Government Association should create an updated model code of conduct, in consultation with representative bodies of councillors and officers of all tiers of local government.	Local Government Association	This is welcome and would provide a common benchmark for all authorities to amend, according to local circumstances.
2	The government should ensure that candidates standing for or accepting public offices are not required publicly to disclose their home address. The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 should be amended to clarify that a councillor does not need to register their home address on an authority's register of interests.	Government	<p>The Government has already enacted this in relation to candidates standing for election. Candidates were able to request that their home address did not appear on the statement of persons nominated nor the ballot papers in the May 2019 elections.</p> <p>This has not been an issue within the Rother District in respect of intimidation. Councillors have been advised of the sensitive interest provisions.</p>
3	Councillors should be presumed to be acting in an official capacity in their public conduct, including statements on publicly-accessible social media. Section 27(2) of the Localism Act 2011 should be amended to permit local authorities to presume so when deciding upon code of conduct breaches.	Government	This is welcome and further training for Councillors on the Code in relation to these matters, particularly social media posts, will be required as a result.
4	Section 27(2) of the Localism Act 2011 should be amended to state that a local authority's code of conduct applies to a member when they claim to act, or give the impression they are acting, in their capacity as a member or as a representative of the local authority.	Government	Our current Code of Conduct retained this provision from the previous national model code.
5	The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 should be amended to include: unpaid directorships; trusteeships; management roles in a charity or a body of a public nature; and membership of any organisations that seek to influence opinion or public policy.	Government	Our current Code of Conduct retained these "other interests".
6	Local authorities should be required to establish a register of gifts and hospitality, with councillors required to record any gifts and hospitality received over a value of £50, or totalling £100 over a year from a	Government	Our current Code of Conduct retained the provision to record any gifts or hospitality received over the value of

	single source. This requirement should be included in an updated model code of conduct.		£50; the single source of £100 would be an addition to our current Code.
7	Section 31 of the Localism Act 2011 should be repealed, and replaced with a requirement that councils include in their code of conduct that a councillor must not participate in a discussion or vote in a matter to be considered at a meeting if they have any interest, whether registered or not, “if a member of the public, with knowledge of the relevant facts, would reasonably regard the interest as so significant that it is likely to prejudice your consideration or decision-making in relation to that matter”.	Government	Our current Code of Conduct retained this provision from the previous national model code.
8	The Localism Act 2011 should be amended to require that Independent Persons are appointed for a fixed term of two years, renewable once.	Government	This proposal will lead to recruitment administration every two years – which can be onerous. The current four year term does provide for less administration, but the rational for the proposal is equally accepted. Two of our current three IPs are serving their second term of office and will not be able to re-apply in any event.
9	The Local Government Transparency Code should be updated to provide that the view of the Independent Person in relation to a decision on which they are consulted should be formally recorded in any decision notice or minutes.	Government	Other IPs are very much part of the Member complaints procedure; complainants are advised that the IPs have been consulted in the initial assessment procedure. An IP would be in attendance at any Hearing Sub-Committees and their input documented and minuted appropriately.
10	A local authority should only be able to suspend a councillor where the authority's Independent Person agrees both with the finding of a breach and that suspending the councillor would be a proportionate sanction.	Government	This seems a fair proposal.
11	Local authorities should provide legal indemnity to Independent Persons if their views or advice are disclosed. The government should require this through secondary legislation if needed.	Government / all local authorities	This seems a fair proposal.

12	Local authorities should be given the discretionary power to establish a decision-making standards committee with voting independent members and voting members from dependent parishes, to decide on allegations and impose sanctions.	Government	This seems a fair proposal and provides local choice.
13	Councillors should be given the right to appeal to the Local Government Ombudsman if their local authority imposes a period of suspension for breaching the code of conduct.	Government	This seems a fair proposal for this most stringent sanction; however, see commentary at following point (14).
14	The Local Government Ombudsman should be given the power to investigate and decide upon an allegation of a code of conduct breach by a councillor, and the appropriate sanction, on appeal by a councillor who has had a suspension imposed. The Ombudsman's decision should be binding on the local authority.	Government	This seems a fair proposal for this most stringent sanction. However, it potentially undermines the local determination of complaints, if the Council's decision can be overruled by the Ombudsman in these cases.
15	The Local Government Transparency Code should be updated to require councils to publish annually: the number of code of conduct complaints they receive; what the complaints broadly relate to (e.g. bullying; conflict of interest); the outcome of those complaints, including if they are rejected as trivial or vexatious; and any sanctions applied.	Government	This Council already publishes this information on a six-monthly rolling basis via the reports to this Committee; its inclusion as part of the Local Government Transparency Code would not be onerous.
16	Local authorities should be given the power to suspend councillors, without allowances, for up to six months.	Government	This is welcome as a meaningful sanction.
17	The government should clarify if councils may lawfully bar councillors from council premises or withdraw facilities as sanctions. These powers should be put beyond doubt in legislation if necessary.	Government	This is welcome as a meaningful and legal sanction, as currently it is not clear whether this is lawful under the current legislation.
18	The criminal offences in the Localism Act 2011 relating to Disclosable Pecuniary Interests should be abolished.	Government	This is welcome, provided that other meaningful sanctions are available.
19	Parish council clerks should hold an appropriate qualification, such as those provided by the Society of Local Council Clerks.	Parish councils	This would seem a fair recommendation.
20	Section 27(3) of the Localism Act 2011 should be amended to state that parish councils must adopt the code of conduct of their principal authority, with the necessary amendments, or the new model code.	Government	Whilst this is a matter for the Parish and Town Councils, it would assist the initial assessment of complaints against parish councillors, if councillors were all bound by the same code.

21	Section 28(11) of the Localism Act 2011 should be amended to state that any sanction imposed on a parish councillor following the finding of a breach is to be determined by the relevant principal authority.	Government	This is welcome; currently, should RDC carry out an investigation and impose a sanction on a parish councillor, the parish council is not bound to implement the sanction. This change would require the parish / town council to abide by the sanction.
22	The Local Authorities (Standing Orders) (England) (Amendment) Regulations 2015 should be amended to provide that disciplinary protections for statutory officers extend to all disciplinary action, not just dismissal.	Government	This would provide enhanced protection for these officers.
23	The Local Government Transparency Code should be updated to provide that local authorities must ensure that their whistleblowing policy specifies a named contact for the external auditor alongside their contact details, which should be available on the authority's website.	Government	This is welcome as it would provide whistleblowers with an alternative route to raise their concerns should they feel unable to approach the Council directly.
24 P 21	Councillors should be listed as 'prescribed persons' for the purposes of the Public Interest Disclosure Act 1998.	Government	This seems a fair proposal.
25 P 21	Councillors should be required to attend formal induction training by their political groups. National parties should add such a requirement to their model group rules.	Political groups / National Political Parties	It would be helpful if the local political groups required their councillors to attend all relevant training and development activities.
26	Local Government Association corporate peer reviews should also include consideration of a local authority's processes for maintaining ethical standards.	Local Government Association	This seems a sensible inclusion.

Best Practice Guidelines for local authorities

Best practice 1: Local authorities should include prohibitions on bullying and harassment in codes of conduct. These should include a definition of bullying and harassment, supplemented with a list of examples of the sort of behaviour covered by such a definition.

Best practice 2: Councils should include provisions in their code of conduct requiring councillors to comply with any formal standards investigation, and prohibiting trivial or malicious allegations by councillors.

Best practice 3: Principal authorities should review their code of conduct each year and regularly seek, where possible, the views of the public, community organisations and neighbouring authorities.

Best practice 4: An authority's code should be readily accessible to both councillors and the public, in a prominent position on a council's website and available in council premises.

Best practice 5: Local authorities should update their gifts and hospitality register at least once per quarter, and publish it in an accessible format, such as CSV.

Best practice 6: Councils should publish a clear and straightforward public interest test against which allegations are filtered.

Best practice 7: Local authorities should have access to at least two Independent Persons.

Best practice 8: An Independent Person should be consulted as to whether to undertake a formal investigation on an allegation, and should be given the option to review and comment on allegations which the responsible officer is minded to dismiss as being without merit, vexatious, or trivial.

Best practice 9: Where a local authority makes a decision on an allegation of misconduct following a formal investigation, a decision notice should be published as soon as possible on its website, including a brief statement of facts, the provisions of the code engaged by the allegations, the view of the Independent Person, the reasoning of the decision-maker, and any sanction applied.

Best practice 10: A local authority should have straightforward and accessible guidance on its website on how to make a complaint under the code of conduct, the process for handling complaints, and estimated timescales for investigations and outcomes.

Best practice 11: Formal standards complaints about the conduct of a parish councillor towards a clerk should be made by the chair or by the parish council as a whole, rather than the clerk in all but exceptional circumstances.

