

Audit and Standards Committee

Date and Time - **Monday 28 September 2020 - 6.30pm**

Venue - **Remote Meeting**

Councillors appointed to the Committee:

A.K. Jeeawon (Chairman), J. Barnes, Mrs M.L. Barnes, K.M. Harmer, Mrs E.M. Kirby-Green, L.M. Langlands, Rev H.J. Norton and R.B. Thomas.

AGENDA

1. MINUTES

To authorise the Chairman to sign the minutes of the meeting of the Audit and Standards Committee held remotely on 29 July 2020 as a correct record 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.

PART A - STANDARDS REPORTS

None

PART B - AUDIT REPORTS

5. **REPORT OF THE EXTERNAL AUDITOR - AUDIT PROGRESS REPORT AND SECTOR UPDATE, YEAR ENDING 31 MARCH 2020** (Pages 1 - 22)
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[**louise.hollingsworth@rother.gov.uk**](mailto:louise.hollingsworth@rother.gov.uk)

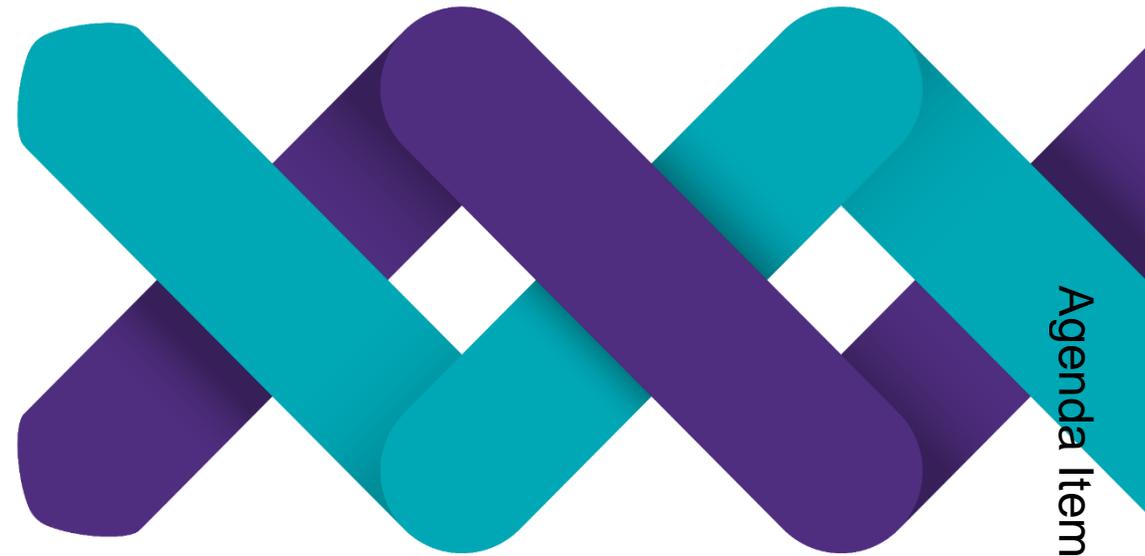
6. **INTERNAL AUDIT REPORT TO 30 JUNE 2020** (Pages 23 - 32)
7. **INTERNAL AUDIT PLAN UPDATE** (Pages 33 - 38)
8. **TREASURY MANAGEMENT UPDATE** (Pages 39 - 46)
9. **RISK MANAGEMENT UPDATE** (Pages 47 - 54)
10. **WORK PROGRAMME** (Pages 55 - 56)

Malcolm Johnston
Executive Director

Agenda Despatch Date: 18 September 2020

Audit Progress Report and Sector Update

Rother District Council
Year ending 31 March 2020
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September 2020



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Introduction



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This paper provides the Audit and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a Council.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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Progress at September 2020

Financial Statements Audit

The Council published its draft financial statements on 3 July 2020. Our year end accounts audit commenced in August 2020 and is currently in progress.

The pandemic has had an impact on the working arrangements for our audit. Both the audit team and the Council's finance team are currently working from home.

Our experience is that a remote working environment is likely to mean that the audit process takes longer, particularly with regard to obtaining sufficient, appropriate audit evidence. We will continue to work closely with your finance team to make the current working arrangements as efficient as possible.

Although there are some audit tasks which are best undertaken in person we anticipate that we will be able to complete our audit work remotely. However, there may be individual tasks where if physical access is not possible we will need to liaise with management to agree an alternative approach.

Our Audit Findings Report will be presented to the November Audit and Standards Committee.

Value for Money

The scope of our value for money work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The NAO guidance for 2019/20 confirms that the overall criterion remains that: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub-criteria which auditors consider in arriving at an overall conclusion are:

- Informed decision making
- Sustainable resource deployment

• Working with partners and other third parties

We will report our value for money work in the Audit Findings Report and issue our Value for Money Conclusion at the same time as the audit opinion. We will review the Council's response to the financial implications of Covid 19 as part of our work.

NAO – Code of Audit Practice

The NAO consultation on a new Code of Audit Practice (the "Code") has finished and the new Code has completed its approval process in Parliament. The new Code is applicable for the 2020/21 and following audit years. It supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor's Annual Report containing a commentary on arrangements to secure value for money and any associated recommendations. Further detail on the changes is included at page 8 of this progress report.

Audit Fees

In our March 2020 audit plan we noted the impact of a number of wider developments within the accounting and audit profession, including;

- the expectations of the Financial Reporting Council (FRC) for improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.
- areas where our work had highlighted the need for improvements in financial reporting, in particular property, plant and equipment and pensions
- an increase in the complexity of Local Government financial transactions and financial reporting.

As a result we noted that in agreement with PSAA we would be seeking approval to secure additional fees to reflect the increased level of audit work required to discharge our responsibilities. Our 2019/20 audit plan included fee variations of £7500 in addition to the scale fee of £37,059.

Progress at September 2020

We can confirm that PSAA have now given their approval in principle to the proposed fee variations for 2019/20.

Sector Update

Covid-19

An update on the impact of the current pandemic on local authorities is included at page 9.

Publications

Details of publications that may be of interest to the Council are included from page 15.

Redmond review

The Redmond review on local authority audit was published on 8 September 2020. The report's recommendations include;

- a new regulator - the Office of Local Audit and Regulation will be created to manage, oversee and regulate local audit, replacing the roles of the FRC and PSAA
- the deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year
- revisions to the current fee structure for local audit to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- accounts simplification - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts
- recognition of the role of authorities in improving governance and reporting and
- development of audited and reconciled accounts summaries.

An article by Jon Roberts, head of public policy audit at Grant Thornton, on the outcomes from the review can be found via the link below.

<https://www.publicfinance.co.uk/opinion/2020/09/redmond-review-provides-blueprint-sustainable-audit>

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
<p>Fee Letter</p> <p>Our fee letter confirms the audit fee for 2019/20.</p>	July 2019	Complete
<p>Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Audit and Standards Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements.</p>	March 2020	Complete
<p>Audit Plan - Addendum</p> <p>An addendum to our audit plan has been issued which considers the impact of the Covid 19 pandemic on our audit.</p>	May 2020	Complete
<p>Audit Findings Report</p> <p>The Audit Findings Report summarises the outcomes from our work on the financial statements and to support our value for money conclusion. Our work will now be reported to the November Audit and Standards Committee.</p>	November 2020	Not yet due
<p>Auditors Report</p> <p>This is the opinion on your financial statements, annual governance statement and value for money conclusion.</p>	November 2020	Not yet due
<p>Annual Audit Letter</p> <p>The annual audit letter communicates the key issues arising from our 2019/20 work.</p>	December 2020	Not yet due

Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

NAO – New Code of Audit Practice

The NAO issued a new Code of Audit Practice which came into force on 1 April 2020 and applies to audits of 2020-21. The key change is an extension to the framework for VfM work. The NAO has prepared Auditor Guidance Note (AGN 03), which sets out detailed guidance on what VfM work needs to be performed. Public consultation on this ended 2 September.

The new approach to VfM re-focuses the work of local auditors to:

- promote more timely reporting of significant issues to local bodies;
- provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas;
- provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness; and
- provide clearer recommendations to help local bodies improve their arrangements.

Under the previous Code, auditors had only to undertake work on VFM where there was a potential significant risk and reporting was by exception.

Under the new Code, auditors are required to undertake work to provide a commentary against three criteria set by the NAO – governance; financial sustainability and improving economy, efficiency and effectiveness.

A new Auditor's Annual Report presented at the same time as the audit opinion is the forum for reporting the outcome of the auditor's work on value for money. It is required to contain:



The 'Commentary on arrangements' will include a summary under each of the three specified reporting criteria and compared to how the results of VfM work were reported in previous years, the commentary will allow auditors to better reflect local context and also to draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself. The commentary will not simply be a description of the arrangements in place, but an evaluation of those arrangements.

Recommendations : Where an auditor concludes there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement.

Progress in implementing recommendations: Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily

Use of additional powers: Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this needs to be reported in the auditor's annual report.

Opinion on the financial statements: The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements. This is not a replacement for the AFR, or a verbatim repeat of it – it is simply a summary of what the opinion audit found

The new approach is more complex, more involved and will subsequently increase the cost of audit. We will be discussing this with senior managers shortly.

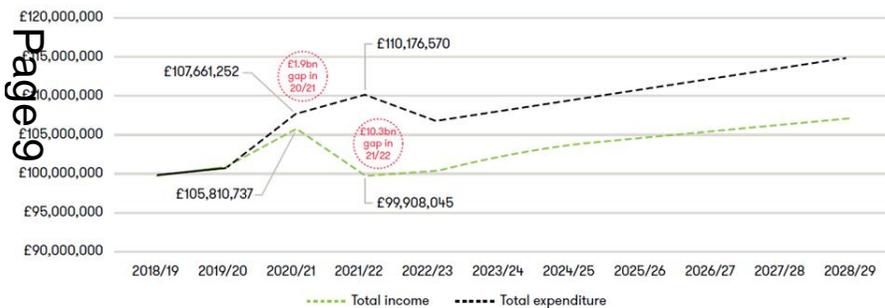
Covid-19 update

Where are we now?

Over five months into lockdown and councils have moved from the initial emergency response phase to focus on recovery planning which is running in parallel with on-going responses to the pandemic, such as supporting vulnerable people, and managing the capacity challenges of delivering business as usual alongside covid-19 response.

The Government has confirmed three tranches of funding to support the impact of increase spend and reduced income directly attributed to Covid-19, and are in the process of confirming further support via the income compensation scheme.

Local Authority Income and Expenditure (England) 2018/19 to 2028/29



Source: Grant Thornton/CIPFA Financial Foresight

Financial Foresight forecast indicates that English local authorities have a funding gap of £1.9bn this financial year, rising to over £10bn in 2021/22. There is significant uncertainty as to whether the Government will provide further Covid-19 related funding, and what the medium-term funding for the sector will be following the Autumn's Comprehensive Spending Review. Our modelling currently assumes that government funding will remain broadly unchanged, with income being affected by ongoing reduction to Council Tax and Business Rates, both in terms of a reduction to these tax bases, alongside reduced payments as a consequence of the recession brought about by the pandemic.

and support the vulnerable, whatever scenarios play out in the medium term.

The uncertainty also impacts on future spending pressures and sales fees and charges income. For example, leisure centres and swimming pools can now be opened, but must follow Government guidelines on issues such as social distancing. Not all leisure services have been able to reopen, and those that have are not able to generate levels of income originally forecast pre-covid. Social care faces uncertainty in relation to future demand, for example most councils responsible for children's services are forecasting an increase in case load when children return to schools in September. For adults, where in some cases demand has fallen during the pandemic, there is uncertainty over future levels of demand. There is also concern over provider failure in relation to social care and other services such as leisure and transport, with many councils providing financial support and loans to some providers, which will not be sustainable in the medium term.

