



East Suffolk House, Riduna Park, Station Road,  
Melton, Woodbridge, Suffolk, IP12 1RT

# Audit and Governance Committee

## Members:

Councillor Geoff Lynch (Chairman)  
Councillor Edward Back (Vice-Chairman)  
Councillor Judy Cloke  
Councillor Tony Cooper  
Councillor Linda Coulam  
Councillor Tess Gandy  
Councillor Chris Mapey  
Councillor Rachel Smith-Lyte  
Councillor Ed Thompson

Members are invited to a **Meeting of the Audit and Governance Committee**  
to be held in the Deben Conference Room, East Suffolk House, Melton,  
on **Monday, 18 November 2019 at 6:30 pm**

An Agenda is set out below.

## Part One – Open to the Public

## Pages

### 1 Apologies for Absence and Substitutions

### 2 Declarations of Interest

Members and Officers are invited to make any declarations of Disclosable Pecuniary or Local Non-Pecuniary Interests that they may have in relation to items on the Agenda and are also reminded to make any declarations at any stage during the Meeting if it becomes apparent that this may be required when a particular item or issue is considered.

### 3 Minutes

To confirm as a correct record the Minutes of the Meeting held on 29 July 2019

1 - 9

#### **4 Update on Return Rate for Register of Interests**

Members will recall Report ES/0087 which was presented to the Committee on 29 July 2019. The report was an up-date on standards and declarations of interests, and included a section, at paragraph 5, about the return rate for Register of Interests forms from our town and parish councillors.

Under s29 of the Localism Act 2011 (the Act), the Monitoring Officer (MO) of a relevant Authority must establish and maintain a Register of Interests of Members and co-opted Members of the Authority. The Register of Interests for Members across Suffolk requires them to declare, in Part 1 of the form, certain DPIs. DPIs are prescribed in the Local Authorities (Disclosable Pecuniary Interests) (England) Regulations which were made in 2012. Also, in Part 2 of the form, to declare LNPIs which are required by the Suffolk Code of Conduct. These are such things as membership of outside bodies, charities and groups established to influence policy etc.

In the case of a parish council, the MO must ensure that a copy of the parish council's register is available for inspection at a place in the district council's area at all reasonable hours, and secure that the register is published on the district council's website. A parish council must, if it has a website, secure that its register is published on its website.

Under s30(1) of the Act, all Members have 28 days from the day of taking office in which to notify the MO of any DPIs and to complete a register of interests form. Members elected on 2 May 2019 had until midnight on 3 June in which to complete their register form. Under s34 of the Act, it is a criminal offence if a Member, without reasonable excuse, fails to comply with the requirement in s30(1) to notify the MO of their DPIs.

In July this year, we had 1052 Councillors on town and parish councillors in the East Suffolk district area. Out of the 1052, 928 had returned their register of interest forms. 124 had not. This represented a return rate of 88% and a non-return rate of 12%.

Currently, we have 1077 Councillors on town and parish councillors in the East Suffolk district area. The number varies according to resignations, elections and co-options throughout the four year period of any administration. Out of the 1077, 1061 have returned their register of interest forms. 16 have not. This represented a return rate of 99% and a non-return rate of 1%.

As Members of the Committee were interested in these figures, they are asked to NOTE the contents of this agenda item, for their information.

#### **5 Treasury Management Outturn Report for 2018/19 & Mid Year Report for 2019/20 ES/0142** **10 - 24**

Report of the Leader of the Council and Cabinet Member with responsibility for Resources, and the Assistant Cabinet Member for Resources

#### **6 Internal Audit: Revised Internal Audit Plan 2019-20 ES/0191** **25 - 30**

Report of the Leader of the Council and Cabinet Member with responsibility for Resources

<b>7</b>	<b>Internal Audit Reports Recently Issued ES/0192</b>	<b>31 - 40</b>
	Report of the Leader of the Council and Cabinet Member with responsibility for Resources	
<b>8</b>	<b>Audit and Governance Committee's Forward Work Programme</b>	
	To consider the Committee's Forward Work Programme	
<b>9</b>	<b>Exempt/Confidential Items</b>	
	It is recommended that under Section 100(a)(4) of the Local Government Act 1972 (as amended) the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Act.	

## Part Two – Exempt/Confidential

Pages

<b>10</b>	<b>Exempt Minutes</b>
	<ul style="list-style-type: none"> <li>Information relating to the financial or business affairs of any particular person (including the authority holding that information).</li> </ul>
<b>11</b>	<b>Internal Audit: Status of Actions</b>
	<ul style="list-style-type: none"> <li>Information relating to the financial or business affairs of any particular person (including the authority holding that information).</li> </ul>

Close



Stephen Baker, Chief Executive

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Minutes of a Meeting of the **Audit and Governance Committee** held in the Conference Room,  
Riverside, on **Monday, 29 July 2019 at 6:30 pm**

**Members of the Committee present:**

Councillor Edward Back, Councillor Tony Cooper, Councillor Linda Coulam, Councillor Tess Gandy,  
Councillor Geoff Lynch, Councillor Chris Mapey, Councillor Ed Thompson

**Other Members present:**

Councillor Maurice Cook

**Officers present:**

Laura Fuller (Audit Manager), Matt Makin (Democratic Services Officer), Siobhan Martin (Head of Internal Audit), Sheila Mills-James (Corporate Fraud Manager), Hilary Slater (Head of Legal and Democratic Services and Monitoring Officer), Simon Taylor (Chief Finance Officer and Section 151 Officer)

**Others present:**

Tony Poynton (Ernst & Young LLP)

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**1 Apologies for Absence and Substitutions**

Apologies for absence were received from Councillor Cloke and Councillor Smith-Lyte.  
There were no substitutions.

**2 Declarations of Interest**

No declarations of interest were made.

**3a Minutes of the Waveney District Council Audit and Governance Committee meeting held on 7 March 2019**

On the proposition of Councillor Back, seconded by Councillor Gandy it was unanimously

**RESOLVED**

That the Minutes of the Waveney District Council Audit and Governance Committee meeting held on 7 March 2019 be agreed as a correct record and signed by the Chairman.

**3b Minutes of the Suffolk Coastal District Council Audit and Governance Committee meeting held on 12 March 2019**

On the proposition of Councillor Cooper, seconded by Councillor Thompson it was unanimously

**RESOLVED**

That the Minutes of the Suffolk Coastal District Council Audit and Governance Committee meeting held on 12 March 2019 be agreed as a correct record and signed by the Chairman.

**4 Standards Matters, Declarations of Gifts/Hospitality Received by Members and Officers and Review of Complaints**

The Committee received report **ES/0087** of the Leader of the Council and Cabinet Member with responsibility for Resources. The report updated the Committee on declarations of gifts/hospitality received by Members and Officers and included a review and update on Register of Interests for Town and Parish Councillors.

The Monitoring Officer presented the report, referring to the Localism Act 2011 (The Act) and the role of the Committee in maintaining standards. She noted that the Council was the principal authority, under the Act, in respect of any complaint alleging a breach of the Code of Conduct by District, Town, or Parish Councillors. Since 1 April 2019, when East Suffolk Council had come into being, one such complaint had been received, and when investigated the Monitoring Officer had not been able to consider it as such, as it was related to the conduct of a parish council as a whole in terms of its decision making, rather than the conduct of an individual Member.

The Committee was advised that the Monitoring Officer had referred another complaint to the Police as, following correspondence with the parish council in question, she had been of the view that a Member may have taken part in a meeting whilst having a Disclosable Pecuniary Interest (DPI), which was a criminal offence under the Act. The Monitoring Officer said that this was the first instance where she had been required to make such a report since the Act came into force in 2012 and noted that since the report had been written, she had been required to refer a second matter to the Police. Details of both complaints had not been provided in the report as in both cases, there were ongoing Police enquiries.

The Monitoring Officer referred to the register of gifts and hospitality. The Suffolk Code required that Councillors declare gifts and hospitality which they had received that were worth at least £25. These declarations formed part of the Members' Register of Interest form. Officers of the Council were also required declare gifts and hospitality which they had been offered that were worth at least £10, in line with the Council's Officer Code of Conduct; a list of these declarations was contained in Appendix A to the report.

It was noted that under s29 of the Act, the Monitoring Officer was required to establish and maintain a register of interests of members of the Council and for Members of town and parish councils within the authority's area. Under s30(1) of the Act, Members had 28 days from the day of taking office in which to notify the Monitoring Officer of

any DPs and to complete a register of interests form. The Monitoring Officer was pleased to report that all members of East Suffolk Council had met this requirement and, in line with the requirements of the Act, the register of interests was available for public inspection on the Council's website.