Best practice 12: Monitoring Officers' roles should include providing advice, support and management of investigations and adjudications on alleged breaches to parish councils within the remit of the principal authority. They should be provided with adequate training, corporate support and resources to undertake this work.

Best practice 13: A local authority should have procedures in place to address any conflicts of interest when undertaking a standards investigation. Possible steps should include asking the Monitoring Officer from a different authority to undertake the investigation.

Best practice 14: Councils should report on separate bodies they have set up or which they own as part of their annual governance statement, and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principle of openness, and publish their board agendas and minutes and annual reports in an accessible place.

Best practice 15: Senior officers should meet regularly with political group leaders or group whips to discuss standards issues.

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Agenda Item 9.

Rother District Council

Report to	-	Audit and Standards Committee
Date	-	24 June 2019
Report of the	-	Executive Director
Subject	-	Internal Audit Report to 31 March 2019

Recommendation: It be RESOLVED that:

- 1) the Internal Audit report to 31 March 2019 be noted; and
 - 2) the Audit Manager's opinion on the control environment (paragraph 42) be approved.
-

Audit Manager: Gary Angell

Introduction

1. The Council is required to ensure that it has reliable and effective internal control systems in place. The adequacy of these systems is tested by both Internal and External Audit.
2. To be effective, Internal Audit must be (and be seen to be) independent from the activities it evaluates. Rother's Internal Audit Service achieves this by operating as an independent unit within the Corporate Core. It has unrestricted access to Senior Management; reports in its own name; and has no managerial responsibility for any of the systems it reviews. This enables Internal Audit to provide independent and objective assurance when reporting on the Council's activities.
3. In the year up to 31 March 2019, Internal Audit has operated in accordance with the Public Sector Internal Audit Standards (hereafter referred to as 'the Standards'). It is a requirement of the Standards that we report to the Audit and Standards Committee on audit matters and any emerging issues, not only in relation to audit but risk management and corporate governance.
4. In line with the Standards, the Audit Manager is expected to present an annual report on the performance of the Internal Audit Service and to provide an overall opinion on the Council's control environment.
5. The annual report must incorporate:
 - the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Standards and the results of the Quality Assurance and Improvement Programme.
6. The opinion expressed in this report provides an update on the one previously used to inform the Annual Governance Statement at the March 2019 meeting and is based on the results of all audit work completed in 2018/19.

Summary of Activity during 2018/19

7. The majority of the work planned for 2018/19 was completed. However, work on one audit (Software Licensing) was still ongoing at the year end and two other audits (Acquisition & Financial Management of ICT Facilities and Catering - Colonnade Café/Restaurant) did not proceed because the work is either covered elsewhere or no longer required.
8. Nine audit reviews were completed in the final quarter of 2018/19. Seven of these provided good or substantial assurance on the overall governance arrangements. However, the other two audits (Benefits and Creditors) only provided limited assurance. An overview of the findings arising from all nine audits is given in Appendix A.
9. The Benefits audit provided substantial assurance on the governance arrangements within the Benefits team, but a specific issue with the uploading of Benefits data into the main accounting system resulted in an extract report being issued to the Finance team which only received a limited assurance rating. Confirmation has since been received that this issue has now been resolved.
10. The Creditors audit highlighted a number of issues with the Accounts Payable module in the new U4BW system, many of which are build/configuration related. Whilst some teething problems are to be expected with a brand new system, only limited assurance could be given on this occasion owing to the number and nature of the issues found.
11. Appendix B shows a summary of all audit reports completed in 2018/19, the level of compliance and assurance rating for each review, and the overall performance of the Internal Audit team against the plan. NB – The details of all audit reports issued in the first three quarters of 2018/19 have already been reported to this Committee at previous meetings.

Implementation of Audit Recommendations

12. Each quarter, Internal Audit updates Members on the progress made on implementing the audit recommendations reported at previous meetings. Appendix C provides a summary of the current position. This shows that most of the long outstanding recommendations have now been cleared and only three 2017/18 recommendations are yet to be fully resolved. Good progress also continues to be made on the more recent recommendations.

Other Progress Updates

13. The following progress updates were requested by Members at previous meetings.
14. **Public Conveniences Cleaning Contract** – The audit report (issued in July 2018) received a limited rating because the contract paperwork (i.e. signed contract and performance bond) had still not been finalised at the time of the audit despite the contract having been in operation since April 2017.
15. Both documents have since been obtained as a result of management pressure on the East Sussex Procurement Hub and the contractor (Specialist

Hygiene Services Ltd) to resolve the issue. However, despite their best efforts, this process took far longer than it should have, had there been better cooperation. The signed contract was eventually obtained in January 2019 and the performance bond in April 2019.

16. **Homelessness Prevention Grants and Loans** – This audit was a follow up review of the 2017/18 audit which only received a minimal assurance rating owing to the major control weaknesses found and the discovery of a £12,250 fraud. Whilst some progress had been made to improve procedures since that audit, the latest report still received a negative (limited) assurance rating because the new controls were not being consistently applied and management oversight was still found to be inadequate.

17. The Head of Housing and Community has provided the following update:

"A desktop review of the process by the Head of Housing and Community Services in May 2019 established that the revised management control processes are proving effective. A random sample of files were audited and found to be compliant with the financial controls designed with Audit colleagues in 2017/18. The files sampled also confirmed that managers were overseeing the process and validating that financial controls had been followed ahead of final payments being authorised."

18. **Procurement** – This audit found that there was no up-to-date procurement strategy (an issue first raised at the last audit in August 2015) and no service level agreement in place to formalise the current arrangements with the East Sussex Procurement Hub.
19. The Assistant Director Resources has provided the following update from the East Sussex Procurement Hub (ESPH):

Procurement Strategy – *"In October 2018 the Local Government Association launched the National Procurement Strategy for Local Government highlighting the key areas that local authorities need to aspire to. As part of this process each Council was invited to complete a benchmark assessment against each of the key elements of the strategy. This was completed by ESPH and Council Officers and the outcome was received in February 2019. This highlighted the areas for improvement that the Council needs to aspire to and sets suitable targets for an updated Procurement Strategy. The Procurement Strategy is currently being produced on this basis and consultation with Council Officers and Members will take place over the next few months. Key areas in need of clarification are the role of tendering post Brexit and the development of a strategy that links to the current vision and values of the Council. It is anticipated that the revised Procurement Strategy will be presented to Cabinet in September 2019."*

Service Level Agreement – *"The original Service Level Agreement between ESPH and Rother District Council was established in 2014. As Lead Authority, Wealden District Council have requested that a robust review of the service and charges takes place before a revised SLA is developed and issued to both Rother and Hastings. This is being undertaken to review the current level of service, the volume of support being provided and the value for money obtained by each authority. Part of this review will be to benchmark the ESPH*

service against other Procurement Shared Services in the South East. It was anticipated that the outcome of this review, together with a draft SLA would be available for consultation in May 2019 but this has been delayed due to long term sickness of the relevant management team member at Wealden. It is anticipated that it will be ready for consultation in July 2019.”

Counter Fraud Work

20. In addition to compliance work, the Audit Manager also coordinates the National Fraud Initiative (NFI) data matching exercises and the whole Internal Audit team assist in the process of reviewing the matches. NFI match Council data both nationally (to other public sector organisations) and locally (between the authority's own records) to help prevent and detect fraud.
21. *National data match* – This exercise takes place once every two years and was last carried out in October 2018. All payroll, creditors and procurement matches have since been reviewed and no issues were found. However, the majority of the matches (87%) relate to housing benefit/council tax reduction cases and these will need to be reviewed by the Revenues & Benefits team and either dealt with in-house or referred to the Department for Work and Pensions for further investigation.
22. *Local data match* – This exercise is carried out every December and its primary purpose is to identify council tax payers who are wrongly claiming single person discount. The December 2017 review was completed during 2018/19 and this identified 12 errors resulting in £46,736 in savings. Work on the December 2018 matches is currently underway.
23. Internal Audit also allocates time each year to undertake other counter fraud duties. In 2018/19 this work primarily focused on council tax and business rates and a number of properties were identified which were either wrongly classified as empty, were in receipt of rate relief they were not entitled to, or required banding/rating by the Valuation Office. This work also uncovered several holiday lets which had not been declared. These cases were followed up with the help of colleagues in the Revenues & Benefits team and an additional £76,095 of revenue income is now being collected as a result.
24. Internal Audit has also secured £20,000 of former Department for Communities and Local Government funding from the East Sussex Counter Fraud Hub for use on counter fraud initiatives. Negotiations are currently underway with Hastings Borough Council with a view to using this money to jointly fund a fixed-term Investigator post to enhance the Council's capacity in this area.

Other Financial Savings

25. In addition to providing management with assurance on the adequacy of its control environment, routine audit work can also sometimes highlight financial errors which can result in savings (or increased income) once corrected. In 2018/19, a total of £43,897 in confirmed savings/extra income was identified as a by-product of this work. The errors found include a Section 106 debt which had been underpaid, business rate relief which had been wrongly applied, and other debts which had not been billed.

