



2 November 2020

AUDIT AND ETHICS COMMITTEE – 10 NOVEMBER 2020

A meeting of Audit and Ethics Committee will be held at 5.30pm on Tuesday 10 November 2020 via Microsoft Teams.

Due to the current COVID19 pandemic, members of the public may view the meeting via the livestream available on the Council's website.

Mannie Ketley
Executive Director

A G E N D A

PART 1 – PUBLIC BUSINESS

1. Minutes

To confirm the minutes of the meeting held on 7 July 2020.

2. Apologies

To receive apologies for absence from the meeting.

3. Declarations of Interest

To receive declarations of:

(a) non-pecuniary interests as defined by the Council's Code of Conduct for Councillors;

(b) pecuniary interests as defined by the Council's Code of Conduct for Councillors; and

(c) notice under Section 106 Local Government Finance Act 1992 – non-payment of Community Charge or Council Tax.

Note: Members are reminded that they should declare the existence and nature of their non-pecuniary interests at the commencement of the meeting (or as soon as the interest becomes apparent). If that interest is a pecuniary interest the Member must withdraw from the room unless one of the exceptions applies.

Membership of Warwickshire County Council or any Parish Council is classed as a non-pecuniary interest under the Code of Conduct. A Member does not need to declare this interest unless the Member chooses to speak on a matter relating to their membership. If the Member does not wish to speak on the matter, the Member may still vote on the matter without making a declaration.

4. Approval of Accounts 2019/20 (to follow)
5. Treasury Management Report 2020/21 - Progress Report
6. Annual Fraud Report
7. External Validation of Coronavirus Health and Safety Risk Assessment
8. 2020/21 Internal Audit Plan - Progress Update
9. Motion to Exclude the Public under Section 100(A)(4) of the Local Government Act 1972

To consider passing the following resolution:

“Under Section 100(A)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following items on the ground that they involve the likely disclosure of information defined in paragraphs 1, 2 and 3 of Schedule 12A of the Act.”

PART 2 – EXEMPT INFORMATION

1. Whistle Blowing Incidents – Standing Item – to receive any updates.
2. Fraud and Corruption Issues – Standing Item – to receive any updates.

Any additional papers for this meeting can be accessed via the website.

The Reports of Officers are attached.

Membership of the Committee: Mr P Dudfield (Chairman), Mr J Eves (Vice-Chairman), Councillors Cranham, McQueen, Mistry and Pacey-Day

Named Substitutes: Councillors Butlin, Mrs O'Rourke, Roodhouse and Stokes

If you have any general queries with regard to this agenda please contact Veronika Beckova, Democratic Services Officer (01788 533591 or e-mail veronika.beckova@rugby.gov.uk). Any specific queries concerning reports should be directed to the listed contact officer.

AGENDA MANAGEMENT SHEET

Report Title: Treasury Management Report 2020/21 - Progress Report

Name of Committee: Audit and Ethics Committee

Date of Meeting: 10 November 2020

Report Director: Interim Chief Financial Officer

Portfolio: Corporate Resources

Ward Relevance: All

Prior Consultation: Treasury Management Strategy 2020/21 – 2022/23 Cabinet February 2020

Contact Officer: Jon Illingworth, Financial Services Manager and Interim Chief Financial Officer
01788 533410
jon.illingworth@rugby.gov.uk

Public or Private: Public

Report Subject to Call-In: Yes

Report En-Bloc: Yes

Forward Plan: Yes

Corporate Priorities: This report relates to the following priority(ies):

(CR) Corporate Resources To provide excellent, value for money services and sustainable growth

(CH) Communities and Homes Achieve financial self-sufficiency by 2020

(EPR) Environment and Public Realm Enable our residents to live healthy, independent lives

(GI) Growth and Investment Optimise income and identify new revenue opportunities (CR)

Prioritise use of resources to meet changing customer needs and demands (CR)

Ensure that the council works efficiently and effectively (CR)

Ensure residents have a home that works for them and is affordable (CH)

Deliver digitally-enabled services that residents can access (CH)

Understand our communities and enable people to take an active part in them (CH)

- Enhance our local, open spaces to make them places where people want to be (EPR)
- Continue to improve the efficiency of our waste and recycling services (EPR)
- Protect the public (EPR)
- Promote sustainable growth and economic prosperity (GI)
- Promote and grow Rugby's visitor economy with our partners (GI)
- Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)
- This report does not specifically relate to any Council priorities but

Statutory/Policy Background: The Council's Treasury Management activities are strictly regulated by the Local Government Act 2003 and the CIPFA Code of Practice on Treasury Management.

Summary: The report sets out the Treasury Management activities from April 1 – September 30 .

Financial Implications: The report ensures that the Council is aware of the current Treasury Management position.

Risk Management Implications: There are no risk management implications arising from this report.

Environmental Implications: There are no environmental implications arising from this report.

Legal Implications: There are no legal implications arising from this report.

Equality and Diversity: There are no equality and diversity implications arising from this report.

Recommendation: (1) The report be noted; and
(2) The monitoring and review of the Treasury Management indicators be agreed.