The Committee was advised that a new online register of interests form had been developed and launched in time for Local Elections in May 2019. Details of the system had been sent to all Town and Parish Clerks in order for them to set up their Members on it, and Members had been sent follow-up emails, directly, explaining how to use it. The Monitoring Officer confirmed that of the 1,052 Town and Parish Councillors in the District, 940 had completed a register of interests form and 112 had not, which was a return rate of 89%.

The Monitoring Officer considered this to be a good rate at the early stage of the administration but obviously, it could be improved upon.

It was confirmed that correspondence would be sent to the Clerks of town and parish councils where Members had not completed a register of interest form, asking them to remind Members of their requirement to do so. The Monitoring Officer stated that this correspondence would be copied to the relevant Ward Members so that it could be discussed when they visited the town and parish councils in their Wards. It was confirmed that the progress of this work would be reported to future meetings of the Committee.

The Chairman invited questions to the Monitoring Officer.

The Monitoring Officer confirmed that those Members who had not completed a register of interests form were not disqualified from office. However, it was a criminal offence not to complete the form within 28 days of taking office, unless a councillor has a reasonable excuse for not doing so. If any Member was prosecuted for such an offence, and subsequently convicted, they may then be disqualified from office; the Monitoring Officer said that she was aware of only one prosecution that had been brought, nationally, for this offence, since 2012.

A member of the Committee gave an example of where she had been offered theatre tickets, which she had declined, and asked if she should have declared this. The Monitoring Officer advised that Members only needed to declare gifts and hospitality which they had accepted, whereas Officers were required under their Code to declare anything offered that was worth £10 or more.

The Chairman commended the high rate of return of register of interest forms from town and parish councillors and concurred with both the Monitoring Officer's view that this could be improved and the proposed communications to achieve this. He asked that Ward Members be kept informed about this, and further steps to improve the rate of return.

## **RESOLVED**

That the contents of the report be noted.

*The Monitoring Officer left the meeting following the conclusion of this item.*

## **5 Indicative Annual Fee Letter 2019/20**

The Committee received report **ES/0088** of the Leader of the Council and Cabinet Member with responsibility for Resources. The report was introduced by Councillor Cook, Assistant Cabinet Member for Resources, who advised that Ernst and Young (EY) had issued their indicative annual fee letter for 2019/20.

The audit fee was the first to be issued for East Suffolk Council and was based on the overall level of risk in 2019/20 not being significantly different to the risks from the predecessor Councils in 2018/19. The indicative audit fee had been set at £69,964 for 2019/20, and EY had also indicated that its proposed audit fee for reporting on the housing benefit subsidy claim was £15,829.

Councillor Cook covered each section of the report in detail and noted the savings that have been achieved by the creation of East Suffolk Council. He introduced Mr Poynton from EY, who was present at the meeting.

The Chairman invited questions to Councillor Cook and Mr Poynton.

Mr Poynton confirmed that the fee for reporting on the housing benefit subsidy claim was dependent on case volume.

In response to a question from a member of the Committee, it was confirmed by the Chief Finance Officer that the Council was required to use an external auditor based on the framework set by the PSAA and that EY had been selected from the national scheme, which meant that the Council was unable to go out to tender and seek a local firm. He stated that using EY resulted in significant savings for the Council.

The Chief Finance Officer and Mr Poynton explained that the indicative fees were calculated by assessing historic error rates.

A member of the Committee asked if the fees would be changed by any Brexit impact. The Chief Finance Officer considered that Brexit should not impact the production of the Council's accounts and therefore the overall fee would not be affected.

The Chairman noted the savings made and stated that this was a fantastic achievement. He highlighted the delay in EY being able to audit the 2018/19 accounts and said that the Committee would work closely with EY on this matter. He confirmed that this would result in a delay in the publication of these accounts but assured the Committee that this would not reflect badly on the Council.

The Chief Finance Officer advised that as the audit of the accounts would not be completed by 31 July the Council was required to put out a statement on its website, and he would work with EY to agree wording on why the delay has occurred.

It was noted that EY's lack of resources and staff turnover was the cause of the delay and that it was in the process of training new staff. It was intended to begin the audit at the start of September 2019, with its completion occurring in October 2019, and that



a Special meeting of the Committee would be organised in Mid-November 2019 in order to approve the audited accounts. The Chief Finance Officer noted that the problems experienced by EY were not dissimilar to those experienced by other auditing firms at a national level.

## **RESOLVED**

That the indicative annual fee letter for 2019/20 from Ernst and Young be noted.

*The Chief Finance Officer and Mr Poynton both left the meeting following the conclusion of this item.*

## **6 Annual Internal Audit Report 2018/19**

The Committee received report **ES/0089** of the Leader of the Council and Cabinet Member with responsibility for Resources.

The Annual Internal Audit Report 2018/19, set out in Appendix A of the report, detailed the work undertaken by the Internal Audit Service for the year 2018/19 in accordance with the plan for the year that had been presented to both Suffolk Coastal and Waveney District Councils in March 2018. The report was presented to the Committee in accordance with its terms of reference.

The report was introduced by Councillor Cook, Assistant Cabinet Member for Resources, who noted the hard work undertaken by the Head of Internal Audit and her team and the substantial savings that had been identified through the work undertaken. He invited the Head of Internal Audit to present the report.

The Head of Internal Audit advised the Committee that she was required to give an opinion, in her annual report, on the adequacy and effectiveness of the Council's systems of governance, risk management, and internal control in the previous financial year. She referred to her opinion at section one of the Annual Internal Report at Appendix A of the report and confirmed that her opinion for 2018/19 was one of reasonable assurance.

The different ratings available were outlined and the Committee was advised that a reasonable rating was a normal one, and that it was rare for an effective assurance to be given.

The comments regarding areas to improve, particularly relating to both contract management and asset management, were brought to the Committee's attention. The Head of Internal Audit noted the improvements in these areas during 2018/19 but stated that further work was required at the time the report was written, and that it would not be prudent to give the service a clean bill of health.

The table at 3.1 of Appendix A to the report, detailing the spread of work completed, was outlined.

The Head of Internal Audit confirmed that she was PSIAS compliant; she was subject to both self-assessment as well as external assessment. She said that it was important

that the Committee knew the Council's Internal Audit Service was up to standard and was confident in the experience and qualifications of its officers.

The Committee's attention was drawn to Appendix D of the Annual Internal Audit report, which outlined areas of work cancelled or deferred. The Head of Internal Audit reported that two of the pieces of work had been cancelled as they were no longer required, and the remainder of work had been deferred.

The Head of Internal Audit highlighted the 20 days in the Internal Audit plan that were at the gift of the Committee should it feel an area was required for review, including increasing scope.

The Chairman invited questions to the Head of Internal Audit.

A member of the Committee sought clarification from the Head of Internal Audit on the ratings available to her for her opinion. She defined the effective rating as being that, under testing, no concerns had been raised. Reasonable was defined as there being some specific control weaknesses but generally adequate and effective, limited was defined as controls being unlikely to provide reasonable assurance, and ineffective was defined as controls not being adequate or appropriate. She advised that this was in line with PSIAS standards and agreed to further qualify this in future reports to the Committee.

In response to another member of the Committee, in reference to the Review of Housing Benefits, the Head of Internal Audit explained that the Anglia Revenues Partnership (ARP) held the core systems for the five different sovereign councils in the ARP; the partnership delivered revenue and benefits services for the Council, but the duty and responsibility of these services remained with the Council, including the responsibility to internally audit the services provided.

It was agreed in 2017 to share out the auditing of the services provided by ARP between the sovereign councils within the partnership, as each had its own Internal Audit Service. Councillor Cook noted that he was the Council's appointee to the ARP Joint Committee, which he attended along with Mr Khan, Strategic Director and Mr Taylor, Chief Finance Officer.

It was confirmed that training on tendering processes would be part of the Council's Member Development Programme.

The Chairman expressed confidence in the Council's Internal Audit Service, noting that it was picking up issues as soon as possible. He considered the change from two councils to a single authority had been challenging and asked what impact this had on the service.

The Head of Internal Audit stated that her service was a small one and had the minimum resources available to carry out its function. She noted her responsibilities as the Council's Data Protection Officer and said that if this work was going to continue, additional resources would be requested. The Chairman asked that any need for additional resources be brought to the Committee's attention as soon as possible.