Quality Assurance and Improvement Programme

26. The Audit Manager is required to develop and maintain a Quality Assurance and Improvement Programme in order to evaluate the Internal Audit team's conformance with the Standards, to assess the efficiency and effectiveness of all Internal Audit activity and to identify opportunities for improvement.
27. The proficiency, effectiveness and quality of the Internal Audit team is monitored and improved through:
 - annual self-assessments (Review of Internal Audit)
 - 5-yearly external (peer review) assessments
 - supervision and the review of all Internal Audit output
 - obtaining client feedback
28. The Audit Manager's latest self-assessment of his team's compliance with the Standards (Review of Internal Audit 2018/19) was approved by Members on 25 March 2019 (Minute AS18/37 refers). The review did not identify any significant issues and concluded that there is a high level of effectiveness overall.
29. The team's first external peer review was completed in April 2017 and the assessors' findings were reported to this Committee on 26 June 2017 (Minute AS17/14 refers). No significant issues were found and the report concluded that the Rother Internal Audit Service "generally conforms with the Public Sector Internal Audit Standards and general good practice for the profession".
30. Quality assurance questionnaires are used to capture client feedback. Two different questionnaires are currently used: one to obtain immediate feedback from the main contact at exit meetings (once the fieldwork is complete and draft audit report has been issued and discussed); and the other to get the Head of Service's overall opinion on the quality of all audit reports issued to them in the previous quarter. Questionnaire recipients are invited to rate the service provided as either 'good', 'fair' or 'poor' and are also encouraged to comment where improvement is required.
31. A summary of the responses received in 2018/19 is shown in the table below.

Questionnaire Type	Responses to Individual Questions					
	Good		Fair		Poor	
Exit Meeting (Main Contact)	101	97.1%	3	2.9%	0	0%
Head of Service Meeting	56	100%	0	0%	0	0%
Totals	157	98.1	3	1.9%	0	0%

32. These figures indicate that there is a high level of satisfaction with the quality of the Internal Audit Service.

Performance Measures

33. The Audit Manager closely monitors the performance of the Internal Audit team throughout the year to ensure that agreed targets are achieved. The table below shows the performance indicators and targets for 2018/19 together with the actual results for the year.

Performance Indicator	Target	Actual
Audit Plan – Percentage of governance audits completed.	100%	100%
Audit Plan – Percentage of overall audit plan completed.	90%	90%
Audit Assignments – Final reports issued within 15 days of second draft report.	90%	90%
Audit Recommendations – Percentage of “high” risk recommendations accepted by management.	100%	100%
Satisfaction/Feedback – Overall percentage of customers rating the Internal Audit Service as “Good” or “Fair”.	90%	100%

34. This shows that all of the targets for 2018/19 have either been met or exceeded.

Conformance with the Public Sector Internal Audit Standards

35. The results of the 2017 external peer review and the recent self-assessment exercise performed by the Audit Manager both show that Rother’s Internal Audit Service generally conforms with the Public Sector Internal Audit Standards.

Overall Assessment of the Council’s Internal Control Systems

36. A draft assessment (as at 31 January 2019) was reported at the last meeting. The Audit Manager has now reviewed the position again at the end of the financial year and he stands by his initial assessment of the issues and risks facing the Council with nothing further to add.

Opinion on the Control Environment

37. All audit reports are given an assurance rating based on the following criteria.

Rating	Description
Good	Strong controls are in place and are complied with.
Substantial	Controls are in place but improvements would be beneficial.
Limited	Improvements in controls or in the application of controls are required.
Minimal	Urgent improvements in controls or in the application of controls are required.

38. Limited/minimal assurance ratings are triggered by the presence of either high risk recommendations or five or more medium risk recommendations – which refer to the likelihood and impact of a negative outcome occurring if the expected controls are not in place.
39. In forming an overall opinion, Internal Audit findings need to be set in context and viewed corporately. Consequently the summary of completed audits provided at the last meeting has now been updated to incorporate the whole of 2018/19 and this is included in Appendix B.

40. From this it can be seen that six audits (28.6%) received a limited or minimal assurance rating. Whilst this may appear like a disappointing result when compared to the previous year, it should be borne in mind that several of the areas reviewed faced a particularly challenging year owing to either the implementation of a major new computer system (U4BW) or increased demand as a result of changes in Housing legislation. Moreover, only five of the 85 control objectives examined during the year had not been “met” at least in part and two of the affected audits (Benefits - Finance Extract and Public Conveniences Cleaning Contract) only received a limited assurance rating because of a specific issue which has since been resolved.
41. The quarterly Internal Audit activity reports submitted to this Committee have also shown that the vast majority of the expected controls are in place although it has been necessary to make a number of recommendations during the year where areas were identified for improvement.
42. In conclusion, whilst the above results indicate the overall performance of the Council’s control environment will need to be kept monitored, it is still possible to confirm that the draft opinion expressed at the last meeting remains unaltered. The Audit Manager’s overall opinion on the Council’s framework of governance, risk management and control in 2018/19 is therefore that it is adequate and effective.

Malcolm Johnston
Executive Director

Risk Assessment Statement

A strong, independent and well supported Internal Audit function ensures that the Council does not suffer from poor internal control systems.

COUNCIL TAX AUDIT**ROOTHER DISTRICT COUNCIL**

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Robin Vennard, Chris Watchman and Leah Ridgway

Overall Level of Assurance: **SUBSTANTIAL**

Purpose and Objectives

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

Valuation and Liability – All taxable properties and liable persons are identified, and exemptions, discounts and disregards are correctly applied.	P
Billing – The Council complies with all statutory requirements for tax setting and amounts due in respect of each taxable property have been correctly calculated and payment promptly demanded.	M
Collection and Refunds – There is a sound system for the collection of income and the refund of overpayments.	M
Recovery and Enforcement – All arrears are promptly identified, and effectively pursued in accordance with statutory requirements/laid down procedures. All write-offs are valid and authorised.	M
System Reconciliation – Amounts are properly recorded and reconciled to the main accounting system.	M

Level of Assurance

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements.

The main issue highlighted in the report relates to concerns about the operation and monitoring of the Visiting Officer role. The report recommends that management consider introducing technology (e.g. digital cameras/tablets) to assist the Visiting Officers in their role, and to allow management to more effectively monitor inspections.

Minor issues were also found around the monitoring of outstanding Valuation Office Agency (VOA) notifications (i.e. council tax banding requests) and the effectiveness of write-off procedures.

Executive Summary

Overall, the control objectives are considered to have largely been met but we have made one medium and two low risk recommendations to management to further enhance the governance arrangements and improve value for money.

Internal Audit Service
January 2019

BUSINESS RATES AUDIT**ROTHER DISTRICT COUNCIL**

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Chris Watchman and Leah Ridgway

Overall Level of Assurance: **SUBSTANTIAL**

Purpose and Objectives

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

Valuation and Liability – All properties liable for business rates are identified and assessed, and all reliefs and exemptions correctly applied.	P
Billing – Business rates liability is accurately assessed and correct bills are issued to the occupiers of all rateable hereditaments.	M
Collection and Refunds – There is a sound system for the collection of income and the refund of overpayments.	M
Recovery and Enforcement – All arrears are promptly identified, and effectively pursued in accordance with statutory requirements/laid down procedures. All write-offs are valid and authorised.	M
System Reconciliation – Amounts are properly recorded and reconciled to the main accounting system.	M
Government Returns – The Council complies with Government reporting requirements and is paying the correct rating contribution.	M

Level of Assurance

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements. A few issues were however found and these are outlined below:

- **New Builds** – A Building Works module has been introduced to monitor the progress of new builds. In theory, this should help ensure that all such cases are regularly inspected and promptly referred to the Valuation Office Agency (VOA) for rating once construction is complete. However, it was found that inspections

are not being carried out frequently enough meaning that there have been delays in identifying when properties are ready for rating. Supervisory checks are therefore required to ensure that progress on new builds is more closely monitored in future.

- **Mandatory Charitable Rate Relief and Rural Rate Relief – Ongoing** entitlement to these reliefs has not been checked for a number of years. The audit identified one business in receipt of Mandatory Charitable Rate Relief which ceased to be a registered charity almost three years ago. Two other instances were also found where Rural Rate Relief appears to be wrongly applied. These findings highlight the need for more frequent checks.
- **Irrecoverable Debts** – Management will need to seek retrospective Cabinet approval for a £5,903.92 debt which was written off in August 2018.

Executive Summary

Overall, the control objectives are considered to have largely been met but we have made three medium and one low risk recommendations to management to further enhance the governance arrangements.