Reasons for Recommendation: To comply with the Code of Practice

Audit and Ethics Committee - 10 November 2020

Treasury Management Report 2020/21 - Progress Report

Public Report of the Chief Financial Officer

Recommendation

1. The report be noted; and
2. The monitoring and review of the Treasury Management indicators be agreed.

1.1 INTRODUCTION

On 25 February 2020, in accordance with the *CIPFA Code of Practice for Treasury Management in the Public Sector*, Council approved the Treasury Management Strategy for 2020/21 – 2022/23. The Code requires the Council to approve a treasury management strategy before the start of each financial year, a mid-year report, and an annual report after the end of each financial year. The code requires local authorities to comply with three key principles:

KEY PRINCIPLE 1

*Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the **effective management and control of their treasury management activities.***

KEY PRINCIPLE 2

*Their policies and practices should make clear that **the effective management and control of risk** are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that **priority is given to security and portfolio liquidity** when investing treasury management funds.*

KEY PRINCIPLE 3

*They should acknowledge that the **pursuit of value for money** in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.*

This is a report on the Treasury Management activities for the first half of 2020/21 (the mid-year report).

In addition to its own resources (General Fund and Housing Revenue Account (HRA) balances, capital receipts, etc.) the Council also collects council tax on behalf

of Warwickshire County Council, the Office of the Police and Crime Commissioner for Warwickshire, and Parish Councils. This means that at given points of time during the financial year, the Council has significant cash holdings which require management prior to scheduled payment dates to the preceptors. A summary of transactions, and the levels of investments and borrowings held, is contained within this report.

The Interim Chief Financial Officer is pleased to report that all treasury management activity undertaken during the period complied with the approved strategy, the *CIPFA Code of Practice*, and the relevant legislative provisions.

1.2 ECONOMIC REVIEW APRIL – SEPTEMBER 2020

UK As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6 August 2020. It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

- The fall in **GDP** in the first half of 2020 was revised from 28% to 23%. This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.
- The peak in the **unemployment rate** was revised down from 9% in Q2 to 7½% by Q4 2020.
- It forecast that there would be excess demand in the economy by Q3 2022 causing **CPI inflation** to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

It also squashed any idea of using **negative interest rates**, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be “less effective as a tool to stimulate the economy” at this time when banks are worried about future loan losses. It also has “other instruments available”, including QE and the use of forward guidance.

The MPC (Monetary Policy Committee) still expects the £300bn of **quantitative easing (QE)** purchases announced between its March and June meetings to continue until the “turn of the year”. This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.

In conclusion, this would indicate that the Bank can now just *sit on its hands* as the economy is recovering better than expected. However, the MPC acknowledged that the “medium-term projections were a less informative guide than usual” and the minutes had multiple references to **downside risks**, which were judged to persist both in the short and medium term. One has only to look at the potential for a second wave of the virus to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down in the furlough scheme through to the end of October is

another development that could cause the Bank to review the need for more support for the economy later in the year. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.

Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. There will also be some painful longer term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.

One key addition to **forward guidance** was a new phrase in the policy statement, namely that “it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably”. That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years’ time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate

The **Financial Policy Committee** (FPC) report on 6 August revised down their expected credit losses for the banking sector to “somewhat less than £80bn”. It stated that in its assessment “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.

Overall, it is expected that there has been a strong pickup in economic growth during the back-end of quarter 2 of 2020. However, that pace is likely to fade as the furlough scheme ending in October will lead to many job losses during the second half of the year. Consumers will also probably remain cautious in spending and this will dampen growth. Uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind.

1.3 INTEREST RATE OUTLOOK

The Council’s treasury advisor, Link Group, has provided the following forecasts (PWLB rates are certainty rates):

| Link Group Interest Rate View 11.8.20 | | | | | | | | | | | |
|---------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
| Bank Rate View | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| 3 Month average earnings | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | - | - | - | - |
| 6 Month LIBID | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | - | - | - | - |
| 12 Month LIBID | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | - | - | - | - |
| 5yr PWLB Rate | 1.90 | 1.90 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.10 | 2.10 | 2.10 | 2.10 |
| 10yr PWLB Rate | 2.10 | 2.10 | 2.10 | 2.10 | 2.10 | 2.20 | 2.20 | 2.20 | 2.30 | 2.30 | 2.30 |
| 25yr PWLB Rate | 2.50 | 2.50 | 2.50 | 2.50 | 2.60 | 2.60 | 2.60 | 2.70 | 2.70 | 2.70 | 2.70 |
| 50yr PWLB Rate | 2.30 | 2.30 | 2.30 | 2.30 | 2.40 | 2.40 | 2.40 | 2.50 | 2.50 | 2.50 | 2.50 |

Additional notes by Link on this forecast table:

As LIBOR(London Inter Bank Offer Rate) rates will cease from the end of 2021, there are no LIBID (London Inter Bank Bid Rate) London Interbank forecasts for 2022/23. Link will be continuing to look at market developments in this area and will monitor these with a view to communicating with clients when full financial market agreement is reached on how to replace LIBOR. This is likely to be an iteration of the overnight SONIA (Sterling Overnight Index Average) rate and the use of compounded rates and Overnight Index Swap (OIS) rates for forecasting purposes.

1.4 INTERIM INVESTMENT REPORT AND SUMMARY OF TRANSACTIONS

Interest earned on investments is an important source of income to the Council, and, like fees and charges, provides funding which would otherwise have to be met from increased council tax.

The average investment balance held between April and September 2020 was £88.818m and the average rate of return was 1.28%, 0.48% above the local authority benchmark of 0.80%. This generated investment income of £0.568m. The investment income received exceeded the budgeted to date figure by approximately £0.461m. Investment income is apportioned between General Fund, HRA, and other reserves (Section 106, Major Repairs Reserve, etc.) based on average balances and cash-flows during the course of the financial year.

The average debt balance held between April and September 2020 (General Fund and Housing Revenue Account) was £153.999m and the average rate paid was 2.88%, generating interest payable of £1.59m. Interest payable was slightly higher than the budgeted to date figure by approximately £0.32m.