The Chairman asked for a definition of a joint review. The Audit Manager stated that this was when a review covered the two predecessor councils. Joint reviews would not be necessary now that East Suffolk Council had been created and it was confirmed that the Internal Audit Service had worked as a single team across the predecessor councils prior to their demise.

## **RESOLVED**

That the Head of Internal Audit's Opinion for 2018/19, as set out in Appendix A to the report, had been commented upon.

### **7 Corporate Fraud Annual Business Report 2018/19**

The Committee received report **ES/0090** of the Leader of the Council and Cabinet Member with responsibility for Resources, and the Cabinet Member with responsibility for Housing.

The report provided a summary of the performance of the Corporate Fraud Service covering Suffolk Coastal and Waveney District Councils for the period 1 April 2018 to 31 March 2019. The report was presented to the Committee in compliance with its terms of reference.

The report was introduced by Councillor Cook, Assistant Cabinet Member for Resources, who invited the Head of Internal Audit to present the report.

The Head of Internal Audit noted that the work of the Corporate Fraud Service was delivered by 3.4FTE officers, including the Corporate Fraud Manager who was present at the meeting.

The team cost a total of £188,000 a year and had identified £1.8m in savings. She described the team as being dedicated and noted that a majority of its work was related to housing fraud. A large amount of work had been undertaken regarding building relationships and sharing intelligence with other agencies.

It was highlighted to the Committee that when housing benefit fraud was moved to the Department for Work and Pensions in 2015, many authorities did not retain their Corporate Fraud services. A case was made to both predecessor councils at that time for a Corporate Fraud resource to look at other areas and considered that the service had justified its costs. The team also included financial investigators which increased its skill set.

The Head of Internal Audit referred to the early prevention work undertaken by the team, as it was able to define between genuine applicants who had made an error, against fraudulent claims. She assured the Committee that the service was a supportive one and was also able to react appropriately to any safeguarding issues.

The Chairman invited questions to the officers.

The Corporate Fraud Manager confirmed that more proactive exercises in relation to blue badge fraud would be undertaken and that the team was working alongside Suffolk County Council regarding the impact of the qualifying criteria for a blue badge.

The Head of Internal Audit Service advised that she had been interviewed by the local press regarding the work of the service and that an article should be published soon.

The Chairman applauded the positive results achieved by the Corporate Fraud Service and considered it important that the team was not reduced, as it provided excellent value for money.

#### **RESOLVED**

That the performance of the Corporate Fraud Service for the year 2018/19 had been commented upon.

### **8 Internal Audit Reports Recently Issued**

The Committee received report **ES/0091** of the Leader of the Council and Cabinet Member with responsibility for Resources.

The report issued Internal Audit reports to the Committee to enable it to fulfil its terms of reference and invited the Committee to comment upon the contents of the Internal Audit Reports at Appendix A of the report.

The report was introduced by Councillor Cook, Assistant Cabinet Member for Resources, who invited the Head of Internal Audit to introduce the report.

The Head of Internal Audit referred to the Internal Audit Report related to the Joint Review of Bank Reconciliations and General Ledger 2018/19, which gave an effective opinion of assurance. In response to a question from a member of the Committee, she advised that the term feeder systems related to systems feeding into the general ledger, for instance the payment card industry and the IDOX system.

The Head of Internal Audit then referred to the Internal Audit Reports related to Ethics and Culture 2018/19 and the Joint Review of Accounts Receivable 2018/19, which both gave effective opinions of assurance. There were no questions to the Head of Internal Audit regarding these reports.

Members of the Committee commented favourably on the style of the Internal Audit reports.

#### **RESOLVED**

That the contents of the Internal Audit reports had been commented upon.

### **9 Audit and Governance Committee's Forward Work Programme**

The Committee reviewed its Forward Work Programme and, in particular, considered and confirmed the items of business that would be postponed due to the delay in EY's audit.

The Chairman confirmed that a Special meeting of the Committee would be confirmed in mid-November 2019 to hear these items. It also confirmed an additional item of business it wished to hear at its meeting scheduled for 6 January 2020.

**10 Exempt/Confidential Items**

**RESOLVED**

that under Section 100(a)(4) of the Local Government Act 1972 (as amended) the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Act.

**11 Internal Audit Reports Recently Issued**

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

**12 Internal Audit: Status of Actions**

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

**13a Exempt Minutes of the Waveney District Council Audit and Governance Committee meeting held on 7 March 2019**

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

**13b Exempt Minutes of the Suffolk Coastal District Council Audit and Governance Committee meeting held on 12 March 2019**

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

The meeting concluded at 8:28 pm

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Chairman

**AUDIT & GOVERNANCE COMMITTEE**

Monday, 18 November 2019

**TREASURY MANAGEMENT OUTTURN REPORT FOR 2018/19 AND MID YEAR REPORT 2019/20**

**EXECUTIVE SUMMARY**

1. The Treasury Management Policy Statement for 2018/19 requires an annual report and mid-year report to be produced by the 30<sup>th</sup> September 2019.
2. The report reviews performance of the treasury management function including prudential indicators in 2018/19 and incorporates a mid-year review of 2019/20.

**2018/19 Summary:**

- Suffolk Coastal District Council Investments totalled £66.89m as at 31<sup>st</sup> March 2019 and interest received on investment balances during the year totalled £0.55m.
- Waveney District Council Investments totalled £46.39m as at 31<sup>st</sup> March 2019 and interest received on investment balances during the year totalled £0.41m.
- Both Councils operated within its approved Prudential Indicator Limits for 2018/19.

**2019/20 Summary to date:**

- Investments totalled £109.36m as at 31<sup>st</sup> August 2019.
- Interest received to 31<sup>st</sup> August 2019 totalled £0.34m.
- The Council has operated within its approved Prudential Indicator Limits to date.

Is the report Open or Exempt?	Open
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<b>Wards Affected:</b>	All Wards in the District
<b>Cabinet Member:</b>	Councillor Steve Gallant Leader of the Council and Cabinet Member with responsibility for Resources  Councillor Maurice Cook Assistant Cabinet Member for Resources

<b>Supporting Officer:</b>	Simon Taylor Chief Finance Officer 01394 444570 <a href="mailto:simon.taylor@eastsuffolk.gov.uk">simon.taylor@eastsuffolk.gov.uk</a>
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## **1 INTRODUCTION**

- 1.1 Treasury Management in Local Government is governed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in the Public Services and in this context is the “management of the Council’s cash flows, its banking and its capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks”. This Council has adopted the Code and complies with its requirements.
- 1.2 The Council approves a strategy report at the beginning of each financial year, which identifies how it proposes to borrow and invest in the light of capital spending requirements, interest rate forecasts and economic conditions. The Cabinet monitors the implementation of the treasury strategy and reports are received quarterly during the year. The Audit & Governance Committee are responsible for ensuring scrutiny of the treasury management activities.
- 1.3 Under the Prudential Code for Capital Finance in Local Authorities, the Council determines at a local level its capital expenditure and can borrow or use alternative financing methods to finance capital spending provided that capital plans are demonstrably affordable, prudent and sustainable. The Code requires prudential indicators to be set and monitored, some of which are limits.
- 1.4 By the end of September each year, councils must report on their treasury management activities that have taken place over the past financial year to Full Council. The remainder of this report summarises the year’s activities and performance and provides an update on the activities that have taken place during the first half of the current financial year.

### **TREASURY MANAGEMENT OUTTURN 2018/19**

## **2 THE ECONOMY AND INTEREST RATES**

- 2.1 After weak economic growth of only 0.2% in Quarter One of 2018, growth picked up to 0.4% in Quarter Two and to a strong 0.7% position in Quarter Three, before falling back to 0.2% in the final quarter. With all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. With the date for the UK leaving the European Union being put back to 31<sup>st</sup> October 2019, Quarter One growth in 2019 came in at 0.5%, which was a direct result of stockpiling ahead of the original 31<sup>st</sup> March 2019 exit day. Growth is therefore expected to cool in Quarter Two of 2019.
- 2.2 The Monetary Policy Committee (MPC) raised the Bank Rate from 0.50% to 0.75% in August 2018, with little surprise that they have abstained from any further increases since then. It is unlikely that there will be any further movement from the Monetary Policy Committee until the uncertainties over Brexit clear. In the event of a disorderly exit, it is likely that the Bank Rate would be cut to support growth.
- 2.3 Nevertheless, the MPC has been having increasing concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January. British employers increased their hiring at the fastest pace in more than three years in the three months to January as the country’s labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.