Internal Audit Service
January 2019

ICT NETWORK SECURITY AUDIT**ROTHER DISTRICT COUNCIL**

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Graham McCallum

Overall Level of Assurance: **SUBSTANTIAL**

Purpose and Objectives

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

Strategy and Responsibilities – A network strategy exists and standards and policies are in place to support its delivery.	P
Access Control – Connections and access to the network are approved and secure.	M
Network Configuration – The network is designed to maximise the effectiveness of data traffic and to minimise unauthorised access to the data transmitted over it.	M
Security Arrangements – Data is held securely and the risk of network failure is minimised.	P

Level of Assurance

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements.

The main issues found relate to:

- **Computer and Server Rooms** – Access to these areas needs to be further restricted to protect business-critical network equipment from accidental or malicious damage.
- **Hardware inventory** – Some deployed hardware is not currently allocated to a named person or location. This needs to be corrected to ensure all equipment can be accounted for.

Minor issues were also found regarding the need to review and update the ICT Security Policy and network documentation.

Executive Summary

Overall, the control objectives are considered to have largely been met but we have made two medium and two low risk recommendations to management to further enhance the governance arrangements.

Internal Audit Service
January 2019

BENEFITS AUDIT**ROTHER DISTRICT COUNCIL**

Head of Service: Robin Vennard

Overall Level of Assurance: **SUBSTANTIAL**

Purpose and Objectives

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

New Applications and Changes of Circumstances – All applications are promptly and properly processed.	P
Benefit Assessment – Benefits are properly due and are calculated correctly.	M
Payment – Rent allowances are promptly paid to those for whom they are intended.	M
Overpayments – Overpayment of benefit, including those arising from fraud and abuse, are either prevented or identified and promptly followed up. Refunds and write-offs are properly authorised.	M
Reconciliation – Benefit payments are correctly applied and regularly reconciled to the main accounting system.	See extract report
System Administration – The computer system is kept up-to-date, access to benefit records, system parameters and creditor masterfile records are suitably restricted, and adequate segregation of duties is maintained.	M

Level of Assurance

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements within the Benefits team.

The main issue found was in respect of processing timescales. The Council's poor performance in this area came under the scrutiny of the Department for Works and Pensions in early 2018/19 and an action plan was approved by the Overview and Scrutiny Committee to speed up the process and reduce the backlog of work. This

has already resulted in some improvement. No audit recommendation is therefore made at this time owing to the measures already taken to address this issue.

Problems were also found with the Academy Interface routine (as part of the Reconciliation checks). However, in view of the fact this process is solely controlled by the Finance team, this matter will be the subject of a separate extract report and given its own assurance rating.

Executive Summary

Overall, the control objectives are considered to have only been partially met because of the performance issue outlined above. However, it was not necessary to make any formal recommendations to management as a result of this audit.

Internal Audit Service
February 2019

BENEFITS AUDIT (FINANCE EXTRACT)**ROTHER DISTRICT COUNCIL**

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Robin Vennard

Overall Level of Assurance: **LIMITED**

Purpose and Objectives

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Extract Report

This is an extract from the Benefits report. The issues contained in this report have been dealt with separately from the main report (and given their own assurance rating) because they concern matters that are solely controlled by the Finance team.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

Reconciliation – Benefit payments are correctly applied and regularly reconciled to the main accounting system.	N
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Level of Assurance

Based on the findings from the audit we have determined that only limited assurance can be given on the overall governance arrangements within the Finance team. This rating is solely due to problems with the Academy Interface outlined below

It is important that all expenditure recorded in the Academy (Revenues and Benefits) system is uploaded to U4BW (main accounting) system on a regular basis to ensure that it is correctly reflected in the financial accounts. This would normally be achieved by running the Academy Interface routine on a monthly basis. However, this is not happening frequently enough and knowledge of how to run the interface is currently limited owing to U4BW being a relatively new system. There are also concerns about the accuracy of some of the data uploaded and their impact on the bank reconciliation. Internal Audit has tried to seek assurance that these issues are being addressed but in the absence of key staff this has not been possible. Consequently, no assurance can be given as to the effectiveness and accuracy of the interface routine at this time.

Executive Summary

Overall, the control objective is not considered to have been met and we have made one high risk recommendation to management in order to improve the governance arrangements. The recommendation, and management's response to it, will be included in the quarterly report to the Audit and Standards Committee.

Internal Audit Service
February 2019

BENEFITS AUDIT (FINANCE EXTRACT)**ROTHER DISTRICT COUNCIL****High Risk Recommendations and Management Responses**

Audit Ref	Finding/Risk	Recommendation	Risk	Management Response
5.1	<p>Finding No evidence could be provided at the audit to confirm that the interface between Academy and the main accounting system (U4BW) is working effectively.</p> <p>Risk Key information may not be recorded accurately in the main accounts leading to inaccurate financial reporting.</p>	Management must take action to ensure that the interface routine is working properly and that this task can be carried out by more than one officer.	High	<p>The Assistant Director advised that he will look into a range of options with a view to ensuring the interface routine is working properly before the end of the financial year. These include:</p> <ul style="list-style-type: none"> - Discussions with Embridge (the original U4BW project consultants); - Liaising with the Financial Systems Administrator; - Requesting the assistance of MERP (Embridge remote support) in carrying out this task; - The employment of a consultant if the above options do not resolve this issue. <p>Agreed Implementation Date March 2019</p> <p>Responsible Officer Robin Vennard</p> <div style="background-color: #e0e0e0; padding: 10px; margin-top: 10px;"> <p>Position Update</p> <p>Confirmation has since been received that the interface routine is being run on a weekly basis and any lines that do not import automatically are identified and corrected by means of a journal entry.</p> </div>

Audit Reports issued during Quarter to 31 March 2019

CREDITORS AUDIT

ROTHER DISTRICT COUNCIL

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Luke Chapman, Angie Edwards and Ola Janowicz

Overall Level of Assurance: **LIMITED**

Purpose and Objectives

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Background

The Council introduced the U4BW (Unit4 Business World) system in April 2018 replacing its legacy Agresso system. This is the first time the Accounts Payable module of the new system has been reviewed by Internal Audit. Given that the U4BW system is a brand new build, rather than an upgrade of existing software, it is almost inevitable that some issues will be found in the first year of operation as the system is still bedding in. However, problem resolution has been hampered in recent months by the absence of key staff in Finance and in System Administration.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

Orders and Authorisation – Orders for goods and services are properly raised, authorised and confirmed in accordance with the Financial Procedure Rules.	P
Invoice Processing – Legitimate invoices are promptly paid once the goods or services have been received. Payments are made to the correct supplier for the correct amount.	P
Payment – All payments are properly authorised and run totals agreed.	M
Cheque Control – All cheque usage is controlled and recorded.	M

Level of Assurance

Based on the findings from the audit we have determined that only limited assurance can be given on the overall governance arrangements owing to the number and nature of the issues found.

Audit Reports issued during Quarter to 31 March 2019

The main issues found relate to:

- **Leavers** – Access to the cloud-based U4BW computer system is not being promptly revoked when users leave the Council's employment.
- **Scheme of Delegation** – A Scheme of Delegation has been set up so that authorised users can approve invoice payments. However, there are a number of issues with the current configuration which need to be corrected. For example, some users are able to approve payments on cost centres which fall outside of their area of responsibility, and others have approval limits which appear inappropriately high.
- **List of Approvers** – It is a requirement of the Financial Procedure Rules that a list of approvers is maintained and authorised by the Executive Director (MJ) on at least an annual basis. No evidence could be found that this had been done for the new U4BW system at the time of the audit but a copy of the Scheme of Delegation (showing all approvers and their limits) has since been printed out and signed by the Executive Director.
- **Accuracy of Budgetary Reports** – Purchase orders for goods or services which are no longer required may be terminated on the system. However, these purchase orders often still appear in the outstanding commitments shown on budgetary reports after they have been cancelled making it difficult for the Accountancy team and budget managers to monitor spend.
- **Approval of Invoices With No Purchase Order** – Invoices with no purchase order can currently be coded and approved by the same officer, increasing the risk of error and fraud. This contravenes Financial Procedure Rules which require the involvement of two different officers in this process.
- **Invoice Tolerance Level** – Where the sum invoiced exceeds the value of the purchase order by 2.5% or more the system should require further authorisation prior to payment. However, this control does not currently work for all payments which exceed the invoice tolerance level.
- **Supplier Masterfile Changes** – All changes to supplier masterfile records should be subject to supervisory checks, especially those that involve changes to bank details. These checks are not happening regularly enough at present.

Executive Summary

Overall, the control objectives are considered to have only been partially met. We have made seven medium risk recommendations to management in order to improve the governance arrangements.