The latest year end position for 2020/21 for the General Fund net cost of borrowing (interest paid less interest received) is to be £0.171m under budget¹. This is based on the forecast for investment balances to fall during the next six months; for market interest rates to remain static or rise only slightly; and utilising the investment products prescribed in the revised 2019/20 – 2021/22 investment strategy.

The following table summarises the treasury management transactions undertaken during the first half of this financial year:

Please see **Appendix A** and **Appendix B** for full portfolio details.

| | Principal Amount £m | Interest Rate % |
|---------------------------------------------|---------------------|-----------------|
| Investments - as at 31 March 2020 | 133.046 | 1.30% |
| - matured in period | (85.308) | |
| - arranged in period | 99.651 | |
| - as at 30 Sept 2020 | 147.389 | 1.25% |
| Debt - as at 31 March 2020 | 133.999 | 2.94% |
| - matured/repaid in period | 0 | |
| - arranged in period | 40.000 | |
| - as at 30 Sept 2020 | 173.999 | 2.88% |
| Net Investments at 31 March 2020 | (000.009) | |
| Net Investments at 30 September 2020 | (026.610) | |

No debt restructuring took place during the period 1 April 2020 to 30 September 2020.

1.5 DEBT MANAGEMENT STRATEGY

The borrowing strategy approved (in February) highlighted the approaching substantial works to be undertaken in the redevelopment of the Council's multi-storey flat sites and the rise in its HRA Capital Financing Requirement from 2020/21 onwards. As long-term interest rates fell during April 2020 with the onset of the coronavirus lockdown period, the Council was able to secure a further £40m of borrowing to add to the HRA debt pool in advance of these works. Utilising the HRA Certainty rate introduced by the Chancellor in his March budget, the Council was able to secure a 50-year PWLB maturity loan at 1.27% securing a cost of capital at 1.23% below its HRA business plan forecast of 2.50%.

As a consequence of the above the authority will be 'overborrowed' as at the 31 March 2021 (£136.500m forecast gross debt vs. £120.700m forecast Capital Financing Requirement) This will mean that the authority incurs a 'cost of carry' (paying interest costs which cannot be wholly mitigated from temporary investment income) whilst it holds borrowing awaiting capital expenditure to be undertaken. However, the forecast long term saving of 20 - 30 basis points by borrowing in advance of need (c£66,000,000 over a 50 year term) will more than mitigate the short term differential in cost of carry (c.£120,000 - £150,000).

The Council will look to match financing with asset life where appropriate and has the option to utilise the Public Works Loan Board (PWLB), other authorities, financial institutions, or 'internal borrowing', that is cash supporting the Council's reserves, balances and cash flow as a temporary measure. The Council continues to monitor the progress of the UK Municipal Bonds Agency (UKMBA), created by the Local Government Association with local authority shareholders.

In addition to borrowing from external sources the Council has the option of 'intra-fund' borrowing – that is, loans between the General Fund and Housing Revenue Account (HRA). In consultation with its treasury management advisors the Council will continue to look at this facility over the term of the General Fund Medium Term Financial Plan and the HRA Business Plan to ensure opportunities are maximised.

1.6 TREASURY MANAGEMENT INDICATORS

The Council measures its exposures to treasury management risks using the following indicators. Council is asked to note the following indicators as at 30 September 2020.

Security: average credit rating

To measure the security of its portfolio, the Council compares the historic risk of default of its investments against a maximum target rate.

As an example, based on historic data, a AAA (least risk) rated investment has 0% chance of default within 1 year and a 0.05% chance of default within 3 years. A BBB+ (most risk) rated investment has a 0.22% chance of default within 1 year and a 1.21% chance of default within 3 years. There have been no default events associated with any counterparties the Council has utilised within its investment

portfolio since 2009 at the time of the Icelandic banking collapse. All funds and accrued interest held at that time were subsequently reclaimed via the administration process.

Using the criteria above, the Council's overall portfolio at 30 September 2020 had a 0.028% risk of default, equating to an estimated loss (weighted by length of investment of) of £19,076 in the event of default.

| | Limit | Actual | Met? |
|--------------------------|-------------|--------|------|
| Historic risk of default | 0.25% (max) | 0.028% | ✓ |

Maturity structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk – that all borrowing falls due for repayment at the same time. The repayment structure of fixed rate borrowing (loans of 12 months or longer) was:

| | Upper Limit | Lower Limit | Actual | Met? |
|---------------------------------|-------------|-------------|--------|------|
| Under 12 months | 50% | 0% | 41% | ✓ |
| 12 months and within 24 months | 50% | 0% | 9% | ✓ |
| 24 months and within five years | 60% | 0% | 17% | ✓ |
| Five years and within 10 years | 60% | 0% | 11% | ✓ |
| 10 years to 20 years | 75% | 0% | 1% | ✓ |
| 20 years to 30 years | 75% | 0% | 5% | ✓ |
| 30 years + | 75% | 0% | 16% | ✓ |

The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. It is used in conjunction with the liquidity indicator to ensure sufficient cash resources are available without penalty during the short to medium term. The total principal sums invested to final maturities beyond the year end were:

| | 2020/21 | 2021/22 | 2022/23 |
|---------------------------------------------|---------|---------|---------|
| Limit on principal invested beyond year end | £70.00m | £70.00m | £70.00m |
| Actual principal invested beyond year end | £35.44m | £21.50m | £7.50m |
| Within limit? | ✓ | ✓ | ✓ |

1.7 CAPITAL STRATEGY

The Council is required each year to publish and approve an Investment Strategy within its overall Capital Strategy for the year ahead. This is a requirement of revised statutory guidance (the Prudential Code) issued by the Government in January 2018. In particular the strategy should focus on the support of local public services by lending to or buying shares in other organisations or its own subsidiaries (service investments) and commercial property investment income.