- 2.4 The Consumer Price Index (CPI) has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before increasing marginally to 1.9% in February. However, in the February and May 2019 Bank of England Inflation Reports, the forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

### **3 BORROWING**

- 3.1 During 2018/19, neither Council entered into any new borrowing arrangements.
- 3.2 Given the large differential between short and longer term interest rates, which is likely to remain a feature for some time, as well as the pressure on Council finances, the debt management strategy sought to lower debt costs within an acceptable level of volatility (interest rate risk). Loans that offered the best value in the prevailing interest rate environment were PWLB variable interest rates loans. This supported the case for maintaining the Council's variable rate debt portfolio.
- 3.3 Given the significant cuts to local government funding putting pressure on Council finances, the strategy followed was to minimise debt interest payments without compromising the longer term stability of the portfolio. The use of internal resources in lieu of borrowing was judged to be the most cost effective means. Waveney District Council's 2018/19 borrowing requirement for the General Fund capital programme was £0.77m for which cash balances were utilised. If the Council would have sought to borrow this amount on a short term one year basis this would have attracted an interest cost of £12,940 at a rate of 1.68%. The average interest amount lost by not having this amount invested would have been £7,700 at 1.0%, therefore making a saving of £5,240. Suffolk Coastal District Council remained debt free during 2018/19 with no borrowing required for the capital programme.
- 3.4 The Waveney District Council debt portfolio for 2018/19 can be seen in the table below and is summarised by £75.98m attributable to the HRA which includes £68.30m of Self-Financing loans taken out in 2011/12 and £11.59m of General Fund loans.

<b>Loans as at 31<sup>st</sup> March 2019</b>	<b>Principal £m</b>	<b>Rate Range %</b>	<b>Maturity Range (years)</b>
PWLB Fixed Rate Maturity/Equal Instalments of Principal Loans	67.28	3.01 - 8.38	3.0- 42.0
PWLB Variable Rate Maturity Loans	20.29	0.42 – 0.43	1.0 – 4.0
<b>Total</b>	<b>87.57</b>	<b>0.42 - 8.38</b>	<b>1.0 - 42.0</b>

### **4 INVESTMENT ACTIVITY**

- 4.1 Both Council's investment policy for 2018/19 was governed by Ministry of Housing, Communities and Local Government (MHCLG) guidance and implemented in the annual investment strategy approved by the Council on 21<sup>st</sup> March 2018 for Waveney District Council and the 22<sup>nd</sup> March 2018 for Suffolk Coastal District Council. This policy set out the approach for choosing investment counterparties and was 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.). The MHCLG Investment Guidance requires local authorities to focus on security and liquidity, rather than yield.

- 4.2 The average cash balances held were £66.61m for Suffolk Coastal District Council and £45.10m for Waveney District Council. Investment income received was £0.55m for Suffolk Coastal District Council and £0.41m for Waveney District Council which exceeded the original planned budget of £0.37m for Suffolk Coastal District Council and £0.28m for Waveney District Council for the financial year 2018/19.

**Suffolk Coastal District Council**

	Balance at 1 <sup>st</sup> April 2018	Investment made	Investments repaid	Balance at 31 <sup>st</sup> March 2019
<b>INVESTMENTS</b>	£m	£m	£m	£m
Term Investments (liquidity & term <60 months)	52.39	358.0	-343.5	66.89

**Waveney District Council**

	Balance at 1 <sup>st</sup> April 2018	Investment made	Investments repaid	Balance at 31 <sup>st</sup> March 2019
<b>INVESTMENTS</b>	£m	£m	£m	£m
Term Investments (liquidity & term <60 months)	41.39	160.50	-155.50	46.39

- 4.3 As at the 31<sup>st</sup> March 2019 the investment profile of Suffolk Coastal District Council was as follows.

<b>INVESTMENTS</b>	Balance at 31 <sup>st</sup> March 2019 £m
<b>Liquidity Investments</b>	9.0
<b>Short Term Investments</b>	
September 2019 to May 2019	5.00
October 2018 to April 2019	2.50
December 2018 to December 2019	12.00
November 2018 to May 2019	5.00
January 2019 to January 2020	2.00
December 2019 to June 2020	2.00
January 2019 to April 2019	2.00
January 2019 to May 2019	3.00
February 2019 to May 2019	6.00
March 2019 to June 2019	2.00
March 2019 to March 2020	4.00
March 2019 to July 2020	5.00
<b>Long Term Investments</b>	
October 2018 to October 2020	5.00
November 2017 - onwards	2.39
<b>Total</b>	66.89

As at the 31<sup>st</sup> March 2019 the investment profile of Waveney District Council was as follows.

<b>INVESTMENTS</b>	<b>Balance at 31<sup>st</sup> March 2019 £m</b>
<b>Liquidity Investments</b>	13.0
<b>Short Term investments</b>	
July 2018 to July 2019	5.00
September 2018 to May 2019	5.00
October 2018 to April 2019	3.00
November 2018 to May 2019	3.00
December 2018 to June 2019	3.00
January 2019 to April 2019	3.00
January 2019 to July 2019	3.00
March 2019 to May 2019	1.00
March 2019 to July 2019	5.00
<b>Long Term investments</b>	
November 2017 - onwards	2.39
<b>Total</b>	<b>46.39</b>

4.4 Security of capital remained both Councils main investment objective. This was maintained by following each Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2018/19.

4.5 Investments during the year included call accounts, deposits with UK Banks and Building Societies and Local Authorities. During the year there were no investments placed with counterparties outside of the UK.

## **5 COMPLIANCE WITH PRUDENTIAL INDICATORS**

5.1 Both Councils complied with its Prudential Indicators for 2018/19, these were approved on the 22<sup>nd</sup> March 2018 for Suffolk Coastal District Council and on the 21<sup>st</sup> March for Waveney District Council. The Prudential Indicators for 2018/19 can be found at Appendix A and B.

## **TREASURY MANAGEMENT MID YEAR REVIEW 2019/20**

## **6 TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY**

6.1 The East Suffolk Council Treasury Management Strategy Statement (TMSS) for 2019/20 was approved at Shadow Council on 28<sup>th</sup> January 2019 and there have been no policy changes to date.

## **7 DAILY CASH MANAGEMENT**

7.1 The Council's counterparty list (investment list) is continuously reviewed and updated taking into account published credit rating information, financial accounts, share prices, asset size, Government support and information from the Council's Treasury Advisors, Arlingclose.

## 8 INVESTMENT PORTFOLIO 2019/20

- 8.1 The Council held £109.36m of investments as at the 31<sup>st</sup> August 2019; the table below illustrates the maturity of investments over the forthcoming months and the average interest rate achieved on the investment.

	<b>1<sup>st</sup> April 2019 £m</b>	<b>Average Interest Rate %</b>	<b>31<sup>st</sup> August 2019 £m</b>	<b>Average Interest Rate %</b>
<b>Call Accounts (Liquidity Funds)</b>	31.0	0.49	7.00	0.40
<b>Notice Accounts (32 &amp; 95 Day)</b>	0	0	3.00	0.85
<b>Term Investments: 3 to 24 months</b>	86.5	0.94	94.50	0.89
<b>Property Investment Fund</b>	4.78	4.69	4.86	4.69

- 8.2 The Council can confirm that the approved limits within the Annual Investment Strategy were not breached at the time of writing the report.

## **9 ECONOMIC OUTLOOK**

- 9.1 Boris Johnson became Prime Minister in July and appears to favour exiting the European Union on 31<sup>st</sup> October 2019 with or without a deal. It is unlikely the UK will be able to negotiate a different withdrawal deal before the deadline and at the time of the report being written the Prime Minister is planning on suspending Parliament sometime between 9<sup>th</sup> and 12<sup>th</sup> September through to the Queen's speech on 14<sup>th</sup> October 2019. This combined with a potential General Election gives further rise to an unstable outlook for the economy over the next 12 months.
- 9.2 With the downside risks to the UK economy growing and little likelihood of current global trade tensions being resolved imminently with global growth recovering soon thereafter, our treasury advisor Arlingclose's central forecast is for that the Bank of England's MPC will maintain the Bank Rate at 0.75% but will stand ready to cut rates should the Brexit process cause or give rise to more uncertainty for business and consumer confidence and for economic activity.