As place leaders, councils are managing the conflict between revitalizing footfall in high streets and keeping people safe, with some leading by example and encouraging council officers to spend some of the week in council offices. Use of public transport as a key mode of travel to get to work remains a particular challenge.

Lessons learned

All organisations, including councils, have been reflecting on the lessons learned from the pandemic, and are seeking to maintain the positive experiences as well as learn from the challenges, as part of recovery planning. There is a recognition that technology has enabled many people to successfully work remotely, and that this will have a fundamental impact on working patterns well after Covid-19 has passed. Councils are reviewing their property portfolios to understand the changes required in terms of future usage patterns, including how councils interact with their communities, whether parts of the municipal estate should be disposed, and whether alternate use of space can support income generation.

There will be demographic variations between places, meaning there is no "one size fits all" to economic recovery. For example, home to work geographies will vary, with some people who previously commuted into a council area for their work may now be considering office space closer to home, leading to a rise in demand for shared office space in some areas, that will in part counterbalance the fall in demand elsewhere.

Covid-19 update (cont'd)

Lessons Learned (Cont'd)

Many councils have recognized the improvement in community engagement and partnership working with the voluntary sector and other public sector organisations during the pandemic and are seeking to build on this, with a recognition that sharing responsibility for place-based recovery plans can help sustain the improvements gained. Although a shared view of place-based recovery takes an investment of time and resource that not all partner organisations are able to provide.

Wider learning relates to central vs local response to issues such as provision of PPE, housing the homeless and rough sleepers, and provision of food and equipment to the vulnerable. This is currently playing out on test and trace and how local lockdowns should be managed, with ongoing tension between national and local government.

Many councils understand the importance of data in supporting recovery planning decision making, to effectively understand where to prioritise resources and activity in the right way and at the right time to achieve the right outcomes.

The future?

Covid-19 has only increased volatility and uncertainty for local government, and when working with councils delivering Financial Foresight we have prioritized scenario planning to support strategic financial planning. Understanding best, worst and optimum case scenarios from the impact of the pandemic are critical in strategic discussion when setting next year's budget and updating the Medium-Term Financial Plan – impacts on the place and communities, as well as on the council services and the council as an organization. Some councils are more confident than others in being able to manage their financial position during 2020/21 but all are concerned about 2021/22 and beyond. And it is not just Covid-19 scenarios that need to be understood, but other global, national and local issues that will impact over the medium term, including the impact of a no deal Brexit trade deal, and new government policies such as those expected on devolution and health and social care integration.

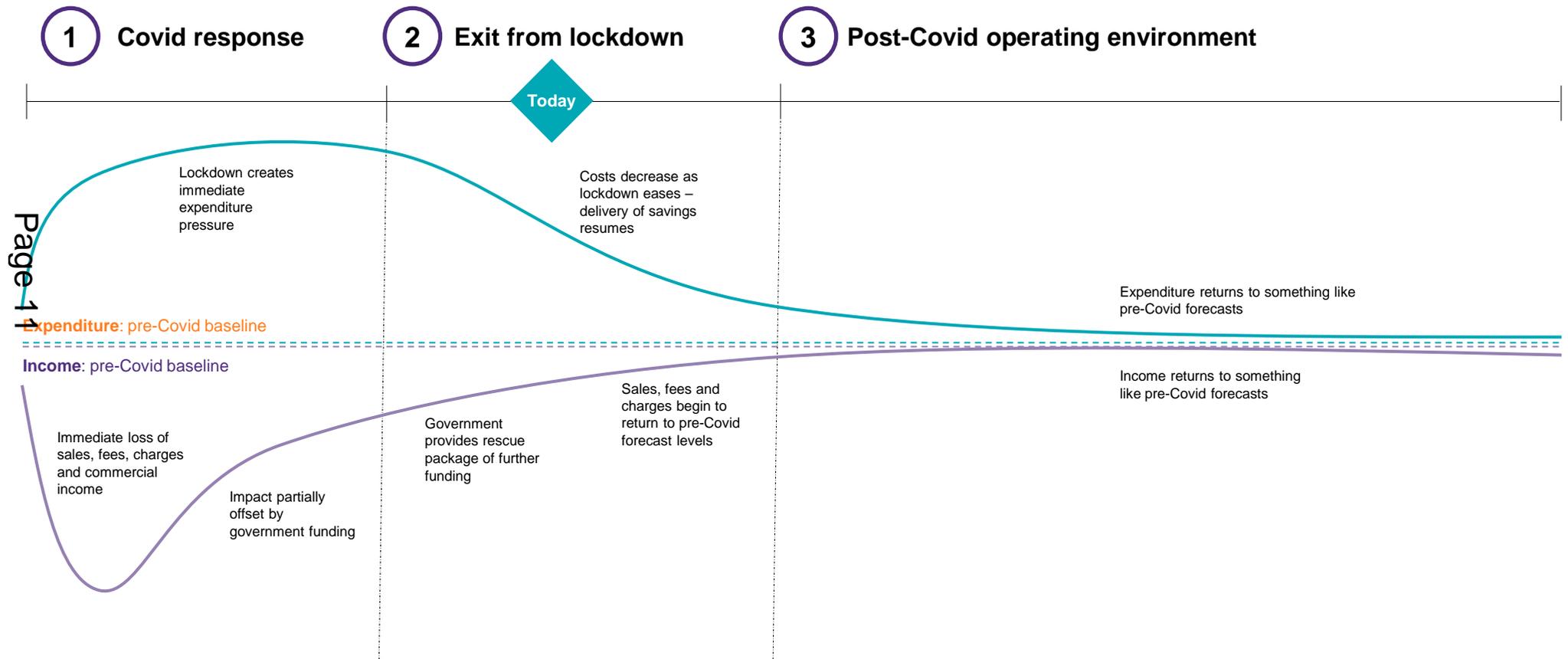
As already noted, places will vary depending on their socio-economic and demographic characteristics, but all councils are working through demand impacts arising from the ongoing pandemic and the associated recession, and ensuring their workforce continue to be supported to ensure they remain personally resilient.

Until a vaccine has been successfully produced and rolled out, the public health threat remains, and there are likely to be further local lockdowns, such as we have seen in Leicester and towns in the north west of England. There could be difficult trade offs for national and local politicians to consider to avert further waves of restrictions. For example to keep schools open after they return in September, will there be a need to increase restrictions elsewhere to ensure the cases of Covid-19 remain at a management level?

Local government has always demonstrated a remarkable resilience in managing significant challenges, including ten years of austerity, and being at the forefront of the pandemic response. And whilst much uncertainty remains, we are confident that councils will continue to demonstrate the capacity to lead places, deliver services

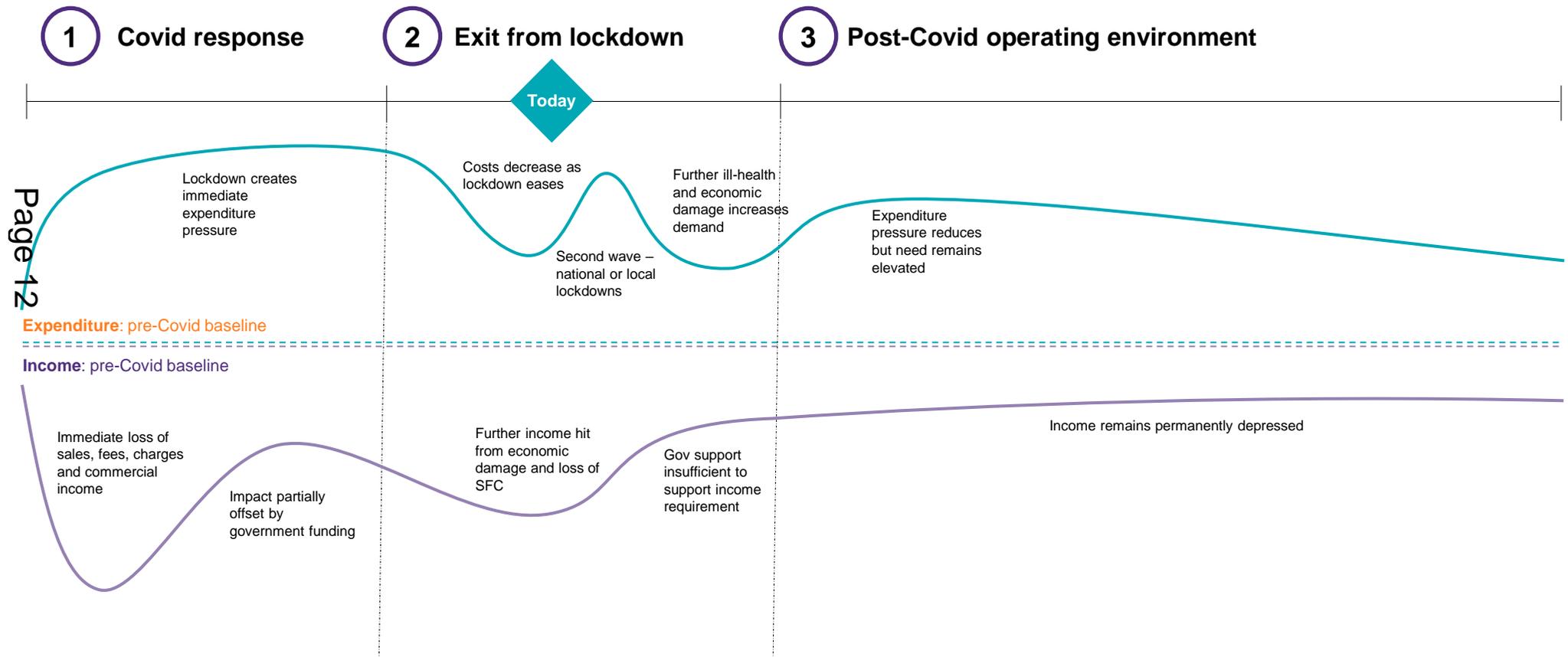
Example scenarios

Scenario 1 – swift return to normality



Example scenarios (Cont'd)

Scenario 2 – second wave and ongoing disruption



Scenarios and hypotheses

Local authority areas in 12-24 months?