The original Investment Strategy was approved by Council at budget setting in February 2020 but noted:

“...Council could lend to a potential subsidiary should it recommend the creation of a housing company...the Council report that approves the setting up of any subsidiary would also amend the Investment Strategy limit.”

In July and September this year Council approved the formation of *Rugby HoldCo* and *Rugby GrowthCo* to facilitate trading operations and a housing development joint venture. The Council's upper limit on exposure to service investments loans of £20m remains unaltered from the original limit approved in February 2020. It includes capacity to provide loan finance to the Material Recycling Facility (MRF) approved by Council in September 2019 and sufficient headroom to provide development financing to GrowthCo as set out in indicative proposals presented to Council in the respective reports.

A revised Investment Strategy will be presented to Audit and Ethics Committee for Council approval within the Capital Strategy 2021/22 – 2023/24 as part of the budget setting process for the new financial year. The strategy will include revisions to the Investment Strategy limits and indicators where appropriate.

1.8 CORONAVIRUS

Although a major issue from a budget monitoring perspective, there are no imminent issues to report as a result of Coronavirus and the Council has good access to cash if there are any immediate issues as a result of the pandemic.

As part of the budget setting process a reserves risk assessment is completed for the main corporate reserves set aside to respond and manage financial risks in the medium term. However, the Coronavirus pandemic will require this assessment to be reviewed and updated on a regular basis with known assumptions on the financial impact. What the risk assessment shows is that there is potentially a funding gap of £3.244m in our corporate reserves if all the risks crystallised, particularly the funding risks.

This will have an impact on treasury management because as the reserves are utilised investment income will also decline.

As part of the range of support measures for businesses affected by COVID-19, the government announced a Coronavirus Business Loan Interruption Scheme (CBILS). It supports small and medium sized businesses to access loans, overdrafts and invoice finance of up to £5 million for up to six years. The scheme is delivered through commercial lenders, backed by the Government-owned British Business Bank. Importantly, the Government provides lenders with a guarantee of up to 80% on each loan. The Government also makes a Business Interruption Payment to cover the first 12 months of interest payments and any lender fees.

Accredited lenders for the scheme include all major banks and local, alternative finance providers such as Coventry and Warwickshire Reinvestment Trust (CWRT) which are an arm of the Coventry and Warwickshire LEP.

To support the recovery process and to offer prompt access to cash, the Council has also committed to provide a loan of up to £0.250m, repayable over a 6 year term to CWRT which will be funded by reserves. It is currently expected that this will lead to 4 loans which will help to secure 40 jobs in the borough.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 10 November 2020
Subject Matter: Treasury Management Report 2020/21 - Progress Report
Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY YES NO

LIST OF BACKGROUND PAPERS

| Doc No | Title of Document and Hyperlink |
|--------|---------------------------------|
| | |
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The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

Exempt information is contained in the following documents:

| Doc No | Relevant Paragraph of Schedule 12A |
|--------|------------------------------------|
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| INVESTMENTS | | | |
|---------------------------------|-----------------|------------------------|-------------------------|
| Counterparty | Int Rate | Principle £000s | Date of Maturity |
| Furness BS | 0.75% | 2,000 | 16/10/2020 |
| SKY Plc - Bond | 0.61% | 2,009 | 24/11/2020 |
| Northumberland CC | 1.00% | 1,000 | 02/12/2020 |
| Lloyds | 1.10% | 1,000 | 02/12/2020 |
| Northumberland CC | 1.30% | 2,000 | 16/12/2020 |
| Northumberland CC | 1.15% | 2,000 | 21/12/2020 |
| Rotherham BC | 0.97% | 5,000 | 11/01/2021 |
| Coventry City Council | 0.92% | 5,000 | 20/01/2021 |
| Plymouth CC | 0.25% | 5,000 | 28/01/2021 |
| Medway Council | 1.12% | 5,000 | 16/03/2021 |
| Total Maturing 2020/21 | | 30,009 | |
| Total Maturing 2021/22 | | 70,940 | |
| Total Maturing 2022/23 + | | 46,440 | |
| Grand Total | | 147,389 | |

| LOANS | | | |
|---------------------------------|-----------------|------------------------|-------------------------|
| Counterparty | Int Rate | Principle £000s | Date of Maturity |
| Mid Devon District Council | 0.90% | 1,000 | 07/10/2020 |
| North Somerset DC | 1.00% | 1,000 | 09/10/2020 |
| Wokingham BC | 1.10% | 5,000 | 23/11/2020 |
| LB Kensington & Chelsea | 1.10% | 7,000 | 17/12/2020 |
| Halton BC | 1.42% | 10,000 | 20/12/2020 |
| Oxford CC | 1.00% | 5,000 | 17/01/2021 |
| PWLB | 2.21% | 8,500 | 28/03/2021 |
| Total Maturing 2020/21 | | 37,500 | |
| Total Maturing 2021/22 | | 45,900 | |
| Total Maturing 2022/23 + | | 90,600 | |
| Grand Total | | 174,000 | |