Internal Audit Service
March 2019

Audit Reports issued during Quarter to 31 March 2019

DEBTORS AUDIT

ROTHER DISTRICT COUNCIL

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Jamie Wilson

Overall Level of Assurance: **SUBSTANTIAL**

Purpose and Objectives

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Background

The Council introduced the U4BW (Unit4 Business World) system in April 2018 replacing its legacy Agresso system. This is the first time the Accounts Receivable module of the new system has been reviewed by Internal Audit.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

Raising of Debtor Invoices – Debtor invoices are promptly and correctly raised in accordance with Financial Procedure Rules/Council policy.	M
Collection, Debt Recovery and Refunds – Procedures for the recovery of unpaid debts are documented and implemented. Direct debit income is collected on time. Refunds and write-offs are properly authorised.	M
Reconciliations and Provisions – The Council's accounts are updated to record all payments received.	N
Suspense Account – Unallocated payments are posted to a suspense account and promptly investigated and cleared.	M
Monitoring of Arrears – Debt collection performance is monitored.	P

Level of Assurance

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements.

The audit found that whilst most day-to-day controls were operating satisfactorily there was still some uncertainty around the arrangements for making year end debtor provisions and for reconciling the Debtors Control Account in the new U4BW system at the time of the audit. This meant that no assurance could be given on compliance

Audit Reports issued during Quarter to 31 March 2019

with the Reconciliations and Provisions section of this report and it is also the main reason for the overall assurance rating of “Substantial” rather than “Good”.

Executive Summary

Overall, the control objectives are considered to have largely been met and we have made one low risk recommendation to management to further enhance the governance arrangements,

Internal Audit Service
March 2019

Audit Reports issued during Quarter to 31 March 2019

CASH AND BANKING AUDIT

ROTHER DISTRICT COUNCIL

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Jamie Wilson

Overall Level of Assurance: **GOOD**

Purpose and Objectives

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Background

The Council introduced the U4BW (Unit4 Business World) system in April 2018 replacing its legacy Agresso system. This is the first time the Income Manager module of the new system has been reviewed by Internal Audit.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

Collection Procedures – Secure arrangements exist for the collection and recording of cash.	M
Receipt of Income – All collections and direct to bank credits are promptly, completely and accurately brought to account.	M
Banking of Income – All collections are promptly banked.	M
Reconciliation of Income – All income is promptly and accurately posted to the customers' accounts.	M
Bank Reconciliation – Arrangements are in place for the routine monthly reconciliation of the bank account to the accounting records.	M

Level of Assurance

Based on the findings from the audit we have determined that good assurance can be given on the governance arrangements as no significant issues were found.

Executive Summary

Overall, the control objectives are considered to have largely been met and it was only necessary to make one low risk recommendation to management to further enhance the governance arrangements.

Internal Audit Service
March 2019

Audit Reports issued during Quarter to 31 March 2019

ICT GOVERNANCE AUDIT

ROTHER DISTRICT COUNCIL

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Robin Vennard and Graham McCallum

Overall Level of Assurance: **SUBSTANTIAL**

Purpose and Objectives

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

Access Control – ICT access security arrangements are adequate.	P
Security of Data – Data is held securely and can be recovered in the event of a disaster.	P
Change Control – Software updates and change controls are properly managed.	M

Level of Assurance

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements.

A number of control issues were however identified, notably:

- **New Users** – New employees are sometimes allowed to use the Council's computer network for several days before they receive ICT induction training or are required to sign up to the Council's Acceptable Usage Policy;
- **Leavers** – User accounts are not always promptly disabled when staff leave the Council's employ;
- **ERP System** – Password security needs to be improved;
- **ICT Continuity Plan** – The plan is not being properly maintained, and a new version has not been formally issued since April 2016. This has been an outstanding issue since the 2016/17 ICT Governance audit;
- **Server Updates** – The Council's mail servers need replacing to improve security.

Audit Reports issued during Quarter to 31 March 2019

Executive Summary

Overall, the control objectives are considered to have largely been met but we have made four medium and one low risk recommendations to management to further enhance the governance arrangements.

Internal Audit Service
Completed March 2019 (Issued April 2019)

Audit Reports issued during Quarter to 31 March 2019

PAYROLL AUDIT

ROTHER DISTRICT COUNCIL

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Maria Benford and Kirsty Goldsmith

Overall Level of Assurance: **SUBSTANTIAL**

Purpose and Objectives

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Background

The Council introduced the U4BW (Unit4 Business World) system in April 2018 and incorporated a new module replacing its legacy Payroll system in July 2018. This is the first time the Payroll module of the new system has been reviewed by Internal Audit.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

Payroll Procedures – The payroll procedures operate in accordance with Financial Procedure Rules.	M
Authority for Payment – Pay and related costs are only incurred in respect of staff employed in authorised posts. All payments to new employees are calculated correctly and employees leaving the Council are promptly removed from the live payroll and their final salary payment correctly calculated.	M
Pay Awards and Other Salary Increases – Basic pay is correctly calculated in accordance with local agreements and all subsequent grading changes/increments are formally costed and approved.	M
Other Amendments to Pay – All other variations to pay must be authorised, complete, accurate and not previously processed.	M
Deductions – Statutory deductions are correctly applied, accounted for and paid over to relevant body in accordance with legislation and government/superannuation scheme requirements.	M
Payment – All salaries payments are prepared and issued appropriately.	P

System Reconciliation and Security of Data – The monthly salary bill is agreed and independently reconciled to the main accounting system. All computer records are protected against unauthorised access.	P
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Level of Assurance

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements.

The main issues found relate to:

- **Segregation of Duties** – Two officers in the Human Resources team currently have full read/write access to the Payroll module in the U4BW system. Management should look to restrict these rights to ensure that proper segregation of duties is observed between the set up and payment of employees.
- **Access Rights** – Access to view Payroll data also needs to be further restricted.

A minor issue was also found around the completion of timesheets which has resulted in one part-time employee overpayment being overpaid. Action is now being taken to recover this money.

Executive Summary

Overall, the control objectives are considered to have largely been met but we have made two medium and one low risk recommendations to management to further enhance the governance arrangements.

Internal Audit Service
Completed March 2019 (Issued April 2019)

Audits Completed in 2018/19 and Overall Performance against the Audit Plan

Audit	Control Objectives (Number)	Control Objectives Met	Control Objectives Met In Part	Control Objectives Not Met	Assurance Rating	
Audits Brought Forward from 2017/18 – Total 1, Completed 1 (100%)						
ICT Network Security	4	2	2	0	Substantial	
Governance Audits – Planned 9, Completed 9 (100%) Note – Benefits is counted as 1 report						
Benefits	5	4	1	0	Substantial	
Benefits – Finance Extract	1	0	0	1	Limited	
Business Rates	6	5	1	0	Substantial	
Cash and Banking	5	5	0	0	Good	
Council Tax	5	4	1	0	Substantial	
Creditors	4	2	2	0	Limited	
Debtors	5	3	1	1	Substantial	
ICT Governance	3	1	2	0	Substantial	
Payroll	7	5	2	0	Substantial	
Treasury Management	7	6	1	0	Substantial	
High/Medium Risk Audits – Planned 13, Completed 10 (76.9%)						
Asset Management	5	4	1	0	Substantial	
Building Maintenance	6	6	0	0	Good	
Food Safety	3	2	1	0	Substantial	
Homelessness Prevention Grants and Loans	1	0	1	0	Limited	
Housing Temporary Accommodation	3	0	2	1	Limited	
Joint Waste Contract – Client Admin	4	4	0	0	Good	
Pollution Control	3	2	1	0	Substantial	
Procurement	2	0	1	1	Limited	
Public Conveniences Cleaning Contract	4	3	0	1	Limited	
Section 106 Agreements	2	1	1	0	Substantial	
Totals: 20 Audit Reports (24)	85	59	21	5		
	100%	69.4%	24.7%	5.9%		
Good/Substantial Assurance	15 (23)		71.4% (95.8%)		Note – Benefits had 2 assurance ratings	
Limited/Minimal Assurance	6 (1)		28.6% (4.2%)			
Other Work Completed (No Report Required) – Planned 5, Completed 5 (100%)						
Colonnade Catering Set-up	Consultancy Work					
ERP System - Implementation	Consultancy Work					
ERP System – Preliminary Review of Controls	Pre-Audit Work					
GDPR Compliance	Consultancy Work					
Waste Contract (Replaced by other Consultancy Work)	Consultancy Work					
Audits Not Completed at Year End – Total 3						
Acquisition & Financial Management of ICT Facilities	Controls tested at other audits					
Catering – Colonnade Café/Restaurant	Audit no longer required					
Software Licensing	Work In Progress (30% Complete)					
Total Work Planned 2018/19	27 (28)		Percentage of Plan Completed 2018/19			
Total Work Completed 2018/19 <i>Excluding audits brought forward</i>	24.3 (26.8)		90.0% (95.7%)			

Previous year's performance in brackets.