Theme	Reasonable worst case	Reasonable best case
People & community 	<ul style="list-style-type: none"> Multiple lockdowns and ongoing disruption Community dependency and expectation of sustained response Turbulence and activism within the VCS Socio-economic inequality is compounded Failure of leisure and cultural services 	<ul style="list-style-type: none"> Smooth exit from lockdown to a “new normal” Community mobilisation is channelled into ongoing resilience Strengthened VCS relationships and focus Systemic response to inequality is accelerated Leisure and cultural services adapted to social distancing
Business & economy 	<ul style="list-style-type: none"> 16% reduction in GVA for 2020 based on OBR reference scenario Slow / uneven economic recovery and “long tail” on unemployment Central gov / BEIS focus investment on areas furthest behind Loss of tourist & student spend causes unmitigated damage 'V' shaped recovery results in 2-3 year recovery period 	<ul style="list-style-type: none"> 5-10% reduction in GVA Rapid economic recovery with employment levels close behind Central government “back winners” with investment Adaptation allows resumption of tourist and student economy Business base is weighted towards growth sectors
Health & wellbeing 	<ul style="list-style-type: none"> Increased demand and escalating need due to fallout from lockdown Newly-vulnerable cohorts place strain on the system Unit costs increase further as markets deteriorate and providers fail SEND transport unable to adapt to social distancing Imposed disruption of care system 	<ul style="list-style-type: none"> Positive lifestyle changes and attitudes to care reduce demand Needs of newly vulnerable cohorts met through new service models New investment in prevention and market-shaping manage costs New ways of working leading to stronger staff retention Locally-led reform of health and care system
Political & regulatory 	<ul style="list-style-type: none"> Local government side-lined by a centralised national recovery effort Unfunded burdens (e.g. enforcement and contact-tracing) Councils in the firing line for mismanaging recovery 	<ul style="list-style-type: none"> Local government empowered as leaders of place-based recovery Devolution and empowerment of localities Councils at the forefront of civic and democratic renewal
Environment 	<ul style="list-style-type: none"> Opportunity missed to capture and sustain environmental benefits The end of the high street / town centres Emissions and air quality worsened by avoidance of public transport Capital programmes stuck 	<ul style="list-style-type: none"> Ability to invest in transport modal shift and green infrastructure Changed working patterns rejuvenate town centres Sustained impact on emissions due to new behaviours New, shovel-ready infrastructure programmes
Organisational 	<ul style="list-style-type: none"> Inadequate funding forces fiscal constraint Working practices return to status quo – increased operating costs Imposed structural change within the place Austerity 2 Commercial portfolio becomes a liability 	<ul style="list-style-type: none"> Adequate funding enables a programme of targeted investment Learning and adaptation to new operating environment Energised system-wide collaboration and reform Fiscal reform and civic renewal Commercial portfolio reshaped for economic and social gain

What strategy is needed in response?

From response to recovery

Learn, adapt and prioritise

- Develop and test hypotheses around impact on place, services, operations, finances
- Design rapid interventions - implement, test and evaluate
- Learning from the response to lock in the good stuff – reflection on operations, services and the system
- Set priorities and principles – what is the Council's purpose in an uncertain context and where will it focus?

Mitigating the worst case

Consolidate and build resilience

- Ensure that emergency management and response structures are resilient for the long haul
- What is the minimum operating model to deliver this?
- Predict and model demand for social care and assess care market vulnerability
- Contingency plans for structural disruption
- Re-evaluate infrastructure pipeline

Steering towards the best case

Invest in renewal

- Programme of priority-based investment framed by recovery and renewal
- Focus on inequality, community resilience, targeted economic stimulus, skills and employment support and adapting public spaces
- Continued system leadership, pushing for positive reform and resilience

In-depth insight into the impact of Covid-19 on financial reporting in the local government sector – Grant Thornton

In June Grant Thornton published a report to help officers and elected members identify points they should consider when assessing and reporting the impact of Covid-19 on their authority. Each authority will be impacted in different ways and will need to make their own assessment of the impact on their financial statements. However, the report identified some of the key challenges for the sector, along with the potential financial reporting and regulatory impact, to support preparers of local authority accounts navigate through some of these key issues. The report also included a number of useful links to other resources.

The extraordinary events we are living through follow a decade of austerity, triggered by the financial crisis of 2008/09, which had already placed considerable strain on local authorities' finances. Increased demand for many local public services, directly related to the outbreak of the virus, has placed immediate pressure on authorities' cash flows and expenditure budgets. The longer-term consequences of recession and unemployment on demand for services have yet to be experienced.

At the same time, several important sources of local authority income including Council Tax, Non-domestic (business) rates, fees and charges, rents and investment returns have, to a greater or lesser extent, been subject to reduction or suspension. This perfect storm of conditions presents a real threat to the financial sustainability of the sector. Now, more than ever, strong political and executive leadership is needed to re-establish priorities, review strategies and medium-term financial plans and ensure that public funds are being used as efficiently and effectively as possible. A balance has to be struck between responding to the needs of residents and businesses in a timely manner, protecting the most vulnerable and ensuring appropriate measures and controls around financial management are in place to mitigate against future 'financial shock'. In doing so, iterative scenario planning will help officers and elected members to take informed decisions at key stages, revisiting and revising plans along the way.

The report considered:

- Operational challenges and the related financial reporting/regulatory impact
- Government support schemes – considering the accounting implications
- Significant financial reporting issues to consider
- Other sector issues and practicalities to consider
- Impact on audit work/external scrutiny process
- Engagement with experts

In terms of key financial reporting considerations for 2019/20, consideration should be given to:

Information published with accounts

- Does the Narrative Report reflect the urgency of the situation, the changes to Council services as a result of lockdown, the partnership arrangements in place, the impact of the pandemic on income and expenditure and possible future scenarios, the impact on savings programmes, the capital programme, treasury management, medium term financial plans and the Council's communications strategy (noting this is not an exhaustive list)?
- Does the Annual Governance Statement reflect significant developments between 31 March 2020 and the finalisation of the accounts? Does the AGS describe emergency governance arrangements for decision making, the postponement of elections, the transition to virtual meetings and plans for the return to normal democratic processes?

Non-current asset valuations

- There has been a significant increase in volatility and uncertainty in markets following the outbreak of Covid-19. RICS has issued a Valuation Practice Alert following the pandemic, and we are aware a significant number of valuers are including 'material valuation uncertainty' disclosures within their reports. Has the Council assessed the impact of such comments, reflected 'material valuation uncertainty' disclosures within the financial statements and taken account of the requirement of Code paragraph 3.4.2.90 to provide appropriate disclosure in their financial statements in relation to major sources of estimation uncertainty?

Non-current asset valuations

- The Council is required to make an assessment at the end of each reporting period as to whether there is any indication that assets may be impaired. There are several types of event or change in circumstance that could indicate an impairment may have occurred, including evidence of obsolescence or physical damage or a commitment to undertake a significant reorganisation. Has the Council assessed whether the impact of the pandemic may have triggered impairments?
- Has the Council considered these matters in relation to Investment Property held? Potentially more so for 2020/21, there may be significant declines in asset carrying values, especially for investments in retail or office premises.

Impairment of receivables

- IFRS 9 *Financial Instruments* introduced an expected credit loss model for financial assets which drives earlier recognition of impairments. Has the Council assessed the impact of the pandemic on its expectation of credit losses?
- Impairment of statutory Council Tax and Non-domestic rate debtor balances is also possible. Has the Council observed a measurable decrease in estimated future cashflow, for example an increase in the number of delayed payments? Has the Council considered whether recent historical loss experience across aged debt may also need revision where current information indicates the historical experience doesn't reflect current conditions? Experience following the 2008/09 financial crisis may prove to be a useful reference point, given the ensuing recession conditions.

Events after the reporting period

- By 31 March 2020 enough was known about the pandemic for accounts preparers and market participants to reflect and, if necessary, adjust assumptions and assessments. By the end of March 2020, it would be extremely difficult to say that the pandemic was not an event that existed and therefore any accounting impact that occurred after this date is not an adjusting event.
- Has the Council distinguished between subsequent events that are adjusting (i.e. those that provide further evidence of conditions that existed at the reporting date) and non-adjusting (i.e. those that are indicative of conditions that arose after the reporting date)? Has the Council got arrangements in place to assess events up to the date the final accounts are authorised for issue?

Sources of estimation uncertainty

Has the Council identified the assumptions required about the future and estimates at the end of the current reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year? Have these been appropriately disclosed in accordance with the requirements of IAS 1 paras 125-133?

2019/20 financial statements are being prepared in an environment of heightened uncertainty as a result of the pandemic and the situation is evolving and fast moving. We have drawn out some of the key considerations for local authority financial reporting here, but further details can be found in our full report available on the Grant Thornton website:

<https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2020/impact-of-covid19-on-financial-reporting-local-government-sector.pdf>



Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19 – National Audit Office

In June the National Audit Office (NAO) published a guide that “aims to help audit and risk committee members discharge their responsibilities and to examine the impacts on their organisations of the COVID-19 outbreak. It is part of a programme of work undertaken by the NAO to support Parliament in its scrutiny of the UK government’s response to COVID-19.”

The NAO report notes “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The NAO comment “This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on:

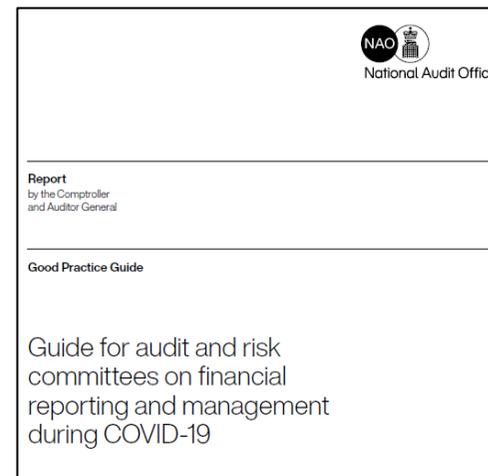
- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

In each section of the guide we have set out some questions to help audit and risk committee members to understand and challenge activities. Each section can be used on its own, although we would recommend that audit and risk committee members consider the whole guide, as the questions in other sections may be interrelated. Each individual section has the questions at the end, but for ease of use all the questions are included in Appendix One.

The guide may also be used as organisations and audit and risk committees consider reporting in the 2020-21 period.”

The full report can be obtained from the NAO website:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>



Place-Based Growth - 'Unleashing counties' role in levelling up England' – Grant Thornton

In March Grant Thornton launched a new place-based growth report 'Unleashing counties' role in levelling up England. The report, produced in collaboration with the County Councils Network, provides evidence and insight into place-based growth through the lens of county authority areas. It unpacks the role of county authorities in delivering growth over the past decade through: desk-based research, data analysis and case study consultations with 10 county authorities (Cheshire East, Cornwall, Durham, Essex, Hertfordshire, North Yorkshire, Nottinghamshire, Oxfordshire, Staffordshire, Surrey).

The report reveals:

- Growth, as measured by Gross Added Value (GVA), in county areas has lagged behind the rest of the country by 2.6% over the last five years. GVA in the 36 county areas has grown by 14.1% between 2014 and 2018, compared to 16.7% for the rest of England.
- In total, 25 of these counties have grown at a rate slower than the rest of the country. The research finds no north-south divide, as the county areas experiencing some of the smallest economic growth are Herefordshire (5.3%), Oxfordshire (5.6%) and Cumbria (8.2%), Gloucestershire (9.2%), and Wiltshire (9.7%) – showing that one size fits all policies will not work.
- Some 30 of the 36 county authority areas have workplace productivity levels below the England average. At the same time, counties have witnessed sluggish business growth, with county authorities averaging 7.9% growth over the last five years – almost half of that of the rest of the country's figure of 15.1% over the period 2014 to 2019.

To address these regional disparities in growth and local powers, the report's key recommendations include:

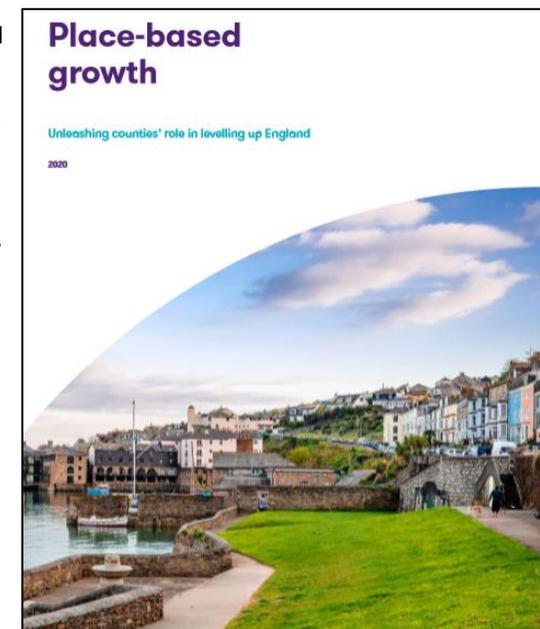
- Rather than a focus on the 'north-side divide', government economic and investment assessments should identify those places where the economic 'gap' is greatest – Either to the national average or between different places – and focus investment decisions on closing that gap and levelling up local economies.