AGENDA MANAGEMENT SHEET

Report Title: Annual Fraud Report

Name of Committee: Audit and Ethics Committee

Date of Meeting: 10 November 2020

Report Director: Executive Director

Portfolio: Corporate Resources

Ward Relevance: None

Prior Consultation: Interim Chief Financial Officer

Contact Officer: Chris Green, Corporate Assurance and Improvement Manager
01788 533451
chris.green@rugby.gov.uk

Public or Private: Public

Report Subject to Call-In: No

Report En-Bloc: No

Forward Plan: No

Corporate Priorities: This report relates to the following priority(ies):

(CR) Corporate Resources To provide excellent, value for money services and sustainable growth

(CH) Communities and Homes Achieve financial self-sufficiency by 2020

(EPR) Environment and Public Realm Enable our residents to live healthy, independent lives

(GI) Growth and Investment Optimise income and identify new revenue opportunities (CR)

Prioritise use of resources to meet changing customer needs and demands (CR)

Ensure that the council works efficiently and effectively (CR)

Ensure residents have a home that works for them and is affordable (CH)

Deliver digitally-enabled services that residents can access (CH)

Understand our communities and enable people to take an active part in them (CH)

Enhance our local, open spaces to make them places where people want to be (EPR)

- Continue to improve the efficiency of our waste and recycling services (EPR)
- Protect the public (EPR)
- Promote sustainable growth and economic prosperity (GI)
- Promote and grow Rugby's visitor economy with our partners (GI)
- Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)

| | |
|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Statutory/Policy Background: | 1. Anti-Fraud, Bribery and Corruption Strategy 2. Fraud Response Plan |
| Summary: | The report sets out the work which has been carried out internally during the last year, under the three key principles of: <ul style="list-style-type: none"> a) Acknowledging and understanding fraud risks; b) Preventing and detecting fraud; and c) Pursue – being stronger in punishing fraud and recovering losses |
| Financial Implications: | No direct implications |
| Risk Management Implications: | No direct implications |
| Environmental Implications: | No direct implications |
| Legal Implications: | No direct implications |
| Equality and Diversity: | No direct implications |
| Options: | None |
| Recommendation: | That the report be considered and noted. |
| Reasons for Recommendation: | To comply with the requirements of the terms of reference of the Audit and Ethics Committee, and to discharge the Committee's responsibilities under the Constitution. |

Audit and Ethics Committee - 10 November 2020

Annual Fraud Report

Public Report of the Executive Director

Recommendation

The report be considered and noted.

1. Introduction

1.1 The Committee is responsible for oversight of the effectiveness of the Council's counter fraud activity. To assist the Committee in the discharge of these responsibilities an annual report has been produced setting out the work which has been carried out internally during the last year, under the three key principles of:

- a) Acknowledging and understanding fraud risks;
- b) Preventing and detecting fraud; and
- c) Pursue – being stronger in punishing fraud and recovering losses

2. Report

2.1 Further progress has been made in the last year to implement the Anti-Fraud, Bribery and Corruption Strategy, and additional work is included in the internal audit plan for 2020/21. Details are set out in the report at **Appendix A**.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 10 November 2020

Subject Matter: Annual Fraud Report

Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY **YES** **NO**

LIST OF BACKGROUND PAPERS

| Doc No | Title of Document and Hyperlink |
|---------------|----------------------------------------|
| Appendix A | Annual Fraud Report |
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The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

Exempt information is contained in the following documents:

| Doc No | Relevant Paragraph of Schedule 12A |
|---------------|-------------------------------------------|
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Appendix A

RUGBY BOROUGH COUNCIL

ANNUAL FRAUD REPORT

2019/20

Date: 20 October 2020

Annual Fraud Report 2019/20

1. BACKGROUND

- 1.1 In November 2015, responsibility for Housing Benefit fraud investigation transferred to the Department for Work and Pensions (DWP). Other corporate fraud investigation remains the responsibility of the Council.
- 1.2 This report highlights the work which has been carried out internally under the three key principles of:
 - Acknowledging and understanding fraud risks;
 - Preventing and detecting fraud; and
 - Pursue – being stronger in punishing fraud and recovering losses

2. ACKNOWLEDGING AND UNDERSTANDING FRAUD RISKS

- 2.1 All public bodies are at risk from fraud in one form or another. Acknowledging this fact is vital in developing an effective anti-fraud response. Individual services need to understand where the risk of fraud lies and the consequences of those frauds (whether that be financial, reputational or another consequence) to enable them to develop an appropriate risk based response.
- 2.2 Key to this is an effective counter fraud culture that reinforces the Council's zero tolerance towards fraud. This culture should enable individuals to identify potential fraud and empower them to report their concerns in a safe and secure manner to the appropriate people at the right time.
- 2.3 During 2019/20, work completed to acknowledge and understand fraud risk included:
 - Fraud and theft risks were evaluated and tested as part of the audits of Creditors, Cash & Bank, Completeness of Income and IT Security. In all cases the overall level of assurance was Substantial. The Creditors audit did, however, highlight a lack of compliance with the purchase order process. Only 20% of creditor payments processed by the Council had a corresponding purchase order, despite their use being part of the framework of key controls. Officers were not challenged when invoices are received without a corresponding purchase order. Whilst there are some mitigating controls such as segregation of duties between

processing and approval, and budget monitoring, there was an increased risk of inaccurate or fraudulent payments being processed, and it is harder to measure the Council's financial commitments at any one time. A "No Purchase Order No Payment" approach is now being implemented and so far this is having a positive impact. The proportion of payments being processed with a purchase order has increased and by the end of June 2020 had reached 57%.