## **10 TREASURY MANAGEMENT PRACTICES (TMP'S)**

- 10.1 As a backdrop to the Council's approved treasury management policies, the Council also maintains a number of Treasury Management Practices (TMPS) which set out the manner in which the Council seeks to achieve the policies and objectives of the treasury function and how it will manage and control those activities. These were approved at Council in September 2013.
- 10.2 There have been no major changes during 2018/19 and during the first half of 2019/20.
- 10.3 The TMP'S can be viewed within the Finance service area on the Council's intranet page or by contacting the Financial Services Compliance Team.

## **11 INVESTMENT POLICY**

- 11.1 The Council's investment policy has regard to the MHCLG's Guidance on Local Government Investments, Investment Regulations and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes. The Council's investment priorities will be security first, liquidity second, and then return.

## **12 CREDIT WORTHINESS POLICY**

- 12.1 The Chief Finance Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary.
- 12.2 Credit rating information is supplied by Arlingclose, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of a possible longer-term change) are provided to officers almost immediately after they occur, and this information is considered before dealing.

Banks 1 - good credit quality – the Council will only use banks which:

- i. are UK banks; and/or
- ii. are non-UK and domiciled in a country which has a minimum sovereign long-term rating of AA+

and have, as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated):

- i. Short term – F1
- ii. Long term – A-

## **13 BANKING ARRANGEMENTS**

- 13.1 Banking services for the Council are provided by Lloyds Banks Plc.

## **14 TREASURY MANAGEMENT ADVISORS**

- 14.1 The external treasury advisors for the Council is Arlingclose.

## **15 HOW DOES THIS RELATE TO THE EAST SUFFOLK BUSINESS PLAN?**

- 15.1 The Treasury Management Outturn and Mid-Year report is a CIPFA requirement, the report does not link directly to the vision of the Business Plan, but through ensuring good governance arrangements and security of the Councils investment income this will help to achieve the planned actions set out in the Business Plan.

## **16 FINANCIAL AND GOVERNANCE IMPLICATIONS**

- 16.1 This report is to provide an update of the treasury management governance arrangements and performance for the previous and current year.

## **17 OTHER KEY ISSUES**

- 17.1 The recommendations of this report do not directly affect or impact on the Council's policies, projects, initiatives or actions. Therefore, an Equality Impact Assessment is not required.
- 17.2 No other key issues to be considered.

## **18 CONSULTATION**

- 18.1 There is no requirement upon the Council for consultation.

## **19 OTHER OPTIONS CONSIDERED**

19.1 No other options were considered

## **20 REASON FOR RECOMMENDATION**

20.1 The CIPFA Treasury Management Code requires a report to be produced covering the Council's Treasury Management activities for the former authorities, Suffolk Coastal District Council and Waveney District Council during 2018/19 and a Mid-Year Review of the Treasury Management activities for the successor authority, East Suffolk Council that have taken place during the first half of 2019/20. These reports must be presented to Full Council by 30<sup>th</sup> September 2019.

### **RECOMMENDATIONS**

1. That the Annual Report on the Council's Treasury Management activity for 2018/19 incorporating the Mid-Year review for 2019/20 be noted.
2. That the Prudential Indicators Outturn position for 2018/19 in Appendix A and B be noted.

### **APPENDICES**

<b>Appendix A</b>	Suffolk Coastal District Council Prudential Indicators Outturn position for 2018/19
<b>Appendix B</b>	Waveney District Council Prudential Indicators Outturn position for 2018/19

### **BACKGROUND PAPERS – none**

## Suffolk Coastal District Council - Compliance with Prudential Indicators 2018/19

**1 ESTIMATED AND ACTUAL CAPITAL EXPENDITURE**

- 1.1 This indicator is set to ensure that the level of proposed investment in capital assets remains within sustainable limits and in particular, to consider the impact on the Council Tax.

	2018/19	2018/19	2018/19
	Estimated £m	In Year Forecast	Outturn £m
<b>Total Capital Expenditure</b>	12.49	8.84	6.66

- 1.2 The £2.18m variance relates to programme delivery being deferred until 2019/20.

**2 ESTIMATED AND ACTUAL RATIO OF FINANCING COSTS TO NET REVENUE STREAM**

- 2.1 This is an indicator of affordability and demonstrates the revenue implications of capital investment decisions by highlighting the proportion of the revenue budget required to meet the borrowing costs associated with capital spending. The financing costs include existing and proposed capital commitments. Any increase in the percentages requires an increased contribution from the revenue account to meet the borrowing cost.
- 2.2 As the capital programme was fully funded through either capital grants and contributions, capital receipts or from reserves the cost to the revenue stream is Nil.

	2018/19	2018/19
	Estimated %	Outturn %
<b>Ratio of Financing Costs to Net Revenue Stream</b>	0	0

**3 CAPITAL FINANCING REQUIREMENT**

- 3.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. It takes account of both the borrowing requirement and the minimum revenue provision for debt repayment

	2018/19	2018/19
	Estimated £m	Outturn £m
<b>Capital Financing Requirement</b>	0	0

**4 AFFORDABLE BORROWING LIMIT, AUTHORISED LIMIT AND OPERATIONAL BOUNDARY FOR EXTERNAL DEBT**

- 4.1 **Authorised Limit:** This is the maximum amount of external debt that can be outstanding at one time during the financial year. The limit, which is expressed gross of investments, is consistent with the Council's existing commitments, proposals for capital expenditure and financing and with its approved treasury policy and strategy and also provides headroom over and above for unusual cash movements. This limit was set at £11m for 2018/19, with the actual total borrowing being nil.



- 4.2 **Operational Boundary:** This limit is set to reflect the Council's best view of the most likely prudent (i.e. not worst case) levels of borrowing activity and was set at £8m for 2018/19 with the actual borrowing amount being nil.

## 5 UPPER LIMITS FOR FIXED INTEREST RATE EXPOSURE AND VARIABLE INTEREST RATE EXPOSURE

- 5.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The exposures are calculated on a net basis, i.e. fixed rate debt net of fixed rate investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.
- 5.2 As the Council did not borrow during 2018/19 the outturn position was nil.

	2018/19	<b>2018/19</b>
	Estimated %	<b>Outturn %</b>
<b>Upper Limit for Fixed Rate Exposure</b>	100	<b>0</b>
<b>Upper Limit for Variable Rate Exposure</b>	100	<b>0</b>

## 6 MATURITY STRUCTURE OF FIXED RATE BORROWING

- 6.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.
- 6.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

<b>Maturity structure of fixed rate borrowing</b>	Upper limit %	Lower limit %	<b>Actual Borrowing as at 31<sup>st</sup> March 2019 £m</b>
under 12 months	100	0	<b>0</b>
12 months and within 24 months	100	0	<b>0</b>
24 months and within 5 years	100	0	<b>0</b>
5 years and within 10 years	100	0	<b>0</b>
10 years and within 20 years	100	0	<b>0</b>
20 years and above	100	0	<b>0</b>

- 6.3 No borrowing has been undertaken in 2018/19.

## 7 TOTAL PRINCIPAL SUMS INVESTED FOR PERIODS LONGER THAN 364 DAYS

- 7.1 The Council invested £5m with a Local Authority for a period of two years from October 2018 to October 2020 at a rate of 1.35%.
- 7.2 The Council has £2.39m invested into a long term property fund.

## Waveney District Council - Compliance with Prudential Indicators 2018/19

**1 ESTIMATED AND ACTUAL CAPITAL EXPENDITURE**

- 2.1 This indicator is set to ensure that the level of proposed investment in capital assets remains within sustainable limits and in particular, to consider the impact on the Council Tax and in the case of the HRA, housing rent levels.

	2018/19	2018/19	2018/19
	Estimated £m	In Year Forecast	Outturn £m
<b>Capital Expenditure</b>			
Non-HRA	19.58	5.95	<b>3.19</b>
HRA	19.91	12.12	<b>9.50</b>
<b>Total Capital Expenditure</b>	<b>39.49</b>	<b>18.07</b>	<b>12.69</b>

- 1.2 The £2.76m variance on Non-HRA and the £2.62m HRA variance relates to programme delivery being deferred until 2019/20.

**2 ESTIMATED AND ACTUAL RATIO OF FINANCING COSTS TO NET REVENUE STREAM**

- 2.1 This is an indicator of affordability and demonstrates the revenue implications of capital investment decisions by highlighting the proportion of the revenue budget required to meet the borrowing costs associated with capital spending. The financing costs include existing and proposed capital commitments. Any increase in the percentages requires an increased contribution from the revenue account to meet the borrowing cost. The variances are due to the reduced capital outturn position compared to what had been budgeted.