- The devolution white paper must consider how devolution of powers to county authorities could assist in levelling-up the country. This should include devolving significant budgets and powers down to councils, shaped around existing county authorities and local leadership but recognising the additional complexity in two-tier local authority areas and whether structural changes are required.
- Growth boards should be established in every county authority area. As part of this a statutory duty should be placed on county authorities to convene and coordinate key stakeholders (which could include neighbouring authorities). These growth boards should be governed by a national framework which would cover the agreed 'building blocks' for growth – powers, governance, funding and capacity.
- Planning responsibilities should be reviewed with responsibility for strategic planning given to county authorities. In line with the recently published final report of the Building Better, Building Beautiful Commission, the government should consider how county authorities, along with neighbouring unitary authorities within the county boundary, could take a more material role in the strategic and spatial planning process.

- The National Infrastructure Commission should ensure greater consideration of the infrastructure requirements in non-metropolitan areas. Their national infrastructure assessments could consider how better investment in infrastructure outside metropolitan areas could link to wider growth-related matters that would help to level up the economy across the country.

The full report can be obtained from the Grant Thornton website:

<https://www.grantthornton.co.uk/en/insights/unleashing-counties-role-in-levelling-up-england/>



Future Procurement and Market Supply Options Review – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has commissioned an independent review of the sustainability of the local government audit market. The review was undertaken by an independent consultancy, Touchstone Renard.

PSAA note that the report “draws on the views of audit firms active in the local authority market as well as others that are not. In doing so it identifies a number of distinctive challenges in the current local audit market. In particular it highlights the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable which expects publication of audited accounts by 31 July each year; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams”.

Key findings in the report include:

- A lack of experienced local authority auditors as the main threat to the future sustainability of the market.
- It will be difficult to bring the non-approved firms into the market.
- Of the nine approved firms, only five have current contracts with PSAA.
- Almost all of the approved firms have reservations about remaining in the market.
- Firms perceive that their risks have increased since bids were submitted for the current contracts.
- The timing of local audits is problematic.

Key issues for the next procurement round include:

- Number of lots and lot sizes.
- Lot composition.
- Length of contracts.
- Price:quality ratio.

The report notes that “PSAA will need to balance the views of the firms with wider considerations including the needs of audited bodies and the requirement to appoint an auditor to every individual body opting in to its collective scheme”.



The full report can be obtained from the PSAA website:

<https://www.psa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf>

CIPFA – Financial Scrutiny Practice Guide

Produced by the Centre for Public Scrutiny (CfPS) and CIPFA, this guide provides guidance to councils and councillors in England on how they might best integrate an awareness of council finances into the way that overview and scrutiny works.

The impact of the COVID-19 pandemic on council finances, uncertainty regarding the delayed fair funding review and future operations for social care – on top of a decade of progressively more significant financial constraints – has placed local government in a hugely challenging position.

For the foreseeable future, council budgeting will be even more about the language of priorities and difficult choices than ever before.

This guide suggests ways to move budget and finance scrutiny beyond set-piece scrutiny ‘events’ in December and quarterly financial performance scorecards being reported to committee. Effective financial scrutiny is one of the few ways that councils can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

Scrutiny can provide an independent perspective, drawing directly on the insights of local people, and can challenge assumptions and preconceptions. It can also provide a mechanism to ensure an understanding tough choices that councils are now making.

This paper has been published as the local government sector is seeking to manage the unique set of financial circumstances arising from the COVID-19 pandemic. This has resulted, through the Coronavirus Act 2020 and other legislation, in changes to local authorities’ formal duties around financial systems and procedures.

The approaches set out in this guide reflect CfPS and CIPFA’s thinking on scrutiny’s role on financial matters as things stand, but the preparation for the 2021/22 budget might look different. CfPS has produced a separate guide to assist scrutineers in understanding financial matters during the pandemic



The full report can be obtained from CIPFA’s website:

<https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide>

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Rother District Council

Report to:	Audit and Standards Committee
Date:	28 September 2020
Title:	Internal Audit Report to 30 June 2020
Report of:	Gary Angell, Audit Manager
Purpose of Report:	To report on Internal Audit activity in the first quarter of 2020/21 and to provide a progress update on the implementation of audit recommendations made in earlier periods.
Officer Recommendation(s):	It be RESOLVED: That: the Internal Audit report to 30 June 2020 be noted.

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. The Council's Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards. It is a requirement of these Standards that we report to the Audit and Standards Committee on audit matters and any emerging issues not only in relation to audit, but also to risk management and corporate governance.

Summary of Activity to 30 June 2020

3. Members will recall that Internal Audit resources were adversely effected at the outset of the coronavirus crisis and that the audit team continued to experience operational difficulties even when it was back to full strength because it was no longer able to undertake routine audits. Consequently, no audit reports were issued in the first quarter, and Internal Audit spent most of its time on counter fraud work instead. This counter fraud work has however identified confirmed savings of more than £13,000 and has highlighted many other cases which are still under investigation.
4. The Audit Manager has since devised a new approach to audit work in response to the challenges posed by the COVID-19 pandemic and the team now have a way forward.

Current Position

5. Work on the Audit Plan for the second quarter of 2020/21 is progressing well with much of the priority audits/consultancy work listed in it already completed. Full details on the work carried out will be reported next quarter in the Internal Audit Report to 30 September 2020.

Implementation of Audit Recommendations

6. Each quarter, Members are updated on the progress made on implementing the audit recommendations reported at previous meetings. Appendix A shows a summary of the current position.
7. From this it can be seen that, whilst some progress has been made to implement the recommendations made in 2019/20, there has been a definite slowdown in recent months, most probably due to the impact of the coronavirus crisis. It is hoped that this situation will improve moving forward, especially now that the progress of outstanding recommendations is being actively followed up once more.
8. The number of older recommendations outstanding still stands at 11 and this has not altered since March 2020. Other priorities, including the need to respond to the COVID-19 pandemic, will no doubt have played a part in this delay, but it is now time for these matters to be resolved. Managers with long outstanding recommendations have therefore been asked to report to the Strategic Management Team stating what actions they intend to take to resolve the matters raised. The Strategic Management Team will also consider the risks of inaction and whether this is something the Council is prepared to accept.
9. At the June 2020 meeting, Members expressed concern about some of the issues found at the first Property Investment review and requested a progress update on the implementation of the audit recommendations. This information is provided in Appendix B. In summary, five out of eight recommendations have so far been implemented, and progress has been made in all but one of the remaining cases.

Conclusion

10. Internal Audit activity has been severely disrupted by the COVID-19 pandemic, but a change in working approach has meant that some audit reviews can now be undertaken. The implementation of audit recommendations has also slowed down in recent months, but further action is now being taken to help ensure that all recommendations are acted upon.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	No	Access to Information	No
Sustainability	No	Exempt from publication	No
Risk Management	No		

Executive Director: Malcolm Johnston

Proper Officer:	Malcolm Johnston, Head of Paid Service
Report Contact Officer:	Gary Angell, Audit Manager
e-mail address:	gary.angell@rother.gov.uk
Appendices:	A – Summary of Progress on Recommendations Made up to 31 March 2020 B – Progress Update on Property Investment Audit Recommendations
Relevant Previous Minutes:	AS20/08
Background Papers:	None.
Reference Documents:	None.

Summary of Progress on Recommendations Made up to 31 March 2020

Audit Recommendations 2017/18 and 2018/19

Last reported position shown in brackets

Risk	Issued		Implemented		Work-in-Progress		Not Started	
High	5		5	(5)	0	(0)	0	(0)
Medium	77		70	(70)	7	(6)	0	(1)
Low	58		54	(54)	4	(4)	0	(0)
Total	140		129	(129)	11	(10)	0	(1)
			92.1%	(92.1%)	7.9%	(7.2%)	0%	(0.7%)

Breakdown of outstanding audit recommendations for 2017/18 and 2018/19 by Head of Service:

Robin Vennard (Resources)

- Data Protection – issued 22/09/17 (1 Medium, 1 Low)
- ICT Governance (2017/18 Review) – issued 06/04/18 (1 Low)
- Procurement – issued 05/10/18 (2 Medium)
- Council Tax – issued 04/01/19 (1 Medium, 1 Low)
- ICT Network Security – issued 16/01/19 (1 Low)
- Creditors – issued 12/03/19 (1 Medium)
- ICT Governance (2018/19 Review) – issued 12/04/19 (1 Medium)
- Payroll – issued 18/04/19 (1 Medium)

Audit Recommendations 2019/20

Last reported position shown in brackets

Risk	Issued		Implemented		Work-in-Progress		Not Started	
High	0	(0)	0	(0)	0	(0)	0	(0)
Medium	32*	(10)	24	(8)	7	(2)	1	(0)
Low	14	(6)	7	(5)	4	(0)	3	(1)
Total	46	(16)	31	(13)	11	(2)	4	(1)
			67.4%	(81.2%)	23.9%	(12.5%)	8.7%	(6.3%)

* Eight of these recommendations were made to the Head of Acquisitions, Transformation and Regeneration at the Property Investment audit – see Appendix B for a progress update.

Progress Update on Property Investment Audit Recommendations (Report issued 04/02/2020)

Ref	Finding/Risk	Recommendation	Risk Rating	Progress to Date
2.2	<p>Finding</p> <p>The Property Investment Panel currently evaluates acquisition proposals based on a detailed narrative report and supporting evidence. However, such an approach does not provide a clear and demonstrable risk assessment of the different elements that must be considered before a decision is made. In order to evaluate the strengths and weaknesses of each potential acquisition, the Council should therefore consider adopting a weighted scorecard approach which rates each property against specific criteria.</p> <p>Quantifying the relative merits of each acquisition in this way would not only help officers and Members to more easily see the strengths and weaknesses of each proposal but also ensure that the Council's approach to evaluation is consistent. The latter being especially important should the personnel in either the Officer Group or PIP change over time.</p> <p>Risk</p> <p>Key risks are overlooked leading to poor investment decisions.</p> <p>The decision making process is inconsistent and does not provide transparency with regard to business continuity if there is a change in personnel.</p>	<p>Management should consider adopting a weighted scorecard approach when evaluating the strengths and weaknesses of potential property acquisitions.</p>	<p>Medium</p> 	<p><u>Position as at 04/02/20</u></p> <p>This will be raised with the Officer Group and Members in the Property Investment Panel to determine if this approach would be beneficial.</p> <p>Agreed Implementation Date</p> <p>February 2020</p> <p>Responsible Officer</p> <p>Ben Hook</p> <hr/> <p><u>Progress update as at 18/08/2020</u></p> <p>A weighted scorecard was trialed as part of the preparation for the PIP report on a recent approval which is yet to be completed.</p> <p>As this is a development site rather than an income generating acquisition the scorecard has now been reworked to cater for both types of investment.</p> <p>Status: Implemented</p>
2.3	<p>Finding</p> <p>It is noted that a financial assessment was not carried out on the new owners of a business looking to sell and leaseback a property in</p>	<p>In future, financial assessments should be carried out for all relevant parties including new owners, holding companies and parent companies.</p>	<p>Medium</p> 	<p><u>Position as at 04/02/20</u></p> <p>Financial checks on all relevant companies will be carried out in future assessments.</p>