- Completion of two corporate investigations/ fact finding reviews.
- Provision of fraud bribery and corruption awareness training to 6 departments during the year (Property Repairs Services, Revenues, Finance, Commercial Regulation, Licensing and the Benn Hall).
- All office based staff were asked to read and confirm formally that they acknowledged and understood the requirements of the Council's Fraud Response Plan. This included completion of a multiple-choice questionnaire.

3. PREVENTING AND DETECTING FRAUD

- 3.1 Although the detection and recovery of fraudulently obtained finance and assets is important, it is also costly and there is no guarantee that lost monies will be recovered. Therefore it is imperative that the Council takes all reasonable steps to prevent fraud from entering its systems in the first place.
- 3.2 The protection of assets is one of the five key items of an effective control environment, and thus plays a critical role in the work of internal audit. When determining the annual audit plan, as well as scoping the work programmes for individual assignments, the Corporate Assurance and Improvement Team considers those areas at risk of fraud. Internal Audit testing is designed to ensure that sufficient coverage is given to the identification and testing of anti-fraud controls within the areas being reviewed, in order to assess their effectiveness and where appropriate recommend improvements.
- 3.3 A Fraud Response Plan is in place, which reinforces the Council's robust approach by setting out the ways in which employees or members of the public can voice their concerns about suspected fraud, bribery or corruption. It also outlines how the Council will deal with such allegations. The Fraud Response Plan was endorsed by the Audit & Ethics Committee and approved in April 2017. Training on the Fraud Response Plan has also been provided to the Corporate Management Forum and Members.

3.4 During 2019/20, in addition to the internal audit highlighted above work to prevent and detect fraud included the following:

2018-20 NFI Outcomes

- The Council participates in the National Fraud Initiative (NFI). The NFI is a Cabinet Office initiative matching data from a number of public and private organisations to identify potential fraud. The Council has taken the following action in relation to the 2018-20 exercise:

| | |
|------------------|--------------------------------------------------------------|
| 982 | Number of matches reviewed |
| 0 | Number of frauds identified |
| 7 | Number of errors identified |
| £2,213.67 | Amount of Housing Benefit overpayments identified |
| £2,734.38 | Amount of overstatements in Council Tax Reduction identified |

- There were two Housing Benefit overpayments, one was caused by Local Authority error and the second was caused by customer error. Both overpayments are being recovered through deductions in benefit.
- There were five overpayments in Council Tax Reduction. Four of these were due to customer error and one was due to Local Authority error. All of the overpayments are being recovered through deductions in benefit.

Internal Investigations 2019-20

- There were two internal allegations reported during 2019/20. Investigations have been conducted by the Corporate Assurance and Improvement Manager in partnership with Human Resources and the relevant service areas where appropriate.

| | |
|----------|---------------------------------------------------------------------------------------------|
| 2 | Number of allegations of fraud/ financial misconduct reported |
| 2 | Number of investigations completed |
| 0 | Number of resignations/ dismissals arising from investigations |
| 1 | Number of cases where other action was taken (including management advice and/ or warnings) |
| 1 | Number of cases where no issue was identified |

4. PURSUE: BEING STRONGER IN PUNISHING FRAUD AND RECOVERING LOSSES

4.1 Where fraud is discovered the full range of sanctions will be used by the Council including civil, disciplinary and criminal action.

4.2 During 2019/20 action has included:

- Internal investigations resulting in a warning being issued following a disciplinary investigation.
- As a matter of routine, all overpaid monies are considered for recovery where appropriate. Increases in Council Tax liability due to the removal of single person discounts are pursued through increases to the individual Council Tax bill and collected as part of normal Council Tax collection processes.

5. WORK PLANNED FOR 2020/21

5.1 In addition to the participation in the National Fraud Initiative for 2020 – 2022, further internal audit work is being completed during 2020/21 in support of the Counter Fraud, Bribery and Corruption Strategy. This work includes administration of the following areas/ systems:

- The mandatory COVID 19 business grants scheme,
- The discretionary COVID 19 business grants scheme,
- The Payroll system, and
- The Expenses system.

AGENDA MANAGEMENT SHEET

Report Title: Validation of Coronavirus Health and Safety Risk Assessment

Name of Committee: Audit and Ethics Committee

Date of Meeting: 10 November 2020

Report Director: Executive Director

Portfolio: Corporate Resources

Ward Relevance: None

Prior Consultation: Deputy Executive Director, Interim Chief Financial Officer

Contact Officer: Chris Green, Corporate Assurance and Improvement Manager
01788 533451
chris.green@rugby.gov.uk

Public or Private: Public

Report Subject to Call-In: No

Report En-Bloc: No

Forward Plan: No

Corporate Priorities: This report relates to the following priority(ies):

(CR) Corporate Resources To provide excellent, value for money services and sustainable growth

(CH) Communities and Homes Achieve financial self-sufficiency by 2020

(EPR) Environment and Public Realm Enable our residents to live healthy, independent lives

(GI) Growth and Investment Optimise income and identify new revenue opportunities (CR)

Prioritise use of resources to meet changing customer needs and demands (CR)

Ensure that the council works efficiently and effectively (CR)

Ensure residents have a home that works for them and is affordable (CH)

Deliver digitally-enabled services that residents can access (CH)

Understand our communities and enable people to take an active part in them (CH)