	2018/19	2018/19
	Estimated %	Outturn %
<b>Ratio of Financing Costs to Net Revenue Stream</b>		
Non-HRA	16.91	<b>5.94</b>
HRA	37.00	<b>31.00</b>

**3 CAPITAL FINANCING REQUIREMENT**

- 3.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council ensures that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

3.2 The Council met this requirement in 2018/19.

	2018/19	2018/19
	Estimated £m	Outturn £m
<b>Capital Financing Requirement</b>		
Non-HRA	37.42	<b>37.80</b>
HRA	77.75	<b>77.75</b>
<b>Total</b>	<b>115.17</b>	<b>115.55</b>

#### 4 AFFORDABLE BORROWING LIMIT, AUTHORISED LIMIT AND OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

- 4.1 **Authorised Limit:** This is the maximum amount of external debt that can be outstanding at one time during the financial year. The limit, which is expressed gross of investments, is consistent with the Council's existing commitments, proposals for capital expenditure and financing and with its approved treasury policy and strategy and provides headroom over and above for unusual cash movements. This limit was set at £122m for 2018/19, with the actual total borrowing being £87.57m.
- 4.2 **Operational Boundary:** This limit is set to reflect the Council's best view of the most likely prudent (i.e. not worst case) levels of borrowing activity and was set at £119m for 2018/19 with the actual borrowing amount being £87.57m.
- 4.3 The levels of debt are measured on an ongoing basis during the year for compliance with the Authorised Limit and the Operational Boundary. The Council maintained its total external borrowing and other long-term liabilities within both limits.

#### 5 UPPER LIMITS FOR FIXED INTEREST RATE EXPOSURE AND VARIABLE INTEREST RATE EXPOSURE

- 5.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The exposures are calculated on a net basis, i.e. fixed rate debt net of fixed rate investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	2018/19	2018/19
	Estimated %	Outturn %
<b>Upper Limit for Fixed Rate Exposure</b>	100	<b>77</b>
<b>Upper Limit for Variable Rate Exposure</b>	50	<b>23</b>

#### 6 MATURITY STRUCTURE OF FIXED RATE BORROWING

- 6.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period and in particular in the course of the next ten years.
- 6.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

<b>Maturity structure of fixed rate borrowing</b>	<b>Upper limit %</b>	<b>Lower limit %</b>	<b>Actual Borrowing as at 31 March 2019 £m</b>	<b>Percentage of total as at 31 March 2019 %</b>
under 12 months	50	0	<b>0</b>	<b>0</b>
1 year and within 2 years	50	0	<b>0</b>	<b>0</b>
2 years and within 5 years	75	0	<b>3.0</b>	<b>4</b>
5 years and within 10 years	75	0	<b>10.0</b>	<b>15</b>
10 years and within 20 years	75	0	<b>23.28</b>	<b>35</b>
20 years and above	100	0	<b>31.00</b>	<b>46</b>

6.3 All borrowing has been taken in conjunction with advice from the Council's Treasury Management Advisors.

## **7 TOTAL PRINCIPAL SUMS INVESTED FOR PERIODS LONGER THAN 364 DAYS**

7.1 There were no proposals for the Council to invest sums for periods longer than 364 days.

7.2 The Council has £2.39m invested into a long term property fund.

## **AUDIT & GOVERNANCE COMMITTEE**

Monday, 18 November 2019

### **INTERNAL AUDIT: REVISED ANNUAL INTERNAL AUDIT PLAN 2019-20**

#### **EXECUTIVE SUMMARY**

1. This report presents the proposed revised Internal Audit Plan for East Suffolk Council 2019-20. Each Head of Service has been informed of the amendment to the plan in their relevant area.
2. This report is being presented to the Audit & Governance Committee in accordance with the Committee's terms of reference which stipulate that the Committee is to *'approve, (but not direct) internal audit's work plan.'* Also *'to promote the value of the audit process.'*
3. Internal Audit Services acts in accordance with the Accounts and Audit Regulations (2015) and aims to follow the Public Sector Internal Audit Standards (PSIA) and Local Government Application Note (2013). This report has been prepared in accordance with our Audit Charter.
4. Since April 2019 Internal Audit Services has not been able to successfully recruit a suitably qualified experienced person to a Senior Audit vacancy. This has resulted in a shortfall of resources of approximately 185 days. The Head of Internal Audit using a risk-based approach has revised the 2019-20 Plan by deferring several assurance audits into the 2020-21 plan.
5. The revised Internal Audit Plan 2019-20 coverage should be sufficient, to enable the Head of Internal Audit to issue an opinion upon the governance arrangements at the Council.

Is the report Open or Exempt?	Open
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<b>Wards Affected:</b>	All Wards in the District
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<b>Cabinet Member:</b>	Councillor Steve Gallant Leader of the Council and Cabinet Member with responsibility for Resources
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<b>Supporting Officer:</b>	Name: Mrs Siobhan Martin Job Title: Head of Internal Audit Telephone Number: 01394 444254 Email address: siobhan.martin@eastsuffolk.gov.uk
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## **1 INTRODUCTION**

- 1.1 Internal Audit Services acts in accordance with the Accounts and Audit Regulations (2015) and aims to follow the Public Sector Internal Audit Standards (2016) and Local Government Application Note (2013). This report has been prepared in accordance with our Audit Charter. The Council is required under the Accounts and Audit Regulations to maintain an adequate and effective Internal Audit Service.
- 1.2 This report presents a revised risk-based Internal Audit Plan for 2019-20 as agreed with the Chief Executive and relevant Senior Officers.
- 1.3 The revised Internal Audit work plan is aligned to the East Suffolk Business Plan – ‘East Suffolk Means Business’, where the vision is to maintain and sustainably improve the quality of life for everyone growing up in, living in, working in and visiting East Suffolk. Planned and emerging Internal Audit exercises will directly support the good governance and risk management approach to the Council’s priorities: Enabling Communities; Economic Growth and Financial Self Sufficiency described in detail in the East Suffolk Business Plan.
- 1.4 The Audit and Governance Committee is responsible for overseeing the application of audit resources and monitoring performance of the audit function.
- 1.5 The work of the Internal Audit Service is to provide independent assurance and report upon the effective and efficient application of internal controls, governance arrangements and value for money at the Council. All Internal Audit reports form part of the crucial evidence to enable the Chief Executive and Leader of the Council to sign the Annual Governance Statement (the obligatory statement along with the Annual Accounts.) External Audit may also consider Internal Audit work to ensure that system controls are adequate and effective.
- 1.6 Internal Audit work aims to ensure services comply with the Council’s Constitution and Code of Corporate Governance. Internal Audit reports make recommendations to address any weaknesses identified and give direction on how to support continual improvement by providing professional advice and guidance.

## **2 HOW DOES THIS RELATE TO EAST SUFFOLK BUSINESS PLAN?**

- 2.1 The Audit and Governance Committee is directly responsible for supporting good governance arrangements and practices at the Council, which underpin the Council’s entire strategic and operational workings including the East Suffolk Business Plan. The Internal Audit Plan of work provides independent, fact-based evidence to Senior Management and the Audit and Governance Committee on the actual effectiveness of Council activities which support the East Suffolk Business Plan.

## **3 FINANCIAL AND GOVERNANCE IMPLICATIONS**

- 3.1 Internal Audit reports, advice and recommendations all aim to create and foster a robust corporate governance foundation to support sustainable services for all stakeholders. As a consequence, the Internal Audit Service aims to mitigate the risk of losses arising from error, irregularity and fraud. In addition, efficiency, effectiveness and economy reviews form part of the work undertaken, and this represents a fundamental function in delivering the Council’s corporate governance responsibilities.
- 3.2 The Local Government Act 1972 and the Accounts and Audit Regulations 2015 require principal local authorities to ‘...undertake an adequate and effective internal audit of its

accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control.'

- 3.3 The implications and benefits of agreed recommendations produced by the Internal Audit Service contribute to the Council's overall objectives by improving controls and processes, which contribute towards efficient and effective management of services.

#### **4 OTHER KEY ISSUES**

- 4.1 This report does not require an Equality Impact Assessment, a Sustainability Impact Assessment or a Partnership Impact Assessment.

#### **5 CONSULTATION**

- 5.1 The Head of Internal Audit has communicated this revised Internal Audit Plan to relevant officers within the Corporate Management Team.

#### **6 OTHER OPTIONS CONSIDERED**

- 6.1 The use of consultants or agency staff to undertake some of the planned work has been considered, but at this stage is deemed as not a viable option. Utilising partner Council resources is not feasible since they are also facing staff vacancy issues.