Summary of Progress on Recommendations Made up to 31 December 2018

Audit Recommendations 2017/18

Previous quarter's performance shown in brackets

Risk	Issued	Implemented	Work-in-Progress	Not Started
High	2	2	(2)	0
Medium	38	37	(36)	1
Low	33	31	(30)	1
Total	73	70	(68)	2
		95.9%	(93.1%)	2.7%
				(5.5%)
			1.4%	(1.4%)

Note – The number of recommendations issued and all other figures reported in the last quarter have been retrospectively adjusted (1) to reflect the removal of the 2016/17 audit recommendations from the period under review, and (2) to allow for one recommendation (ICT Governance) which has been downgraded from Medium to Low risk.

Breakdown of outstanding audit recommendations for 2017/18 by Head of Service:

Robin Vennard (Resources)

- Data Protection – issued 22/09/17 (1 Medium, 1 Low) – concerning the need for further Data Protection training and the introduction of a corporate-wide document retention policy. Progress is currently being made in respect of both of these items.
- ICT Governance – issued 06/04/18 (1 Low) – concerning the need to test off-site disaster recovery procedures using hardware and facilities supplied by a third party provider. A testing exercise is yet to be arranged.

Audit Recommendations 2018/19 (up to 31 December 2018)

Previous quarter's performance shown in brackets

Risk	Issued	Implemented	Work-in-Progress	Not Started
High	2	(1)	2	(0)
Medium	20	(10)	13	(9)
Low	16	(10)	12	(6)
Total	38	(21)	27	(15)
		71.0%	(71.4%)	13.2%
				(28.6%)
			15.8%	(0%)

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Agenda Item 10.

Rother District Council

Report to	-	Audit and Standards Committee
Date	-	24 June 2019
Report of the	-	Executive Director
Subject	-	Treasury Management Report – 2018/19 Outturn

Recommendation: It be RESOLVED that:

- 1) the prudential and treasury indicators in this report be approved; and
 - 2) the annual treasury management report for 2018/19 be noted.
-

**Corporate Transformation Manager – Catherine Jobling
Assistant Director Resources – Robin Vennard**

Introduction

1. Council approved the Council's 2018/19 Investment Strategy on 26 February 2018 (Minute CB17/67 refers), which requires an annual report describing the Treasury Management activity in the past year compared to the Strategy.

Background

2. This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018/19. 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).
3. During 2018/19 the minimum reporting requirements were that the full Council should receive the following reports:
 - an annual treasury strategy in advance of the year;
 - a mid-year, treasury update report; and
 - an annual review following the end of the year describing the activity compared to the strategy, (this report).
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.
5. This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit and Standards Committee before they were reported to the full Council. Member training on treasury management issues was undertaken

during the year on 18 June 2018 in order to support Members' scrutiny role. Training for new Members was also offered on the 14 June 2019.

6. This report provides details of the outturn position for treasury activities and officers can confirm compliance with the Council's policies previously approved by Members.

Overall Treasury Position as at 31 March 2019

7. At the end of 2018/19 the Council's total investments were £22,098,707. There was £901,539 borrowing at 31 March 2019 and the Capital Financing requirement was £3.756 million.
8. The Council's investment policy is governed by Ministry of Housing, Communities and Local Government (MHCLG) investment guidance, which has been implemented in the annual investment strategy approved by the Council on 26 February 2018. 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.).
9. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
10. The total income from investments was £446,302 compared to a budget of £512,000. This was mainly due to the delay in the purchase of the HERMES property fund due to having to wait for someone to exit the fund in order to invest.
11. The average rate of return on investments was 1.5%.

Executive Summary

12. During 2018/19, 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:

Capital Expenditure in £ millions			
	2017/18 Actual £ (000)	2018/19 Budget £ (000)	2018/19 Actual £ (000)
General Fund Services	2,098	4,734	2,173
Investments	0	2,512	2,627
Total	2,098	7,246	4,800

Capital financing requirement in £ millions

	2017/18 Actual £ (000)	2018/19 Budget £ (000)	2018/19 Actual £ (000)
CFR	1,092	3,650	3,756
Gross borrowing	0	2,512	901
Internal borrowing	1,092	1,138	2,855
Investments > 1year	4,959	5,000	7,935
Investments under 1 year	17,672	17,000	14,155
Total Investments	22,631	22,000	22,090
Net Borrowing	(22,631)	(19,488)	(21,189)

13. 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.
14. The financial year 2018/19 continued the challenging investment environment of previous years, namely low investment returns.

The Strategy for 2018/19

15. Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018/19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the Monetary Policy Committee (MPC) would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year. Commentary on interest/investment rates and borrowing is shown at Appendix A.

The Council's Capital Expenditure and Financing 2018/19

16. The Council undertakes capital expenditure on long-term assets. These activities may either be:
 - (a) 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
 - (b) if insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
17. The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

Capital Expenditure and Financing 2018/19

	2017/18 Actual £ (000)	2018/19 Budget £ (000)	2018/19 Actual £ (000)
Capital Expenditure	2,098	7,246	4,800
Financing			
Capital Receipts	484	1,345	159
Grants and contributions	1,258	1,729	1,147
Borrowing	0	2,679	2,666
Capital Expenditure Charged to Revenue	356	1,493	828
Total Funding	2,098	7,246	4,800

Borrowing

18. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). The figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2018/19 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not been paid for by revenue or other resources.
19. 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 that 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 Public Works Loan Board (PWLB), or the money markets, or utilising temporary cash resources within the Council.
20. The Council's 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 borrowing need. External debt can also be borrowed or repaid at any time, but this does not change the CFR.
21. 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 Voluntary Revenue Provision (VRP).
22. The Council's 2018/19 MRP Policy, (as required by MHCLG Guidance), was approved as part of the Treasury Management Strategy Report for 2018/19 on 26 February 2018 (Minute CB17/67 refers).

23. The Council's CFR for the year is shown below:

CFR	2017/18 Actual £ (000)	2018/19 Budget £ (000)	2018/19 Actual £ (000)
Opening balance	1,092	1,092	1,092
Add unfinanced capital expenditure	0	2,558	2,664
Less MRP/VRP	0	0	0
Closing balance	1,092	3,650	3,756

24. Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.
25. The authorised limit is the “affordable borrowing limit” required by Section 3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2018/19 the Council has maintained gross borrowing within its authorised limit.
26. 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 are acceptable subject to the authorised limit not being breached.
27. The actual financing costs as a proportion of net revenue stream identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2018/19 £ (000)
Authorised limit	16,000
Maximum gross borrowing position during the year	901
Operational boundary	NA
Average gross borrowing position	451
Financing costs as a proportion of net revenue stream	3.64%

28. During 2018/19, 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 low and minimising counterparty risk on placing investments also needed to be considered.

Overall Investment Return 2018/19

29. The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. 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 end of 2018/19, the Council's treasury position was as follows:

Debt Portfolio	31st March 2018 Principle	Rate	Average life	31st March 2019 Principle	Rate	Average life
Fixed rate funding:						
PWLB	0	0	0	901	2.49%	50
CFR	1,092			3,756		
Over/(under) borrowing	(1,092)			(2,855)		
Total investments	22,631			22,090		
Net debt	(22,631)			(21,189)		

30. The maturity structure of the debt portfolio was as follows:

31 March 2018 £'000	PWLB	31 March 2019 £'000
0	Less than one year	9
0	Between one and two years	16
0	Between two and five years	64
0	Maturing in five to ten years	80
	Maturing in more than ten years	731
0	Total	900

31. The investment portfolio as at 31 March 2019:

Deposit with	Type of account	Maturity Date	Amount £	Deposit	%
Lloyds (RFB)	Call Account		3,296,004	0.65%	14.91%
Bank of Scotland (RFB)	32 days notice		2,300,000	0.80%	10.41%
Barclays (RFB)	Call Account		1,060	0.50%	0.00%
Santander	Call Account		1,645	0.55%	0.01%
National Westminster Bank (RFB)	Deposit	10/05/2019	2,000,000	0.75%	9.05%
Lloyds (RFB)	Deposit	02/07/2019	1,500,000	1.00%	6.79%
Lloyds (RFB)	Deposit	05/07/2019	1,000,000	1.00%	4.53%
Lloyds (RFB)	Deposit	16/08/2019	1,000,000	1.05%	4.53%
Bank of Scotland (RFB)	Deposit	18/09/2019	3,000,000	1.05%	13.58%
HERMES Property Fund	Long Term		2,999,998	4.54%	13.58%
CCLA Local Authority Property Fund	Long Term		5,000,000	4.50%	22.63%
Total			22,098,707		
Total managed in-house			14,098,709		
Total managed externally			7,999,998		
Total Treasury Investments			22,098,707		

Total non-Treasury investments	31 March 2018		31 March 2019	
	Actual £ (000)	%	Actual £ (000)	%
Third party loans	49	100%	42	1.57%
Subsidiaries	-	0%	-	-
Commercial investments: Property	-	0%	2,627	98.43%
Total non-Treasury investments	49		2,669	