- Enhance our local, open spaces to make them places where people want to be (EPR)
- Continue to improve the efficiency of our waste and recycling services (EPR)
- Protect the public (EPR)
- Promote sustainable growth and economic prosperity (GI)
- Promote and grow Rugby's visitor economy with our partners (GI)
- Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)

| | |
|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Statutory/Policy Background: | Government Guidance - Working Safely During Coronavirus (COVID 19) |
| Summary: | The report sets out the results of the external validation of the Council's Coronavirus health and safety risk assessment. |
| Financial Implications: | No direct implications |
| Risk Management Implications: | The report provides assurance that the Council has implemented satisfactory arrangements for managing coronavirus risks in the workplace. |
| Environmental Implications: | No direct implications |
| Legal Implications: | No direct implications |
| Equality and Diversity: | No direct implications |
| Options: | None |
| Recommendation: | That the report be considered and noted. |
| Reasons for Recommendation: | To comply with the requirements of the terms of reference of the Audit and Ethics Committee, and to discharge the Committee's responsibilities under the Constitution. |

Audit and Ethics Committee - 10 November 2020

Validation of Coronavirus Health and Safety Risk Assessment

Public Report of the Executive Director

Recommendation

The report be considered and noted.

1. Introduction

- 1.1 In May 2020 the UK Government published guidance on “Working Safely During COVID 19”. In June 2020 the Council produced a COVID Secure Policy which included the organisational arrangements and a corporate risk assessment, which aims to prevent and reduce any transmission of coronavirus in the workplace.

2. Report

- 2.1 The corporate health & safety risk assessment identified common safe working practices to be applied across the Council. This is supplemented by risk assessments developed for individual service areas, with direction and support from the Council’s pandemic response Tactical Group and the corporate Safety & Resilience team.
- 2.2 Given the scale of the potential impacts on Council services, employees and the community should there be a significant outbreak of coronavirus in the workplace, the Council commissioned an independent external review of its arrangements for working safely during the pandemic. The purpose was to provide validation of the corporate risk assessment, in order to support the Council in preventing and reducing the transmission of Coronavirus in the workplace.
- 2.3 The report arising from the external review is set out in **Appendix A**, and the conclusion, as set out on Pages 6 to 8, was that the Council’s validation result was a **“Pass”** across all of the 38 areas assessed. The pass criteria is based upon checklists for general health and safety risk assessments and sector specific UK Guidance for Coronavirus. The report also contained 6 “risk reduction” advisory recommendations and these are listed at Page 9 of the report.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 10 November 2020
Subject Matter: Validation: Coronavirus Health & Safety Risk Assessment
Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY **YES** **NO**

LIST OF BACKGROUND PAPERS

| Doc No | Title of Document and Hyperlink |
|---------------|--------------------------------------------|
| Appendix A | COVID 19 Risk Assessment Validation Report |
| | |
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The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

Exempt information is contained in the following documents:

| Doc No | Relevant Paragraph of Schedule 12A |
|---------------|-------------------------------------------|
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COVID-19 Occupational Health and Safety Validation Plus Report

Rugby Borough Council

Corporate Risk Assessment



Gallagher

Insurance | Risk Management | Consulting

Contents

| | |
|----------------------------------------|---|
| 1. Introduction | 3 |
| Purpose & Scope | 3 |
| 2. Executive Summary..... | 4 |
| 3. Business Outline | 5 |
| 4. Validation | 6 |
| 5. Risk Reduction Recommendations..... | 9 |

1. Introduction

Purpose & Scope

The purpose of this report is to provide validation of the organisation's Coronavirus COVID-19 occupational health and safety risk assessment, in order to support the organisation preventing and reducing the transmission of Coronavirus (COVID-19) in the workplace.

A criteria to support the validation process has been established. This is a Pass criteria based upon checklists for general occupational health and safety risk assessment and industry sector specific UK Guidance for Coronavirus.

In order to support the validation process, the following validation activities have been implemented:

- Pre-validation information, informed by the organisation's management through interview;
- Review of the organisation's Coronavirus COVID-19 occupational health and safety risk assessment; and
- Review of UK Government Guidance 'Working Safely during COVID-19'.

This report is based on information received and observations made.

Discussions were held with the following personnel:

Chris Green – Corporate Assurance and Improvement Manager

Stephen Agutter – Safety and Resilience Manager

William Winter – Asset Maintenance Team Leader

Letitia Lee – Health & Safety

Our thanks are extended to them for their time and assistance during this process.

2.Executive Summary

The Coronavirus COVID-19 Occupational Health and Safety Risk Assessment validation process for Rugby Borough Council (RBC) has resulted in the risk assessment passing validation.

The occupational health and safety risk assessment(s) were reviewed in line with UK Government Guidance document(s) 'Working safely during COVID-19 in office'.

Specific recommendations for the organisation's Coronavirus COVID-19 Occupational Health and Safety risk assessment, to support compliance with UK Government guidance, are specified in section 5 of the report.

Rugby Borough Council

Have produced a RBC Covid Secure Policy Draft issued 21.06.2020, the policy includes;

- Policy Statement
- Organisational Arrangements
- Risk Assessment
- Consultation and Communication
- Training
- Monitoring

An overarching RBC Corporate Coronavirus Risk assessment will be produced to identify common safe working practices across the council. This will then be supplemented by Risk Assessments developed for each Service/Business area, under the direction of the Coronavirus Risk Control Tactical Group.

This validation based on the Corporate Covid-19 Risk Assessment.

3. Business Outline

Rugby Borough Council – Delivers 30+ local government services including refuse collection, cemetery, art gallery & museum, housing, property repairs, benefits, revenues, finance, ICT, HR, community services, regulatory, customer contact service, planning.

This validation based on the Corporate Covid-19 Risk Assessment.