#### **7 REASON FOR RECOMMENDATION**

- 7.1 To support the Council's overall governance arrangements and to ensure that the Audit and Governance Committee fulfils its terms of reference by reviewing the appropriateness of the refreshed risk based strategic Internal Audit Plan for 2019-20.
- 7.2 The risk based Internal Audit Plan is influenced by the resources made available by the Council for Internal Audit work. A careful balance must be achieved in terms of keeping audit costs at a realistic level, whilst recognising that there is a minimum level of coverage that must be undertaken to ensure good governance and internal controls are in operation. In this respect, the Internal Audit Plan for 2019-20 that was agreed by Audit & Governance Committees (Suffolk Coastal 12 March 2019, Waveney District Council 07 March 2019) was at that time considered to have been a realistic plan of action.
- 7.2 Since April 2019 the Internal Audit Team has not been able to successfully recruit a suitably qualified experienced person to a Senior Audit vacancy. This has resulted in a shortfall of resources of approximately 185 days.
- 7.3 The Head of Internal Audit using a risk-based approach has revised the 2019-20 by deferring several assurance audits into the 2020-21 plan. These are detailed within the table below: -



<b>Audit (Equates to 185 audit days)</b>	<b>Deferred to 2020-21 or merged into other Internal Audits</b>	<b>Comments</b>
Payroll (including recruitment)	Deferred	The processes and controls in place for payroll form part of the contractual arrangements with Suffolk County Council. Internal Audit reviews of the payroll process have been undertaken on an annual basis and have not highlighted any major issues. This area is material to review given the size of the payroll budget but not time critical for 2019/20.
Treasury Management	Deferred	Treasury Management has formed part of the annual Internal Audit Plan historically every year. No major issues have been identified over the past three years.
Income (Cash) and Banking	Deferred/merged	The amount of cash collected has a very low material value and is not deemed a high risk, reducing the need to audit every year.  Some key controls in relation to banking will be merged into other reviews.
Commercial Rents	Deferred	A new system for Asset Management is currently being implemented. It is practical to review this area once the new system is in place.
Budgetary and Data Control	Deferred	This area will be fully audited within the 2020-21 Audit Plan. It has been deferred purely due to reduction in staff resources.
Declaration of Interests	Deferred	The revised Officers' Code of Conduct in the East Suffolk Constitution has been promoted to staff, and a requirement to declare interests has been added to induction procedures. Six monthly reminders to declare interests are published on the Council's intranet. This audit can therefore be deferred.
Asset Management Follow Up (Part 2)	Deferred	A new system for Asset Management is currently being implemented. It is practical to review this area once the new system is in place.
Organic Green Waste	Deferred	A new system is in the process of being implemented. It is practical to review this area once the new system is in place.

**RECOMMENDATION**

That the revisions made to the Annual Internal Audit Plan 2019-20 be commented upon and approved.

**BACKGROUND PAPERS**

Please note that copies of background papers have not been published on the Council's website but copies of the background papers listed below are available for public inspection free of charge by contacting the relevant Council Department.

Date	Type	Available From
2016	East Suffolk Business Plan 2015-2023	Head of Internal Audit
Feb 2018	Corporate Risk Register	
April 2013 & 2016	Public Sector Internal Audit Standards	



## AUDIT & GOVERNANCE COMMITTEE

Monday, 18 November 2019

### INTERNAL AUDIT REPORTS RECENTLY ISSUED

#### EXECUTIVE SUMMARY

1. Internal Audit reports are issued to the Audit and Governance Committee to enable the Committee to fulfil its Terms of Reference: 'To consider reports from the Head of Internal Audit...'
2. The Audit and Governance Committee is invited to comment upon the contents of the attached Internal Audit Reports:
  - a) Disabled Facilities Grant (DFG) Certification
  - b) Framlingham Connected Communities Pilot Scheme Grant Claim Form

Is the report Open or Exempt?	Open
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<b>Wards Affected:</b>	All
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<b>Cabinet Member:</b>	Councillor Steve Gallant Leader of the Council and Cabinet Member with responsibility for Resources
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<b>Supporting Officer:</b>	Mrs Siobhan Martin Head of Internal Audit 01394 444254 siobhan.martin@eastsuffolk.gov.uk
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## **1 INTRODUCTION**

- 1.1 Internal Audit reports are issued to the Audit and Governance Committee to enable the Committee to fulfil its Terms of Reference: 'To consider reports from the Head of Internal Audit...'.
- 1.2 Internal Audit Reports are independent, evidence-based documents that provide assurance on the level of governance in operation and a clear roadmap for improvement if required.
- 1.3 The Internal Audit reports attached have recently been issued to those listed on the report distribution lists.

## **2 BACKGROUND**

- 2.1 Full copies of the reports are forwarded to the Chief Executive and relevant senior officers, including the Section 151 Officer when appropriate.
- 2.2 Full reports are also sent to the relevant Portfolio Holder and all members of the Audit and Governance Committee once the reports are finalised.
- 2.3 All agreed recommendations are recorded on a database maintained by Internal Audit. This database provides the Head of Internal Audit with the mechanism to both track and chase up outstanding recommendations. Overdue recommendations which have poor governance implications are reported regularly to the Audit and Governance Committee.

## **3 HOW DOES THIS RELATE TO THE EAST SUFFOLK BUSINESS PLAN?**

- 3.1 The findings within each Internal Audit Report are directly linked to good governance arrangements and practices at the Council, which underpin the Council's strategic and operational workings including the East Suffolk Business Plan.

## **4 FINANCIAL AND GOVERNANCE IMPLICATIONS**

- 4.1 Each Internal Audit report details the financial and governance implications if applicable.
- 4.2 The Internal Audit reports presented to this Committee set out the main risks associated with the scope and objectives of that individual audit. A mechanism exists, including meetings between the Head of Internal Audit and Senior Management Team, to ensure that any remaining uncovered risks are fed back into the Audit risk model to ensure these are covered within the Strategic Audit Plan.
- 4.3 Any significant findings within individual reports will clearly state the associated risk that the Council is then exposing itself to.
- 4.4 A crucial element within the Council's risk environment is the implementation of the recommendations put forward by Internal Audit and agreed by Management.

## **5 OTHER KEY ISSUES**

- 5.1 There are no known implications in relation to this report over Equality Impact Assessment, Sustainability Impact Assessment or Partnership Impact Assessment.

## **6 CONSULTATION**

- 6.1 There is no requirement upon the Council in this instance. All those parties listed on the reports distribution lists have received the reports.

## **7 OTHER OPTIONS CONSIDERED**

- 7.1 There are no other options to be considered in the context of this report. Any legal, risk or equality impact implications are inherently captured in within each report.

## **8 REASON FOR RECOMMENDATION**

- 8.1 To ensure that this report is considered within the overall control environment operated within the Council, and that the Audit and Governance Committee assures itself that the coverage by Internal Audit as outlined in the Audit Plan is adequate, and endorses the recommendations in support of effective corporate governance.

### **RECOMMENDATIONS**

That the Audit and Governance Committee comments upon the contents of the following Internal Audit Reports:

1. Disabled Facilities Grant (DFG) Certification
2. Framlingham Connected Communities Pilot Scheme Grant Claim Form.

### **APPENDICES**

<b>Appendix A</b>	Internal Audit Report - Disabled Facilities Grant (DFG) Certification
<b>Appendix B</b>	Internal Audit Report - Framlingham Connected Communities Pilot Scheme Grant Claim Form

### **BACKGROUND PAPERS**

<b>Date</b>	<b>Type</b>	<b>Available From</b>
2016	Public Sector Internal Audit Standards	Head of Internal Audit Siobhan.martin@eastsoffolk.gov.uk
April 2019	East Suffolk Council Internal Audit Charter	Head of Internal Audit Siobhan.martin@eastsoffolk.gov.uk



# Final Internal Audit Report

## Disabled Facilities Grant Certification

Issued by the Head of Internal Audit, October 2019

Audit Assurance Opinion	<b>Effective</b>	Evaluated controls are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives are being met.
	<b>Reasonable</b>	Some specific control weaknesses were noted and some improvement is needed; evaluated controls are generally adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
	<b>Limited</b>	Evaluated controls are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
	<b>Ineffective</b>	Evaluated controls are not adequate, appropriate, or effective. Internal Audit cannot provide reasonable assurance that risks are being managed.