Total investment exposure	31 March 2018		31 March 2019	
	Actual £ (000)	%	Actual £ (000)	%
Treasury investments	22,631	100%	22,099	89%
Non Treasury investments	0		2,627	11%
Total of all investments	22,631	100%	24,726	100%

Conclusion

32. The Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:-

Balance Sheet Resources	31 March 2018		31 March 2019	
	Actual £ (000)		Actual £ (000)	
General Fund	1,000		1,000	
Earmarked reserves	15,730		16,362	
Provisions	698		726	
Usable capital receipts	2,886		2,902	
Capital grants and contributions	900		1,874	
Total	21,214		22,864	

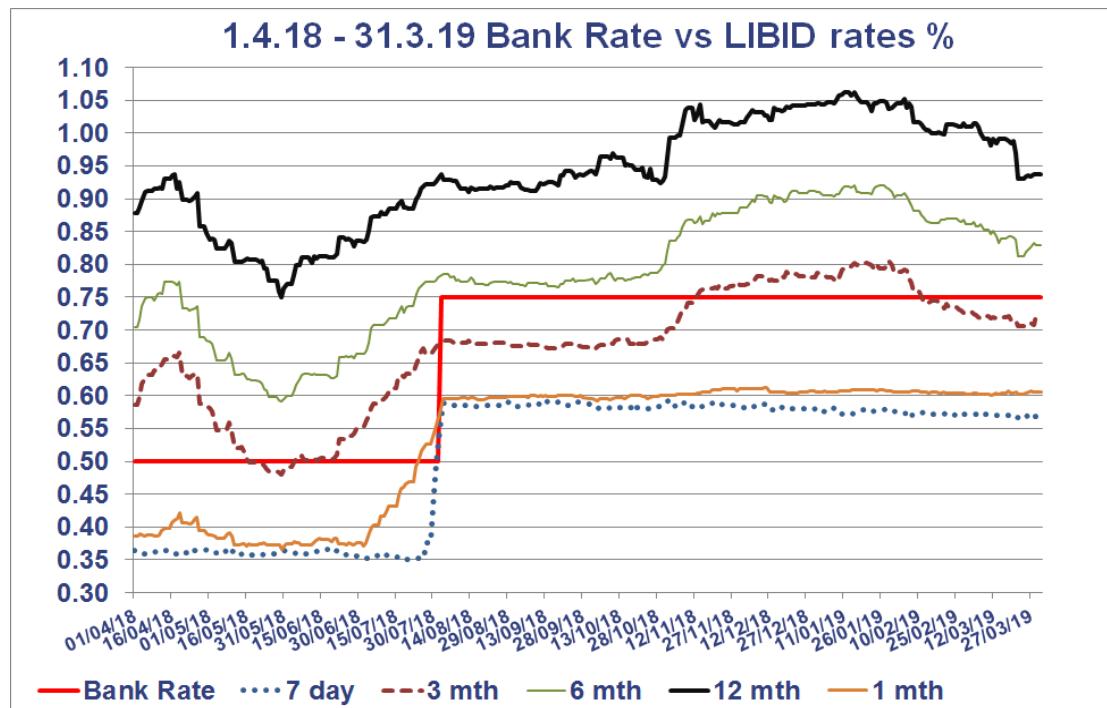
33. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Malcolm Johnston
Executive Director

Risk Assessment Statement

There are no direct risks arising from this report. Failure to follow the Council's investment strategy could increase the risk of financial loss

Investment Strategy for 2018/19



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
01/04/2018	0.50	0.36	0.39	0.59	0.70	0.88
31/03/2019	0.75	0.57	0.61	0.72	0.83	0.94
High	0.75	0.59	0.61	0.81	0.92	1.06
High Date	02/08/2018	01/11/2018	10/12/2018	29/01/2019	15/01/2019	11/01/2019
Low	0.50	0.35	0.37	0.48	0.59	0.75
Low Date	01/04/2018	19/07/2018	30/05/2018	30/05/2018	30/05/2018	30/05/2018
Average	0.67	0.51	0.54	0.68	0.79	0.94
Spread	0.25	0.24	0.25	0.33	0.33	0.31

Link Asset Services Interest Rate View 12.2.18													
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
3 Month LIBID	0.40%	0.70%	0.70%	0.90%	0.90%	0.90%	0.90%	1.20%	1.20%	1.20%	1.40%	1.40%	1.40%
6 Month LIBID	0.50%	0.80%	0.80%	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.50%
12 Month LIBID	0.80%	1.10%	1.10%	1.20%	1.20%	1.20%	1.30%	1.40%	1.40%	1.50%	1.70%	1.70%	1.70%

Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018/19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the Monetary Policy Committee (MPC) would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year.

It was not expected that the MPC would raise Bank Rate again during 2018/19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances were sufficient to allow this.

Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

Borrowing Strategy for 2018/19

During 2018/19, 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 low and minimising counterparty risk on placing investments also needed to be considered.

A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

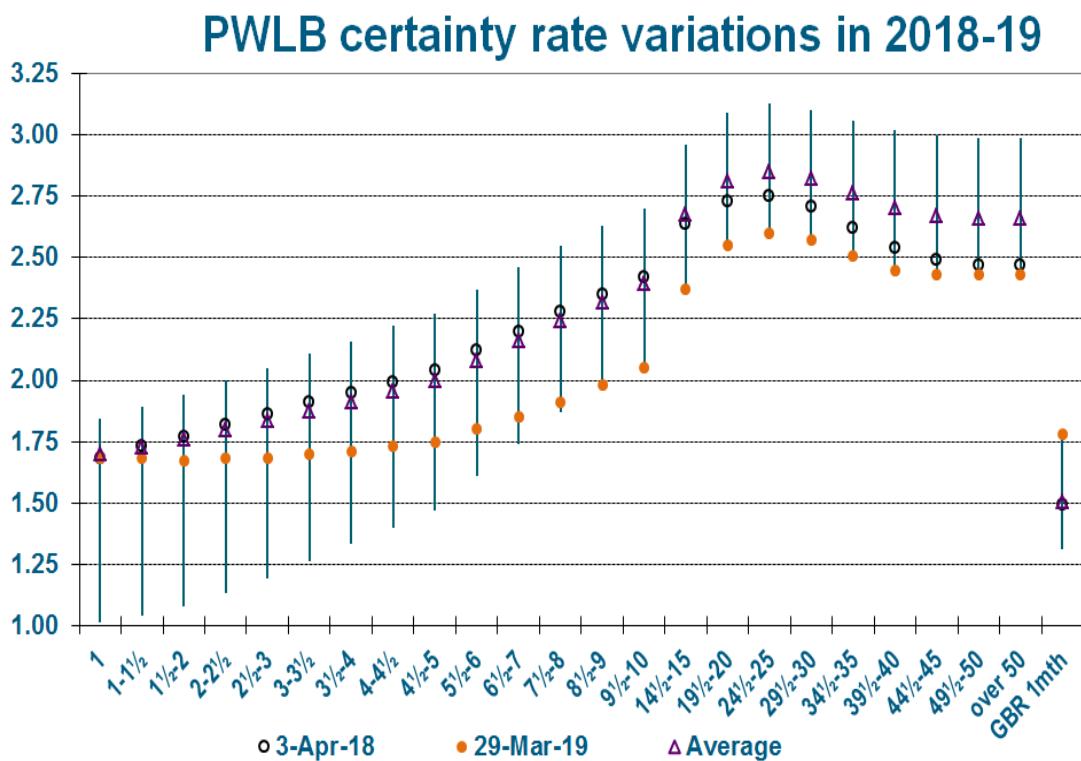
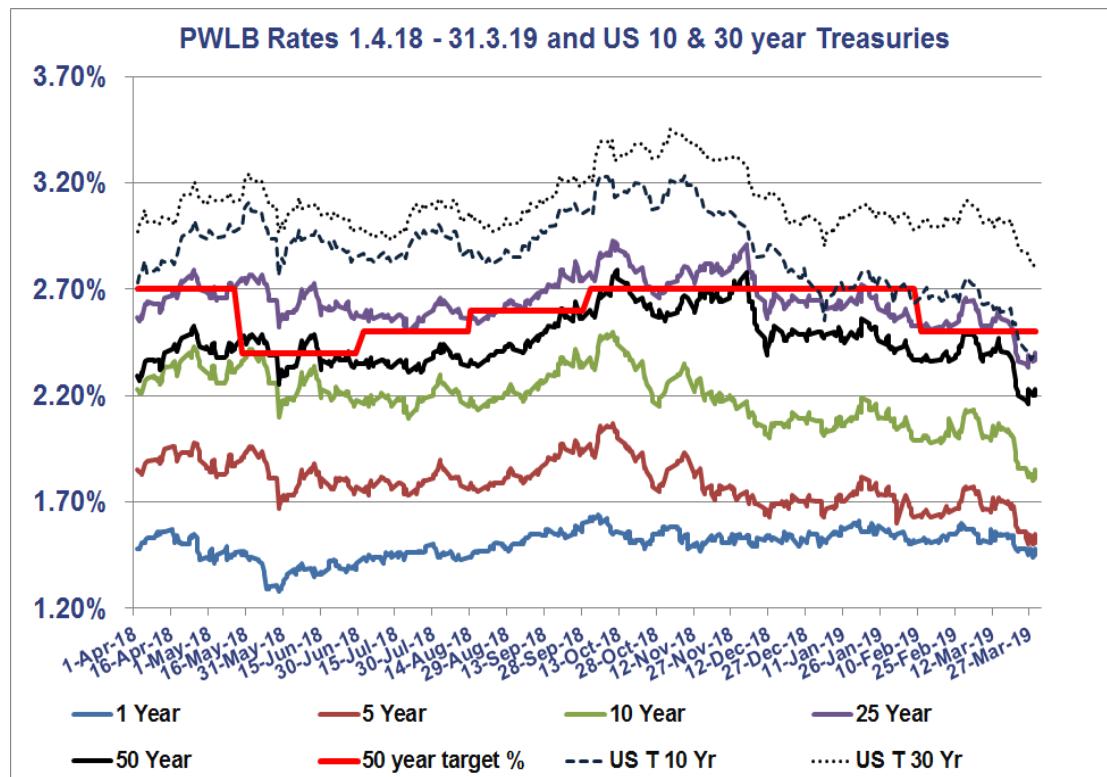
The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Chief Finance Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks.