Progress Update on Property Investment Audit Recommendations (Report issued 04/02/2020)

Ref	Finding/Risk	Recommendation	Risk Rating	Progress to Date
	<p>Eastbourne. Instead the assessment was made of the previous owner's financial standing.</p> <p>Whilst this particular acquisition did not proceed because it was rejected by the PIP, this case highlights the need to be clear who the Council is dealing with when a new tenancy is involved and to ensure that all relevant parties are financially assessed before recommending that the PIP approve the proposal.</p> <p>Risk</p> <p>Failure to establish the good payment history and sound financial accounts of prospective tenants increases the risk of bad debts.</p>			<p>Agreed Implementation Date</p> <p>Immediate</p> <p>Responsible Officer</p> <p>Ben Hook/Graham Burgess</p> <hr/> <p><u>Progress update as at 18/08/2020</u></p> <p>Actioned. The latest PIP included reports into the primary companies involved as well as parent and group companies.</p> <p>Status: Implemented</p>
2.4	<p>Finding</p> <p>Financial appraisals do not always include an allowance for voids and an example was also found at the audit where no allowance had been made for the payment of business rates during a void period</p> <p>Risk</p> <p>Failure to take into account the full cost of voids could mean that expected return on investment is not achieved, resulting in financial loss.</p>	<p>An allowance for voids should be included in all financial appraisals. These should include both loss of rent and business rates liability.</p>	<p>Medium</p> 	<p><u>Position as at 04/02/20</u></p> <p>Allowances for voids including provisions for loss of rent are now standard in all reports and business rate costs will be included in all future appraisals.</p> <p>Agreed Implementation Date</p> <p>Immediate</p> <p>Responsible Officer</p> <p>Graham Burgess</p> <hr/> <p><u>Progress update as at 18/08/2020</u></p> <p>Actioned. Void periods are now included in all Discounted Cashflows presented as part of the reports.</p> <p>Status: Implemented</p>

Progress Update on Property Investment Audit Recommendations (Report issued 04/02/2020)

Ref	Finding/Risk	Recommendation	Risk Rating	Progress to Date
2.5	<p>Finding</p> <p>At present, the Major Projects Manager produces risk registers for development projects after the sites have already been acquired. No document is therefore produced to analyse and measure the risks prior to a decision being made to proceed with the purchase. This means that risks which might otherwise influence the decision to acquire the land may not be properly considered before completion. It could also mean that any risks identified at the acquisition stage which are relevant to successful project delivery could be overlooked and mitigating action not put in place.</p>	<p>A risk register should be produced for each development site and actively managed and reviewed from inception to delivery.</p>	<p>Medium</p> 	<p><u>Position as at 04/02/20</u></p> <p>Risk registers for development sites will be produced and monitored prior to acquisition for all projects which are submitted to PIP for consideration.</p> <p>Agreed Implementation Date</p> <p>Immediate</p> <p>Responsible Officer</p> <p>Ben Hook</p>
	<p>Risk</p> <p>Failure to actively and regularly identify, manage and mitigate risk could lead to poor investment decisions ultimately leading to financial loss.</p>			<p><u>Progress update as at 18/08/2020</u></p> <p>Actioned. Risk registers have been established for all development projects at the point of acquisition rather than waiting for project initiation.</p> <p>Status: Implemented</p>
3.1 (1)	<p>Finding</p> <p>The Property Investment Panel currently consists of three Cabinet Members and two non-Cabinet Members. This conflicts with the terms of reference for the PIP which state that the panel should be made up of three non-Cabinet Members and two Cabinet Members.</p> <p>Risk</p> <p>The Council is not following its own rules regarding the make-up of the PIP which could mean that the decision making process is subject to challenge in the future.</p>	<p>The make-up of Cabinet and non-Cabinet members who sit on the PIP should be consistent with the Panel's terms of reference.</p>	<p>Medium</p> 	<p><u>Position as at 04/02/20</u></p> <p>This will be reviewed alongside the new Property Investment Strategy. Discussions will be held with SMT to ensure the make-up of the panel is consistent with the Council's constitution and any guidance from CIPFA.</p> <p>Agreed Implementation Date</p> <p>March 2020</p> <p>Responsible Officer</p> <p>Ben Hook</p>

Progress Update on Property Investment Audit Recommendations (Report issued 04/02/2020)

Ref	Finding/Risk	Recommendation	Risk Rating	Progress to Date
				<p><u>Progress update as at 18/08/2020</u></p> <p>Actioned. Cabinet agreed the new PIP Terms of Reference to make panel compliant (Minute CB20/05).</p> <p>Status: Implemented</p>
3.1 (2)	<p>Finding</p> <p>Members who sit on the Property Investment Panel have not received any property investment training.</p> <p>Risk</p> <p>Members could approve recommendations to acquire property without sufficient understanding of financial, legal and reputational risks. This increases the risk of property being acquired without sufficient scrutiny leading to financial losses.</p>	Members on the PIP should receive property investment training.	<p>Medium</p> 	<p><u>Position as at 04/02/20</u></p> <p>The Head of Service – Acquisitions, Transformation and Regeneration advised that Members of the PIP have had the opportunity of attending training carried out by the CCLA and Hermes (property fund managers currently used by the Council.) However, the availability of further suitable training will be looked into with a view to arranging this next year.</p> <p>Agreed Implementation Date</p> <p>July 2020</p> <p>Responsible Officer</p> <p>Ben Hook</p>
				<p><u>Progress update as at 18/08/2020</u></p> <p>Actioned. Training has now been arranged for both Members and relevant Officers through CIPFA. Date TBC</p> <p>Status: Work-in-progress</p>

Progress Update on Property Investment Audit Recommendations (Report issued 04/02/2020)

Ref	Finding/Risk	Recommendation	Risk Rating	Progress to Date
4.4	<p>Finding</p> <p>The conditions specified by the Property Investment Panel prior to the purchase of 14 Terminus Road have not been met.</p> <p>Furthermore it was found that a number of recommendations made by surveyors and Legal Services have not been fully addressed prior to completion. This raises concerns about the completeness of the due diligence process.</p> <p>Although it is accepted that there will be occasions when there is a good reason for officers not to act upon professional advice, it is unclear why some recommendations have not been followed up, and more importantly, whether the Head of Paid Service is always made aware of this fact before agreeing for the purchase to go ahead.</p> <p>A proper record therefore needs to be kept to confirm that all conditions have been met and professional advice followed (or an explanation given why not) so that the Head of Paid Service can ensure that all necessary checks have been carried out.</p> <p>Risk</p> <p>Potential financial loss if conditions are not fully met or liabilities overlooked; reputational damage if the Council fails to comply with planning, building control and environmental health issues.</p>	<p>1) A checklist should be produced detailing all the due diligence stages of each property acquisition. Evidence of action taken to meet any conditions reported to the PIP or in response to professional advice received should be retained and recorded on the checklist. The completed checklist should then be signed by the Head of Paid Service once he is satisfied that all necessary checks have been completed as confirmation that the Council can proceed with the purchase.</p>	<p>Medium</p> 	<p><u>Position as at 04/02/20</u></p> <p>Examples of checklists used by other local authorities will be sought and reviewed to determine if this is a practical process. The Head of Paid Service will be consulted to determine the merits of introducing such a process.</p> <p>Agreed Implementation Date</p> <p>June 2020</p> <p>Responsible Officer</p> <p>Ben Hook/Graham Burgess</p>
		<p>2) Action should be taken to ensure that the conditions reported to the PIP regarding the purchase of 14 Terminus Road are met without further delay.</p>	<p>Medium</p> 	<p><u>Position as at 04/02/20</u></p> <p>These issues will be raised again with the existing tenants with a view to requiring them to take urgent action.</p> <p>Agreed Implementation Date</p> <p>February 2020</p> <p>Responsible Officer</p> <p>Graham Burgess</p>
				<p><u>Progress update as at 18/08/2020</u></p> <p>To be actioned. An acquisition is currently being undertaken and a checklist is being drawn up to ensure proper progression of this process. Will be complete in the next 2 weeks.</p> <p>Status: Work-in-progress</p>

Progress Update on Property Investment Audit Recommendations (Report issued 04/02/2020)

Ref	Finding/Risk	Recommendation	Risk Rating	Progress to Date
				<p><u>Progress update as at 18/08/2020</u></p> <p>Action delayed due to COVID-19 and the site shutting down for a significant period of time.</p> <p>Status: Not started</p>

Rother District Council

Report to:	Audit and Standards Committee
Date:	28 September 2020
Title:	Internal Audit Plan Update
Report of:	Gary Angell, Audit Manager
Purpose of Report:	To agree the Audit Plan for the next quarter.
Officer	
Recommendation(s):	It be RESOLVED: That the Internal Audit Plan for 2020/21 (Quarter 3) be approved.

Introduction

1. The Accounts and Audit Regulations 2015 require the Council to “undertake an effective Internal Audit to evaluate the effectiveness of risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. The proper practice for the Internal Audit Service (IAS) is laid down in the Public Sector Internal Audit Standards (hereafter referred to as “the Standards”).
2. These standards are ordinarily met by establishing a risk-based plan at the start of the financial year to ensure that the priorities of the IAS are consistent with the Council’s goals. However, this year, the audit planning process has been disrupted by the coronavirus outbreak and quarterly work plans are therefore being used instead. This new approach was agreed by the Audit and Standards Committee (A&SC) on 22 June 2020 (Minute AS20/09 refers).
3. The Standards require that the Audit Manager communicate the plan and resource requirements, including significant interim changes, to senior management and the A&SC for review and approval. For this year at least, this will be done via quarterly Internal Audit Plan updates.

Audit Plan 2020/21 (Quarter 2)

4. No changes have been made to the Audit Plan for the second quarter of 2020/21 and as reported elsewhere, good progress is being made to deliver it.

Audit Plan 2020/21 (Quarter 3)

5. The Audit Plan for the third quarter of 2020/21 is shown in Appendix A. This sets out Internal Audit’s work programme to obtain assurance on the Council’s control environment. An Indicative Plan for the next six month period has also been produced to show what other audit work is likely to take place from 1 January 2021 onwards. This is attached in Appendix B.

6. Quarter 3 will see the start of the Governance audits. These audits cover many of the key systems upon which the annual Internal Audit opinion is based. The commencement of this work will hopefully mark a gradual return to more traditional audit coverage and reporting in these areas and will not solely focus on COVID-19 risks. However, some aspects of the normal Governance audit coverage may still need to be changed or omitted altogether in light of the logistical challenges posed by the current COVID-19 Secure working environment. For example, safe access to paper records may be an issue for some audits.
7. Time allocations have also been re-introduced for Quarter 3 to help monitor progress and ensure the audits are completed within a reasonable timeframe.
8. Both the quarterly plan and indicative plan contained in this report have been reviewed by the Strategic Management Team and are supported by them. These plans will however need to be kept under review by the Audit Manager and may need to change at short notice if new risks emerge. Members will be notified of any changes made in future updates to the A&SC.

Resources

9. Best practice dictates that the plan should meet the audit needs of the organisation, regardless of the level of resources available to deliver it. However, as previously explained, it is not possible to properly quantify the audit needs at this time. It has therefore had to be assumed that the existing staff resources will be sufficient.
10. An estimate of the Internal Audit resources available to carry out planned audit work in the third quarter 2020/21 are highlighted in the table below:

ESTIMATED RESOURCES FOR PLANNED AUDIT WORK	Available Days	Non-Chrg Time	Resources Available
Quarter 1	195	121	74
Quarter 2	198	74	124
Quarter 3	198	56	142
Quarter 4	192	51	141
TOTALS	783	302	481

NB - These figures are taken from the detailed breakdown of resources reported to the A&SC on 22 June 2020.