Distribution List	<b>Responsible Officers:</b>	Head of Housing Services Principal Environmental Health Officer
	<b>For Information:</b>	Strategic Management Team Leader of the Council, Cllr S Gallant Cabinet Member for Housing, Cllr R Kerry Audit and Governance Committee Chief Finance Officer and Section 151 Officer Ernst & Young (External Auditor)

## Adequacy of Individual Control Areas

Audit Scope by Control Area	Findings with a Potential Corporate Risk Level of:			Control Adequacy
	High	Medium	Low	
Compliance with funding conditions	0	0	0	Effective
Receipt of funds	0	0	0	Effective
<b>OVERALL</b>				<b>Effective</b>

### 1. Executive Summary

- 1.1 The objective of the audit was to verify that Disabled Facilities Grants (DFGs) for 2018/19 were administered in accordance with grant conditions determined by central government.
- 1.2 The overall assurance of **Effective** has been made on the basis of the control framework observed during testing.
- 1.3 DFGs are means tested grants which are paid to disabled residents for adaptations to their homes, and funded for 2018/19 via Suffolk County Council (SCC).
- 1.4 Suffolk Coastal and Waveney District Councils received £1,590,240 of funding from SCC. Grant payments paid during the year totalled £1,678,672, and as at 2 September 2019, committed funds totalled £252,584. Whilst this appears to be an overspend, this is covered by the funding carried forward from previous years.
- 1.5 All grants reviewed had been administered in accordance with the grant conditions, and the correct grant allocation was received by Suffolk Coastal and Waveney District Councils. Therefore, no recommendations have been raised as part of this review.
- 1.6 Suffolk County Council's Chief Executive and Head of Audit Services are required to provide an assurance declaration to the Ministry of Housing, Communities and Local Government that DFG grant conditions have been met. The Head of Internal Audit will use the results of this audit to provide assurance to SCC in support of their declaration.

## **2. Supporting Details**

### **2.1 Links to Council Service Delivery**

This review considered achievement of the organisations strategic objectives and risks, specifically this audit contributes towards:

- Business Objective – to ensure Disabled Facilities Grants are administered in accordance with the grant conditions.
- East Suffolk Business Plan – Enabling Communities and Housing.

### **2.2 Scope of Internal Audit Activity**

Internal Audit will seek to enhance and protect organisational value by providing risk based and objective assurance. The work performed by Internal Audit provides an opportunity to make significant improvements to governance arrangements, risk management and control processes.

This report is being issued by East Suffolk Council, and relates to the activities of Suffolk Coastal District Council (SCDC) and Waveney District Council (WDC) in 2018/2019. This audit has been undertaken as part of the Annual Audit Plan 2019/20, approved by the Audit and Governance Committees of SCDC on 12 March 2019 and WDC on 7 March 2019.

This audit has been conducted in conformance with the International Standards for the Professional Practice of Internal Auditing, and the UK's current Public Sector Internal Audit Standards.

This audit assessed systems and records held by the relevant Private Sector Housing team from 1 April 2018 to 31 March 2019.

### **2.3 Definitions of Risk and Control**

This audit uses the definition of Risk set out in the Council's Risk Management Strategy.

The definition of Control is taken from the Chartered Institute of Internal Audit:

“Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.”

### **2.4 Effectively Functioning Controls**

We would like to draw management attention to the controls in operation over processes and procedures that were confirmed via audit testing as operating effectively and efficiently:



- Grants reviewed were administered in line with the grant conditions, and were supported by sufficient documentation.
- SCDC and WDC received the grant in the correct time period, and received the correct amount as agreed by the Suffolk Housing Board.

## 2.5 Audit Team

The audit team for this review comprised

Audit Manager	L Fuller
Auditor	S Potter

## 2.6 Acknowledgements

We would like to thank the management and staff of Private Sector Housing for their co-operation and time during the course of this audit.



This audit has been undertaken in accordance with the Internal Audit Partnership arrangements between East Suffolk Council and Ipswich Borough Council.

## Internal Audit Memo Report



### Framlingham Connected Communities' Pilot Grant Claim Form

**Issued to:** Strategic Director (N Khan), Head of Communities (N Rickard), Enabling Communities Business Manager (W Gibson)

**Issued by:** Siobhan Martin, Head of Internal Audit

**Date:** 16 April 2019

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#### Scope and Objective of Review

This review provides consultancy support to the Communities Team, and will be reported as an addition to the 2019/20 risk-based Internal Audit plan, which was approved by the Audit and Governance Committee at Suffolk Coastal District Council (SCDC) on 12 March 2019 and Waveney District Council on 7 March 2019.

The objectives for this review were:

- Business objective: grant claim forms for the Framlingham Connected Communities Pilot contain adequate and appropriate conditions to ensure Council funds are used effectively.
- Audit objective: to evaluate the wording of the grant conditions form and provide advice and guidance on their adequacy.

This review assessed the claim form provided by the Communities Team relating to the 2019/2020 scheme against best practice claim forms and terms and conditions. This scheme is internally funded, and therefore there are no external conditions the Council is required to comply with. This review did not assess the application process, awarding criteria or reporting and monitoring of the scheme.

#### Positive Findings

The grant form supplied by the Communities Team contained the following statements, which are recognised as best practice:

- The amount of grant which has been awarded and who it has been awarded to.
- Conditions of the grant.
- Reporting requirements.

- A Data Protection statement which detailed information retention, data sharing, and reference to the Council's privacy notice.

### Advice for Consideration

The grant form supplied by the Communities Team did not include conditions in the following areas, and consideration should be given to including these within the form, where appropriate. This list should not be considered exhaustive, and where items listed are not applicable should be adapted to the needs of the service.

### Financial Arrangements

- Clarification on grant repayments or clawback, e.g. if the recipient is required to repay any unused funds or repayment criteria if the grant conditions are not met.
- Payment arrangements by the Council, e.g. if the payments will be made in instalments or if it is a one-off payment.
- Confirmation that no additional Council funding will be available in the event of cost overruns.
- Arrangements where grant funding is used to generate income or surpluses, e.g. the income may be payable to the Council.
- Arrangement or restrictions on using funds as capital, and the treatment of any assets created or improved with grant funding including capital receipts.
- Match funding requirements (if applicable).
- Assessment that funding does not constitute State Aid (e.g. under the de minimis of €200k over 3 years).

### Grant Conditions

- Clarification on how the grant can be used (eligible expenditure), for example:
  - The grant can only be used in accordance with the conditions.
  - The types of purchases which are appropriate.
  - Procurement requirements.
  - Funding is net of VAT and the Council is not responsible for paying additional VAT costs.
- Clarification on how the grant cannot be used, for example:
  - To pay members of their governing body, purchase of buildings or land, hire purchase, or to pay arrears, entertainment expenses, fines or penalties.
  - Activities which may bring the Council into disrepute.
- Conflicts or declarations of interest by the recipients, and gifts and hospitality.
- Recipients' responsibilities with regards to insurance arrangements, confidentiality, data protection, safeguarding, health and safety, equalities, value for money, fraud prevention, etc.
- Indemnity and the Council's limitation of liability for the recipient's activities in using the grant.
- The recipient is responsible for ensuring any third parties are suitable. Alternatively, restrictions on the use of third parties.

- Start and end date of the project.
- Copyright and Intellectual Property Rights of any material created using the funding.
- Interpretation of the agreement and conditions to be in accordance with English law.
- Dispute resolution.

### Reporting and Monitoring

- Cooperation and the Council's right to request additional information on how the grant has been spent, i.e. "rights of audit".
- The requirement for recipients to inform the Council of any potential or actual non-compliance with the conditions.
- The requirement for recipients to inform the Council of any suspected fraud, insolvency, financial difficulties, or any other matter that could affect the use of the grant funding.
- Records which need to be maintained by the recipient and the retention period, e.g. invoices and timesheets that demonstrate expenditure of the funding was eligible.
- Reporting requirements at the end of the grant period which confirm if all conditions have been met, and if the project has been successful.
- Termination or variation of the funding agreement and conditions.
- Funding acknowledgement and publicity requirements.
- Acknowledgement of the grant in the recipient's statement of accounts.
- The Council's obligations under Freedom of Information legislation, including the possibility that grant letters may be published.
- Complaint management, where it relates to funding activities.

This review assessed the claim form provided by the Communities Team against good governance and national practices. Enquiries should be made with the Legal Team to ensure any conditions are legally enforceable.

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Audit reports contain confidential information which may highlight weaknesses in the Council's internal control environment, and if released could increase the Council's exposure to risk. All distributed draft and final Internal Audit reports remain the property of the Head of Internal Audit and relevant Head of Service and may not be shared without agreement.