After taking advice from our Treasury advisors the Council took advantage of low long term interest rates and locked into 50 year fixed rate borrowing to fund the property investment strategy purchases.

Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2018/19 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

	Link Asset Services Interest Rate View 12.2.18												
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
5yr PWLB Rate	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%



	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2018	1.48%	1.85%	2.23%	2.57%	2.29%
29/03/2019	1.48%	1.55%	1.85%	2.40%	2.23%
Low	1.28%	1.50%	1.80%	2.33%	2.16%
Date	29/05/2018	26/03/2019	28/03/2019	26/03/2019	26/03/2019
High	1.64%	2.07%	2.50%	2.93%	2.79%
Date	04/10/2018	10/10/2018	10/10/2018	10/10/2018	12/10/2018
Average	1.50%	1.80%	2.20%	2.66%	2.47%

Since PWLB rates peaked during October 2018, most PWLB rates have been on a general downward trend, though longer term rates did spike upwards again during December, and, (apart from the 1 year rate), reached lows for the year at the end of March. There was a significant level of correlation between movements in US Treasury yields and UK gilt yields -which determine PWLB rates. The Fed in America increased the Fed Rate four times in 2018, making nine increases in all in this cycle, to reach 2.25% – 2.50% in December. However, it had been giving forward guidance that rates could go up to nearly 3.50%. These rate increases and guidance caused Treasury yields to also move up. However financial markets considered by December 2018, that the Fed had gone too far, and discounted its expectations of further increases. Since then, the Fed has also come round to the view that there are probably going to be no more increases in this cycle. The issue now is how many cuts in the Fed Rate there will be and how soon, in order to support economic growth in the US. But weak growth now also looks to be the outlook for China and the EU so this will mean that world growth as a whole will be weak. Treasury yields have therefore fallen sharply during 2019 and gilt yields / PWLB rates have also fallen.

The Economy and Interest Rates

UK. After weak economic growth of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% year on year, confirming that the UK was the third fastest growing country in the G7 in quarter 4.

After the MPC raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC has been having increasing concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January. British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

As for CPI inflation itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising

marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.5%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

Brexit. The EU has provided a “flexension” to end-October, but allowing the UK leave before if a deal is agreed. The lack of clarity over Brexit, speculation about Mrs May’s successor and the prospect of a “no deal” Brexit, allied to trade uncertainty, is unsettling the markets, resulting in a volatility of interest rate expectations. Global growth concerns are also weighing on sentiment. The prospect of a rate hike remains slim to nil according to the markets, though Messrs Haldane and Saunders of the MPC have made noises about rises in recent days. The markets are pricing in a 14-35% of chance of a rate cut between this November and May 2020.

USA. President Trump’s massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the strong rate of growth; this rose from 2.2%, (annualised rate) in quarter 1 of 2018 to 4.2% in quarter 2, 3.5% in quarter 3 and then back to 2.2% in quarter 4. The annual rate came in at 2.9% for 2018, just below President Trump’s aim for 3% growth. The strong growth in employment numbers has fed through to an upturn in wage inflation which hit 3.4% in February, a decade high point. However, CPI inflation overall fell to 1.5% in February, a two and a half year low, and looks to be likely to stay around that number in 2019 i.e. below the Fed’s target of 2%. The Fed increased rates another 0.25% in December to between 2.25% and 2.50%, this being the fourth increase in 2018 and the ninth in the upward swing cycle. However, the Fed now appears to be edging towards a change of direction and admitting there may be a need to switch to taking action to cut rates over the next two years. Financial markets are now predicting two cuts of 25 bps by the end of 2020.

EUROZONE. The European Central Bank (ECB) provided massive monetary stimulus in 2016 and 2017 to encourage growth in the EZ and that produced strong annual growth in 2017 of 2.3%. However, since then the ECB has been reducing its monetary stimulus measures and growth has been weakening - to 0.4% in quarters 1 and 2 of 2018, and then slowed further to 0.2% in quarters 3 and 4; it is likely to be only 0.1 - 0.2% in quarter 1 of 2019. The annual rate of growth for 2018 was 1.8% but is expected to fall to possibly around half that rate in 2019. The ECB completely ended its programme of quantitative easing purchases of debt in December 2018, which means that the central banks in the US, UK and EU have all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in growth, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), prompted the ECB to take new measures to stimulate growth. With its refinancing rate already at 0.0% and the deposit rate at -0.4%, it has probably reached the limit of cutting rates. At its March 2019 meeting it said that it expects to leave interest rates at their present levels “at least through the end of 2019”, but that is of little help to boosting growth in the near term. Consequently, it also announced a third round of TLTROs; this provides banks with cheap borrowing every three

months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. Equity markets are currently concerned about the synchronised general weakening of growth in the major economies of the world: they fear there could even be a recession looming up in the US, though this fear is probably overdone.

Other Issues

IFRS 9. Risk management will need to take account of the 2018/19 Accounting Code of Practice proposals for the valuation of investments.

- Expected credit loss model. Whilst this should not be material for vanilla treasury investments such as bank deposits, this is likely to be problematic for some funds e.g. property funds, (and also for non-treasury management investments dealt with in the capital strategy e.g. longer dated service investments, loans to third parties or loans to subsidiaries).
- The valuation of investments previously valued under the available for sale category e.g. equity related to the “commercialism” agenda, property funds, equity funds and similar, will be changed to Fair Value through the Profit and Loss (FVPL).

Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG], on IFRS9 the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective from 1 April 2018. The statutory override applies for five years from this date. 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.

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Agenda Item 11.

Rother District Council

AUDIT AND STANDARDS COMMITTEE

WORK PROGRAMME 2019 – 2020	
DATE OF COMMITTEE	SUBJECT
Monday 24 June 2019	<p>Part A – Standards Reports</p> <ul style="list-style-type: none">• Code of Conduct Complaints Monitoring• Ombudsman Complaints Monitoring• The Committee on Standards in Public Life's Review of Local Government Ethical Standards <p>Part B – Audit Reports</p> <ul style="list-style-type: none">• Internal Audit Report to 31 March 2019• Progress update on the Procurement Strategy and Service Level Agreement with the East Sussex Procurement Hub• Treasury Management Report – 2018/19 Outturn
Wednesday 24 July 2019	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none">• Grant Thornton – Annual Governance Report 2018/19• Statement of Accounts 2018/19• Treasury Management Monitoring Report – Quarter 1 2019/20
Monday 23 September 2019	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none">• Internal Audit Report to 30 June 2019• Treasury Management Report• UK Exit from the European Union (BREXIT)
Monday 9 December 2019	<p>Part A – Standards Reports</p> <ul style="list-style-type: none">• Code of Conduct Complaints Monitoring• Local Government Ombudsman Complaints Monitoring and Annual Review 2018-2019• Review of Local Government Ethical Standards – results of Stakeholder Consultation <p>Part B – Audit Reports</p> <ul style="list-style-type: none">• Grant Thornton – Annual Audit Letter 2018-19• Internal Audit Report to 30 September 2019• Annual Risk Management Update• Treasury Management Update Report

DATE OF COMMITTEE	SUBJECT
Monday 23 March 2020	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Grant Claim Certification for the year ended 31 March 2019 • Grant Thornton – Audit Plan 2019-20 • Internal Audit Report to 31 December 2019 • Internal Audit Plan 2020-21 • Review of Internal Audit 2019-20 • Treasury Management Report