11. The estimated resources shown above form the basis for the 142 days of audit work specified in the Audit Plan for Quarter 3.

Reporting Arrangements

12. Progress against the plan will be monitored by the Audit Manager and reported to the A&SC at the next meeting.

Conclusion

13. The next quarter will see the start of the annual Governance Audits and a return to more traditional auditing.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	No	Access to Information	No
Sustainability	No	Exempt from publication	No
Risk Management	No		

Executive Director:	Malcolm Johnston
Proper Officer:	Malcolm Johnston, Head of Paid Service
Report Contact Officer:	Gary Angell, Audit Manager
e-mail address:	gary.angell@rother.gov.uk
Appendices:	A – Audit Plan 2020/21 (Quarter 3) B – Indicative Plan for Next Six Months
Relevant Previous Minutes:	AS20/09
Background Papers:	None.
Reference Documents:	None.

AUDIT PLAN 2020/21 (Quarter 3)

01/10/20 to 31/12/20

GOVERNANCE AUDITS	DAYS
Business Rates	16
Council Tax	20
Creditors	20
ICT Governance	12
Main Accounting	8
Treasury Management	16
TOTAL	92

PRIORITY AUDITS/CONSULTANCY WORK	DAYS
ERP System - HR/Self-Service Health Check	5
Exit Strategy for the Return to Business As Usual	5
Health & Safety COVID-19 Risks	5
TOTAL	15

COUNTER FRAUD WORK	DAYS
Fraud Analysis & Referrals	10
NFI Coordination & Review	5
TOTAL	15

OTHER WORK	DAYS
Audit Advice/Special Investigations	15
Committee Representation and Training	2
Liaison with External Audit	1
Recommendation Follow Up	2
TOTAL	20

TOTAL CHARGEABLE DAYS	142
NUMBER OF AUDITS/CONSULTANCY WORK	9

INDICATIVE PLAN FOR NEXT SIX MONTHS

Other proposed audit work to be scheduled from 1 January 2021

Governance Audits
Benefits
Debtors
Payroll
Other Audits
BACS/BACSTEL-IP Computer System
CIL Income COVID-19 Risks - Part 2
Data Protection
Estates Income COVID-19 Risks - Part 2
Homelessness Prevention
Planning Income
Consultancy Work
ERP System – Implementation /Ongoing Advice

Notes

- 1) The above information is for guidance only and may be subject to change.
- 2) Audit coverage may be reduced in some instances to focus on business-critical risks.

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Rother District Council

Report to:	Audit and Standards
Date:	28 September 2020
Title:	Treasury Management Update
Report of:	Antony Baden – Finance Manager
Purpose of Report:	To note the Council's treasury activities for the first financial quarter ending 30 June 2020.
Officer Recommendation(s):	It be RESOLVED: That the report be noted

Introduction

1. Cabinet approved the Council's Investment Strategy for 2020/21 on the 10 February 2020 (Minute CB19/93 refers). The strategy requires regular reports to be presented to this Committee on the Council's treasury management activities. In managing these activities, the Council follows the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management. This report implements best practice in accordance with the Code. Members are also reminded that investment activity is reported through the Members' Bulletin.
2. This report focuses on the financial period ending on the 30 June 2020. Treasury Management covers two main areas: -
 - i. The management of day to day cash flows by way of short-term investing and borrowing. Longer term investment opportunities may arise depending on cashflow requirements.
 - ii. Management of the Council's long-term debt portfolio, which is used to finance capital expenditure that cannot be immediately funded by internal resources (e.g. Capital Receipts).

Financial Investments review

3. The Council currently holds most of its investments in call accounts with the major financial UK institutions. It also holds investments totalling £8 million in Property Funds.
4. As at the 30 June 2020 the Council's total investments are £33.754m. There is £11,979m of borrowing and the Capital Financing requirement is £29.001m.
5. The Council's investment policy is governed by the Ministry of Housing, Communities and Local Governments' (MHCLG) investment guidance, which has been implemented in the approved annual investment strategy. 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.).

6. The investment activity to date conforms to the approved strategy and the Council had no liquidity difficulties.
7. The total income from investments is currently forecast at £252,000. The largest returns are from the Council's property funds, which are currently delivering an average rate of return of between 2.33% and 3.69% on investments. These funds are actively managed, and it is hoped that actual income will not suffer significantly due to the current economic climate.
8. The investment portfolio as at the 30 June 2020 is shown in the table below: -

Deposit	Type of account	Maturity Date	Amount £	Interest Rate	Share %
Lloyds - General (RFB)	Call	N/A	25,751,254	0.00%	76.29%
Lloyds - (RFB)	Fixed	24/04/2020	0	N/A	0.00%
Lloyds - (RFB)	Fixed	08/05/2020	0	N/A	0.00%
Bank of Scotland (RFB)	Call	N/A	6	0.65%	0.00%
Barclays - Call Account (NRFB)	Call	N/A	1,066	0.50%	0.00%
Santander - 31 Day Notice Account	31 Days Notice	N/A	1,655	0.55%	0.00%
CCLA Local Authority Property Fund	Long Term	N/A	5,000,000	3.69%	14.81%
HERMES Property Fund	Long Term	N/A	2,999,998	2.33%	8.89%
Total			33,753,979		100.00%
Total managed in-house			25,753,981		
Total managed externally			7,999,998		
Total Treasury Investments			33,753,979		

9. The Council has invested £8 million in the property funds as shown in the table above. Members should note that whilst they provide a sustainable return on investment their market values have been adversely impacted by the Coronavirus pandemic. Further fluctuations should be expected, however these are long term investments and it is expected that their values will eventually rise as the overall economic situation improves. The values are shown in the table below:

Name of Property Fund	Original Investment £ (000)	Value as at the 30 June 2020 £ (000)
CCLA Local Authority Property Fund	5,000,000	4,568,164
HERMES Property Fund	2,999,998	2,750,923
Total	7,999,998	7,319,087

Borrowing

10. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR) and it gauges its indebtedness. The CFR results from the resources used to fund capital spend. It represents prior years'

and the 2020/21 unfinanced expenditure, which has not been funded by revenue or other resources.

11. One of the Council's treasury activities is to address the funding requirements for the borrowing need. The Treasury service organises the Council's cash position to ensure that enough cash is available to meet capital plans and day to day cash flow requirements in the cheapest and most efficient way. To date this has been sourced via a combination of borrowing from the Government, (through the Public Works Loan Board (PWLB)) and utilising the Council's temporary cash resources.
12. The Council's CFR is not allowed to rise indefinitely. Statutory controls ensure that capital assets are broadly charged to revenue over the life of the asset. To this end the Council makes an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of borrowing.
13. The total expenditure and funding of the Capital Programme for 2019/20 is summarised in the following table:

	2020/21 Original Budget £ (000)	2020/21 Revised Budget £ (000)	2020/21 Estimated Outturn £ (000)
Capital Expenditure	19,510	30,150	30,150
Financing:			
Capital Receipts	1,240	1,085	1,085
Grants and Contributions	4,262	15,100	15,100
Borrowing	13,287	12,126	12,126
Capital Expenditure Charged to Revenue	721	1,839	1,839
Total Funding	19,510	30,150	30,150

14. The capital programme includes new borrowing in 2020/21 of £12.126m and this increases the Council's CFR for the year as shown in the following table:

	2020/21 Original Budget £ (000)	2020/21 Revised Budget £ (000)	2020/21 Estimated Outturn £ (000)
Opening Balance	17,117	17,117	17,117
Add unfinanced capital expenditure	13,287	12,126	12,126
Less Minimum Revenue Provision (MRP)	(242)	(242)	(242)
Closing Balance	30,162	29,001	29,001

15. At the 30 June 2020 the Council's actual borrowing position was as follows:

Borrowing position as at the 30th June 2020					
PWLB Ref:	Amount o/s	Interest Rate	Term	Type	Full Year Repayments
507499	£440,931	2.59%	50	Annuity	£16,102
507503	£440,905	2.58%	50	Annuity	£16,070
509130	£1,632,498	2.39%	50	Annuity	£56,729
509131	£1,000,000	2.24%	50	Maturity	£22,400
509165	£8,412,690	2.48%	50	Annuity	£297,572
Total Borrowing	£11,927,025				£408,873

16. Borrowing activity is controlled by prudential indicators for gross borrowing and the CFR. The operational boundary represents the maximum expected borrowing position of the Council during the year. The authorised limit is required by Section 3 of the Local Government Act 2003 and is the maximum amount that the Council may borrow at any point in time. It differs from the Operational Limit in that it includes additional headroom to allow for unusual/unexpected cash outflows. Once this has been set, the Council cannot borrow above this level. The table below shows the Council's borrowing limits and gross external debt level as at the 30 June 2020.

Treasury Indicators	Actual as at 30 June 2020 £ (000)
Authorised Limit for External Debt	57,400
Operational boundary for External Debt	52,000
Gross External Debt (actual)	11,927
Remaining Authorised Limit for External Debt	45,473

17. The table in paragraph 13 shows the Council's commitment to significantly increasing its capital programme in 2020/21. This will make it very likely that external borrowing will be required. Officers will keep the borrowing limits under review and report back to Members should it be necessary to increase them.
18. Financing costs as a proportion of the net revenue stream identifies how much of the Council's income is required to service the cost of its overall debt. The 2020/21 original budget figure of 3.39% is higher than last year because we expect to borrow again this year. The forecast shows a slightly higher figure of 3.89% because the Council has received a significant increase in its revenue stream as a result of additional grants received from the MHCLG in response to the Coronavirus pandemic.

Prudential Indicators	2020/21 Original Budget £ (000)	2020/21 Estimate Outturn £ (000)
Capital Expenditure Charged to Revenue	1,359	1,839
Capital Financing Requirement (CFR)	30,162	29,001
Annual Change in CFR	13,045	11,884
In-Year Borrowing Requirements	11,927	11,927
Ratio of Financing costs to Net Revenue Stream %	3.39%	3.89%

19. The Council maintains an under-borrowed position, which means the CFR is not fully funded by loan debt but instead managed by using reserves and balances. This strategy is prudent because investment returns are low, and the counterparty risk associated with placing investments is minimised. However, as mentioned in paragraph 17, it will not be possible to maintain this should the Council decide to take out significant borrowing to fund its expanded capital programme.

Non-Treasury Investments

20. The Council invests in the economic regeneration of Rother through its Property Investment Strategy (PIS) and the expected income from these is as follows:

2020/21 Estimated Property Investment Income			
Property	Rental Income £	MRP & Interest £	Net Income £
14 Terminus Road	106,000	(31,793)	74,207
18-40 Beeching Road	88,080	(28,504)	59,576
16 Beeching Road	97,000	(31,391)	65,609
Glovers House	425,000	(275,458)	149,542
Market Square, Battle	195,000	(110,263)	84,737
Total	911,080	(477,410)	433,670

21. In addition to the above properties the Council has also purchased a property in Barnhorn Green, which should bring in further rental income in the future. The Council has not made any further property purchases since the last report to Audit and Standards Committee on the 29 July 2020.
22. The budget for rental income from all investment properties is £1,919,840, made up of £1,008,760 for the existing assets and £911,080 for properties purchased through the PIS. During the pandemic, lockdown tenants were not pursued for rent arrears however last month reminders were sent. Due to the continuing difficult economic circumstances, the forecast outturn for 2020/21 allows for a shortfall of £200,000. This equates to a gross return of 6.27% on the value of all properties including those purchased under the PIS. After allowing for borrowing costs the expected return on the PIS properties is 2.71%.

Economic impact of the Coronavirus

23. The Coronavirus pandemic continues to have a major impact on the global economy and is likely to do so for the foreseeable future. The UK economy is now officially in recession having contracted by over 20% quarter on quarter, as predicted by the Council's Treasury Management advisors, LINK Asset Services. The Chancellor has announced a wide range of financial packages designed to sustain and stimulate economic activity and there have been some positive signs of a recovery in recent weeks, e.g. an increase in mortgage applications but the rate of recovery could still take many months. Longer-term economic forecasts continue to be quite volatile and continued fears of a second wave add to the uncertainty.
24. The impact on the Council's treasury activities has been covered elsewhere in this report. Although the country is gradually easing out of lockdown and there is a general expectation that the economic situation will begin to improve, a second lockdown would have another profound effect.

Other Economic Updates

25. Brexit trade deal negotiations continue to be slow and unyielding as the prospect of a 'no-deal' scenario becomes increasingly likely. Neither side appear to be willing to make much in the way of concessions.
26. Interest rates continue to remain very low as indicated in the previous Treasury Management report. LINK Asset Services do not expect this position to change in the foreseeable future, therefore if Members did decide to increase borrowing activity as referenced in paragraphs 17 and 19, they would be able to secure a very favourable rate of interest. For example, the current rate for a 50-year loan is 2.3%.

Conclusion

27. The investment activity conforms to the approved strategy and the Council has no liquidity difficulties.
28. The investment environment for treasury activities remains difficult. Absolute returns are low and are likely to be so for the foreseeable future. The diversification into Property Funds increases the overall return but is less liquid and carries greater capital risk than other investments.
29. The Council's PIS focuses on regeneration and is expected to generate net returns of 2.7%. This is also riskier due to the long-term commitment of repaying borrowing and the operational risks of managing property.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	No	Access to Information	No
Sustainability	No	Exempt from publication	No
Risk Management	No		

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Appendices:	None
Relevant Previous Minutes:	None
Background Papers:	None
Reference Documents:	None

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Rother District Council

Report to: Audit and Standards

Date: 28 September 2020

Title: Risk Management Update

Report of: Executive Director

Purpose of Report: To update Members on the issues in Risk Management affecting the Council during 2020/21.

Officer

Recommendation(s): It be **RESOLVED**: That the report be noted.

Introduction

1. This update report for Members covers issues in Risk Management affecting the Council during 2020/21. Risk refers to the uncertainty that surrounds future events and outcomes. It is essential that the Council has a strong approach to Risk Management, particularly with the current environment of a global pandemic and ongoing substantial financial pressures.

COVID–19 Pandemic

2. This year has been dominated by dealing with the impact of the COVID-19 pandemic both in terms of the Council's operations and the support given to the community. This report does not review the Council's response as this was detailed in a report to Cabinet on the 8 June 2020 (Minute CB20/14 refers). There are, however, a number of risk management related lessons learned that will help the Council in responding going forward.
 - a. **Sustainably meeting a long-term crisis** – the ongoing nature of the pandemic has highlighted that the Council's business continuity plans, along with policies, need to be expanded and reviewed to reflect the changes in how the Council is now working. The current plans are normally focused around short-term interruptions to business and how services are brought back into operation.
 - b. **Diversion of staff resources/expansion of role through government expectation/direction** – the pandemic has shown that in times of national crisis the role of the Council is likely to expand. In a number of service areas the Council's role has substantially increased. This included ensuring all rough sleepers and homeless households were in self-contained accommodation. The role of environment health has increased substantially covering a number of areas including supporting the high street to reopen. The Council also had to establish and operate a community hub to support the vulnerable households in the district. The Council has been the conduit for providing grants to local businesses funded by the Government. This required whole new systems to be established and has a high degree of

legacy work in post payment assurance. Whilst the Government has increased funding for these additional responsibilities, expanding the workforce with suitably experienced staff is not a quick solution. The reality is that existing staff resources are redirected into these new areas of responsibility and normal work is suspended.

- c. **Supply chains** – it became apparent early on that demand for certain products was outstripping supply. Specifically, the Council struggled to secure early delivery of ICT equipment to enable home working and, as Members will be very aware, supplies of the right quality of PPE were very difficult to secure. Both these issues were overcome through the hard work and diligence of officers, but there were real concerns that essential items may not have been procured.
- d. **Contractor resilience** – whilst the Council has not seen a major loss of staff through illness or self-isolation through the pandemic, this has not necessarily been the case with our contractors. BIFFA at times were operating at less than 80% of their workforce and certain services had to be suspended. Business continuity plans were in place to deal with this effectively, but this has come at a cost to the Council through delays in increasing garden waste charges and following the Government direction to continue to pay contractors at normal service levels. One additional issue is that where our contractor is a charity, then their financial resilience is lower and has caused the Council to have to provide funding to ensure their continued survival.
- e. **ICT** – the importance of the Council’s ICT has been highlighted throughout the pandemic. From ensuring staff could effectively work from home, developing the website and enabling remote and on-line meetings, the pivotal role of ICT should not be underestimated. The work that has been delivered puts the Council in a much stronger position to deal with any future crisis, but this will need to be maintained and updated to ensure this continues.
- f. **Flexible workforce** – the pandemic has highlighted that having a committed and flexible workforce is essential in responding to a crisis. This is where Rother excelled and was able to not only respond to the specific threats of COVID-19, but also ensure our essential services were maintained.
- g. **Communications** – the importance of clear and timely communication, both externally and internally, was highlighted during the pandemic. At the beginning of the lockdown daily updates were provided to Members (including MPs and Parish Councils) and staff. These have reduced in frequency over time but are still used to provide updates on COVID-19 issues. The Council has also made use of its social media channels to promote messages relating to COVID-19.
- h. **Members** – the role of Members and community leaders also came to the fore during the pandemic. It showed that Members are an essential resource and conduit between the Council and residents and businesses that they serve; their local knowledge “on the ground” was invaluable.

Corporate Risk Register

3. There are a number of items within the Corporate Risk Register (Appendix A) that relate to the impact (potential impact) and mitigation to a pandemic.
 - a. Line 3 Significant contract falls to RDC – BIFFA was unable to deliver all services and business continuity plan was invoked.
 - b. Line 7 Significant loss of staff due to pandemic – not occurred through illness but staff redirected to other duties.
 - c. Line 12 Significant Financial investment loss by Council – property funds investment values have fallen.
 - d. Line 13 Civil Unrest – lack of compliance with social distancing at public locations, particularly beaches.
 - e. Line 16 Safeguarding Children and Vulnerable Adults – the establishment of the Community hub specifically to deal with this risk.
 - f. Line 18 Major Incident requiring our staff to support it.
 - g. Line 19 Major incident preventing travel – lockdown prevented staff coming to the office.
 - h. Line 25 Significant facility falls to RDC – it was seen that our charitable operators were under severe financial pressure that could have caused their failure.
 - i. Line 29 Property Investments – same as line 12.
 - j. Line 30 Delivering Savings and Income targets as set out in the Medium Term Financial Plan – diversion of staff resources delaying delivery of the significant income and savings targets needed by the Council this year.

4. The above shows that most of the risks and impacts of the pandemic have been reflected in the Corporate Risk Register and that mitigations where possible have been in place. An officer team led by an Executive Director was established to manage these risks and to co-ordinate the Council's response to the pandemic including liaison with the Sussex Resilience Forum which maintained oversight of all the Sussex Councils, health and emergency services activities.

Difficult Winter scenario

5. Members will be aware there are expectations of a resurgence of COVID-19 as winter approaches. Furthermore, the winter is typically a time when other issues such as influenza and adverse weather conditions are more likely to occur. The measures the Council has put in place will mean it is in a strong position to maintain services including scaling up the community hub activities again. Further work is being done to prepare the Council for this eventuality, but it needs to be recognised that if staff resources need to be redirected to other areas of work, the delivery of the Council's day to day business will suffer further and there will be further costs incurred by the Council. It is not clear at this point, whether Government funding will be forthcoming to help support the Council.

Conclusion

6. The Council's response to COVID-19 was fully covered in the Cabinet report referred to in paragraph 2. The purpose of this report is not to revisit the issues raised in that report but to look at the lessons learned from a risk management

perspective. This is, and will continue to be, an on-going process but Members can be assured that the Council is well placed to deal with the challenges it may face, albeit acknowledging the pressures this could place on business as usual service provision.

Risk Management

7. The failure to review and update the risk environment would be a significant failing on the part of the Council.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	No	Access to Information	No
Sustainability	No	Exempt from publication	No
Risk Management	Yes		

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Appendices:	None
Relevant Previous Minutes:	CB20/14
Background Papers:	None
Reference Documents:	None

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			Likelihood (1,3,5)	Impact (1,3,5)	Rating	Contingency	Comments / Actions	Lead	Likelihood (1,3,5)	Impact (1,3,5)	Residual Rating
1	Major network attack	<ul style="list-style-type: none"> Shut down to counter attack Rebuilding due to successful attack Data / PC loss due to successful attack 	3	5	15	Contract for full range of backup support. Budget arrangements for emergency expenditure. Cheques can still be issued. Training and practical exercise undertaken regularly	Already many IT systems in place to prevent this. ICT have active antivirus and firewalling, including various security posturing. Continue with Essential Maintenance Plan. Disaster recovery contract to be regularly reviewed.	RV	3	5	15
2	IT Network failure	<ul style="list-style-type: none"> Loss of network storage No power Loss of communications / internet 	3	5	15	Contract for full range of backup support. Budget arrangements for emergency expenditure. Cheques can still be issued.	Well established back up. ICT BCP covers this risk. Possible "mechanical" in terms of main cable damage	RV	3	5	15
3	Significant contract falls to RDC	<ul style="list-style-type: none"> Staffing to manage transition Waste, Grounds Maintenance Financial Implications 	3	5	15	Rehearsed BCP Action Card with this scenario. Budget arrangements for managing this. Three authority BCP for Waste Collection contract	Review legal aspects. Create waste and street sweeping response plan. Consider other response plans. Separate Waste Contract Risk Register (MG). Three authority review needed.	JP	3	5	15
4	Data Loss	<ul style="list-style-type: none"> Service failure Financial damage Resources drained 	3	5	15	Back ups are maintained. Budget arrangements for managing this.		RV	3	5	15
5	Extreme Weather	<ul style="list-style-type: none"> Loss of frontline services Staff committed to emergency Staff unable to get to work 	3	5	15	Many staff live in Bexhill. Homeworking facilities. Guidance to staff in advance of weather warnings. RDC Emergency Plan. <u>Priority Grid for Service staffing</u>	Some experience here already. Prolonged extreme weather is the issue.	CC	3	3	9
6	National Fuel Shortage	<ul style="list-style-type: none"> Loss of main services Staff committed to emergency Travel problems 	3	5	15	Fuel priority grid including key staff & contractors. Homeworking facilities. <u>Priority Grid for Service staffing</u>	Communications Plan needed. Recent work on Brexit plans helps informs actions required of RDC.	CC	3	3	9
7	Significant loss of staff due to pandemic	<ul style="list-style-type: none"> 30%+ Flu etc. Across all services Particular note of cover for significant posts 	3	5	15	Contacts with local, national & professional agencies. Homeworking facilities. Immediate medical prevention supplies available. Priority list for staff vaccinations. <u>Priority Grid for Service staffing</u> . <u>Local Authority Duty to Co-operate</u> .	Guidance to staff on precautions, minimise travel of travelling officers, hand cleansers at entrances to Council buildings	RV	3	3	9
8	Coastal / River Flooding	<ul style="list-style-type: none"> Major issues with transport Staff diverted to emergency Staff committed to recovery programme 	3	3	9	RDC Emergency Plan. Local Authority Duty to Co-operate. Rye Bay Flood Plan. <u>Flood network to cascade information</u> .	More an Emergency plan than BCP issue. Could have an impact on transport. Social media alerts. Communication - PR implicit.	TL	3	3	9
9	Failure of a significant system supplier (e.g. Ocella)	<ul style="list-style-type: none"> Service Specific Unit4 Business World, Ocella, Academy, CRM, Kierway Customer Service 	3	3	9	Contingency for simple alternative e.g. Excel ESCROW agreements.	Neighbour council back up system or data transfer. Rights of user software. Contingency for alternatives. Web based systems need checking. System to be replaced if supplier no longer exists. Corporate direction - similar to Link data and voice, encourage use of county wide systems for the future/future purchase, which will reduce risk. ESCROW agreements will reduce impact.	RV	3	3	9
10	Significant Legal case against Council	<ul style="list-style-type: none"> Reputational damage Financial damage Resources drained 	3	3	9	Early Legal Service plan & advice. Budget arrangements for managing this.	Work to identify where service failure is in a legal case. Take steps to mitigate.	MJ	3	3	9
11	Breach of Data Protection	<ul style="list-style-type: none"> Reputational damage / legal Financial damage Resources drained Leakage / theft 	3	3	9	Regular training for staff. Learning from incidents. IT security measures. Data Risk log.	Reputational and significant financial risk under GDPR. Wider issue of Data Protection and consequences of data theft.	RV	3	3	9
12	Significant Financial investment loss by Council	<ul style="list-style-type: none"> Banks Staff committed to emergency Loss of income streams or assets 	3	5	15	Management approval of transactions. Compliance with Investment Strategy to spread the risk. Treasury advice. <u>Audit Service</u> .		RV	1	5	5
13	Civil Unrest	<ul style="list-style-type: none"> Loss of staff Staff committed to emergency Staff unable to get to work 	1	5	5	Business Continuity Plan enacted	Very unlikely.	CC	1	5	5
14	Town Hall Fire / Flood	<ul style="list-style-type: none"> Loss of Accommodation Loss of IT Infrastructure Loss of IT desktops 	1	5	5	Homeworking facilities. Continued facility in Amherst Road. Reciprocal arrangement with neighbours. Local Authority Duty to co-operate	Consider neighbour council back up. Potential damage to infrastructure. Paper files vulnerable. ICT BCP covers this risk.	CC	1	5	5
15	Failure of the ESCC Pension Fund	<ul style="list-style-type: none"> Investment Failure Significant shortfall in funds Fraud 	1	5	5	ESCC Investment Panel operating within agreed investment strategy. Fund Managers adherence to their mandate. Ultimately Government Intervention/bailout.	New Governance arrangements brought in by Government in 2015. This adds a further layer of scrutiny over and above the Investment Panel and will examine the operation and performance of the fund.	RV	1	5	5

16	Safeguarding Children and Vulnerable Adults	<ul style="list-style-type: none"> ● Failure to identify child/adult at risk ● Failure to report to relevant agency when child/adult at risk identified ● Financial loss through legal compensation 	1	5	5	Staff training delivered and regularly updated. Clear and understood communication channel from officers to lead safeguarding officer.	Action plan in place to ensure robust procedures in place. New safeguarding policy adopted by Council. All relevant new staff receive training. Further training/awareness to be provided to staff over the next 12 months. Procedures in place in Housing Division to ensure where Police have been made aware of location of vulnerable family, this information is updated for any subsequent move.	CC	1	5	5
17	Fallout from Brexit	<ul style="list-style-type: none"> ● Financial market changes & instability ● European funding loss ● Investment uncertainty 	5	1	5	Financial advice to manage this as required. See separate detailed analysis of risks and mitigation plan.	Regular reviews of how Brexit affects Rother	RV	5	1	5
18	Major Incident requiring our staff to support it	<ul style="list-style-type: none"> ● Loss of staff ● Staff committed to emergency ● Staff committed to recovery programme 	3	3	9	Management approval of transactions. Insurance.	Directors to foster good relations and cooperation on these issues	TL	3	1	3
19	Major incident preventing travel	<ul style="list-style-type: none"> ● Loss of staff for more than one day ● Major incident blocking transport ● Major road closure 	1	5	5	Homeworking facilities. Potential to work from other authorities. Service priority grid. Protocol with staff on web message, website can be updated remotely.		CC	1	3	3
20	Financial shutdown RDC	<ul style="list-style-type: none"> ● Bank shutdown ● Loss of Income stream / assets ● Build up of backlog 	1	5	5	Rehearsed BCP Action Card with this scenario. Budget arrangements for managing this. three authority BCP for Waste.	Consider neighbour council back up. Hastings are able to provide back up and support so that cheques can be produced. Customer advice and information to be put on website and telephone systems. Cheques can still be produced.	RV	1	3	3
21	Terrorist Incident involving RDC	<ul style="list-style-type: none"> ● Impact on Public ● Impact on Staff ● Managing incident and recovery 	1	5	5	Monitoring intelligence. Liaison with Police.	Identify key staff & brief Ability to closely manage access to Council.	TL	1	3	3
22	Substantial / prolonged Electricity failure	<ul style="list-style-type: none"> ● Loss of frontline services & systems ● Staff committed to emergency ● Staff unable to get to work 	1	3	3	BCP Action card on loss of premises. Regular inspection and maintenance of electrical supply to Council buildings. Flexible working arrangements. Priority Grid for Service staffing.	Feasibility study on emergency generator provision.	JP	1	3	3
23	Buildings unavailable due to incident / accident	<ul style="list-style-type: none"> ● Loss of accommodation ● Buildings cordoned ● Structural Damage 	1	3	3	Homeworking facilities Reciprocal arrangement with neighbours.	Consider neighbour council back up. To give consideration to partners occupying the building. Homeworking, if kit taken home and is safely off site. Another building/area is required to work from?	CC	1	3	3
24	Significant & prolonged strike	<ul style="list-style-type: none"> ● Loss of staff ● Staff committed to cover ● Staff home commitments 	1	3	3	Liaison with Unison Ongoing work to achieve good industrial relations. 40% union membership (monitored).	Very unlikely, but could shift radically if membership of Unison increased.	CC	1	3	3
25	Significant facility falls to RDC	<ul style="list-style-type: none"> ● Staffing to manage transition ● De La Warr, museum, charity ● Staffing to manage recovery / maintenance 	3	1	3	Budget arrangements for managing this	Identify staff to manage the facility. Closure / Management Plan to be drawn up.	JP	3	1	3
26	Amherst Road Fire / Flood	<ul style="list-style-type: none"> ● Loss of accommodation ● Loss of IT equipment 	1	3	3	Homeworking facilities Continued facility in Town Hall Reciprocal arrangement with neighbours Local Authority Duty to co-operate	Consider neighbour council back up. To give consideration to partners occupying the building. ICT BCP covers this risk.	CC	1	1	1
27	Significant Financial fraud against Council	<ul style="list-style-type: none"> ● Reputational damage ● Financial damage ● Resources drained 	1	3	3	Audit service Management approval of transactions Insurance	Review insurance cover. Audit Service highlights areas of risk. Fidelity guarantee insurance in place. Whistle blowing policy in place and staff reminded of its existence. Comms team to be informed if major fraud discovered to manage Press interest.	RV	1	1	1
28	Spending Review and Business Rate reset by Government	<ul style="list-style-type: none"> ● loss of grant income and share of business rates through changes in funding allocation mechanism 	2	2	4	Robust Financial Plan Use of reserves as short term support lobbying of MPs	Influencing government decisions as an individual Council unlikely to be successful. Support of LGA/ Rural Services Network to lobby on behalf of Districts more likely to have influence	RV	2	2	4
29	Property Investments	<ul style="list-style-type: none"> ● long term loss of tenants leading to loss of income. ● major structural failure of building not covered through insurance ● Restrictions imposed by Government on investment in commercial property 	1	3	3	Robust appraisal processes Active tenant management including regular assessment of financial stability Keep up to date with Government view on commercial property investment by Local Authorities Understanding of market for types of commercial property	The Council has a very thorough process in assessing property investments. Risks are minimised through use of professional advisors including valuation and surveyors. The risk around Government intervention is difficult to mitigate and if imposed may have implications beyond commercial property investments if borrowing is to be limited	BH	1	2	2
30	Delivering Savings and Income targets as set out in MTFP	<ul style="list-style-type: none"> ● failure to identify savings ● failure to identify source of additional income ● accelerated use of reserves ● emergency action required to balance budget 	2	3	6	Strong partnership between Members and Officers Dedicated resources to lead delivery of targets	It is likely that the Council will not achieve a balanced budget without taking some difficult decisions in terms of service provision. This requires a strong partnership between Members and Officers to achieve.	RV	2	2	4
31	Loss of staff and recruitment	<ul style="list-style-type: none"> ● loss of key staff due to redundancies and financial uncertainty ● difficulties in recruiting to key posts 	2	2	4	alternative ways of working, greater flexibility where possible greater use of technology		CC	1	1	1

32	Knowledge management on staff exit	<ul style="list-style-type: none"> ●loss of knowledge to perform prime functions ●unique roles not carried forward by the organisation 	5	3	15	Exit process to include full role analysis and capture of unique duties/knowledge	Identify staff to be knowledge recipient for each existing member of staff	CC	1	2	2
33	Major Projects	<ul style="list-style-type: none"> ●failure to deliver major project ●financial loss ●service failure ●reputational damage 	2	3	6	Adequate project resources project managers support management practices in securing external funding capable training and Robust risk unsuccessful	The Council has a number of major projects to deliver including new leisure centre, new housing and new commercial properties. It is well placed with experienced and trained officers in place, but there is a risk to project delivery if those resources are no longer available. The projects are also at risk if the Council is unsuccessful in securing external funding to make them financially viable.	CC	1	2	2

		Likelihood		
		Unlikely 1	Possible 3	Likely 5
Impact	Major 5	5	15	25
	Moderate (3)	3	9	15
	Minor 1	1	3	5

Key

Risk Management Action Level	Low Priority	Activity necessary	High Priority - contingency
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AUDIT AND STANDARDS COMMITTEE

WORK PROGRAMME 2020 – 2021	
DATE OF COMMITTEE	SUBJECT
Monday 28 September 2020	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Audit Progress Report and Sector Update • Internal Audit Report to 30 June 2020 • Internal Audit Plan Update • Treasury Management Report • Risk Management Update
Tuesday 24 November 2020	<ul style="list-style-type: none"> • Grant Thornton – Annual Governance Report 2019/20 • Statement of Accounts 2019/20
Monday 7 December 2020	<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 2019-2020 • LGA Model Code of Conduct <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Annual Audit Letter 2019-20 • Internal Audit Report to 30 September 2020 • Internal Audit Plan Update • Risk Management Update - TBC • Treasury Management Report
Monday 22 March 2021	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Audit Progress Report and Sector Update • Grant Thornton – External Audit Plan 2020-21 • Internal Audit Report to 31 December 2020 • Internal Audit Plan 2021-22 • Review of Internal Audit 2020-21 • Annual Governance Statement • Annual Property Investment Update • Treasury Management Update • Accounting Policies 2020-21 • Annual Risk Management Update
ITEMS FOR CONSIDERATION	
<ul style="list-style-type: none"> • Appointment of the Audit Independent Person – post recruitment process 	

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