Number of employees

| How many staff? | Part time | Full time | Time on site (from – to) |
|-----------------|-----------|-----------|--------------------------|
| <i>Manual</i> | | 100 FTE | |
| <i>Cleaners</i> | | | Contracted |
| <i>Office</i> | | 375 FTE | |
| <i>Remote</i> | | | |
| <i>Drivers</i> | | 25 FTE | |
| <i>Security</i> | | | |
| <i>Agency</i> | | | As needed |

Hours of operation / shift patterns:

Monday to Friday 9am to 5pm, though there are additional out of hour's services.

Location(s) / Site(s)

Numerous sites within the Rugby town.

4. Validation

Please select all relevant validation menus that are applicable to the sectors.

| | |
|-------------------------------------------------------------------------------------------------------------------|---------------------------------|
| Risk Assessment Reference(s): | RBC – Corporate Risk Assessment |
| COVID-19 Risk Assessment Validation Result | Pass |
| Occupational Health and Safety Risk Assessment | Validation Status |
| Identification and formation of risk assessment team | Yes |
| Identification of the hazard(s) | Pass |
| Identification of who may be affected | Pass |
| Identification of how people may be affected | Pass |
| Identification of Risk Rating for Initial Risks | Yes |
| Identification of controls | Pass |
| Approval to Proceed | Yes |
| Risk Assessment Communication | Pass |
| UK Government COVID-19 sector Guidance | |
| Managing your customers, visitors and contractors – Top level considerations for all parts of the visitor economy | Pass |
| Keeping customers and visitors safe | Pass |
| Keeping clients and visitors safe | Pass |
| Keeping your visitors, customers and contractors safe – Manage contacts | Pass |
| Keeping your visitors, customers and contractors safe – Additional guidance for sites open to the public | Pass |
| Keeping your visitors, customers and contractors safe - Providing and explaining available guidance | Pass |
| Keeping your visitors, customers and contractors safe - Overarching security considerations | Pass |
| Keeping your visitors, customers and contractors safe – Queues and social distancing | Pass |

| | |
|-------------------------------------------------------------------------------------------------|------|
| Keeping your visitors, customers and contractors safe – Search and screening | Pass |
| Customer Toilets | Pass |
| Client Toilets | Pass |
| Providing and explaining available guidance | Pass |
| Who should go to work | Pass |
| Who should go to work - Protecting People at higher risk | Pass |
| Who should go to work - People who need to self-isolate | Pass |
| Equality in the workplace | Pass |
| Social distancing – General | Pass |
| Social distancing - Coming to work and leaving work | Pass |
| Social distancing - Moving around buildings and work sites | Pass |
| Social distancing – Moving around buildings, work sites and destinations | Pass |
| Social distancing - Workplaces and work stations | Pass |
| Social distancing at work – Social distancing in vehicles | Pass |
| Social distancing at work - Carrying out deliveries or collections | Pass |
| Social distancing at work - Social distancing in workplaces and public transport | Pass |
| Social distancing - Common Areas | Pass |
| Social distancing Accidents, security and other incidents | Pass |
| Managing your customers, visitors and contractors – Managing contacts | Pass |
| Managing your customers, visitors and contractors - Providing and Explaining available guidance | Pass |

| | |
|------------------------------------------------------------------------------------------------|---------------------------|
| Cleaning the workplace – Keeping the workplace clean – Kitchen and food service areas cleaning | Pass |
| Cleaning the workplace – Keeping the workplace clean | Pass |
| Cleaning the workplace - Hygiene – Handwashing, sanitation facilities and toilets | Pass |
| Cleaning the workplace – Toilets | Pass |
| Personal Protection Equipment and face coverings | Pass |
| Workforce management - Shift patterns and working groups | Pass |
| Workforce management - Work-related travel | Pass |
| Workforce management – Work-related travel – deliveries to other sites | Pass |
| Workforce management - Communications and training – Returning to work | Pass |
| Workforce management - Communications and training – Ongoing communications and signage | Pass |
| Gallagher RMS Consultant | Andrew Simmonds |
| Date of Validation Exercise | 08.07.2020 and 29.07.2020 |

5. Risk Reduction Recommendations

Recommendations should be reviewed in line with UK Government Guidance for COVID-19 workplaces.

| Recommendation |
|----------------------------------------------------------------------------------------------------------------------------------------------|
| Risk control measures for managing your customers, visitors and contractors – Top level considerations for all parts of the visitor economy. |
| Risk control measures for keeping your visitors, customers and contractors safe – Manage contacts. |
| Risk control measures for keeping your visitors, customers and contractors safe - Providing and explaining available guidance. |
| Risk control measures for keeping your visitors, customers and contractors safe - Overarching security considerations. |
| Risk control measures for keeping your visitors, customers and contractors safe – Search and screening. |
| Risk control measures for keeping your visitors, customers and contractors safe – Restricted entry points. |

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Gallagher

Insurance | Risk Management | Consulting

AGENDA MANAGEMENT SHEET

Report Title: 2020/21 Internal Audit Plan - Progress Update

Name of Committee: Audit and Ethics Committee

Date of Meeting: 10 November 2020

Report Director: Executive Director

Portfolio: Corporate Resources

Ward Relevance: None

Prior Consultation: Executive Director, Interim Chief Financial Officer

Contact Officer: Chris Green, Corporate Assurance and Improvement Manager
01788 533451
chris.green@rugby.gov.uk

Public or Private: Public

Report Subject to Call-In: No

Report En-Bloc: No

Forward Plan: No

Corporate Priorities: This report relates to the following priority(ies):

(CR) Corporate Resources To provide excellent, value for money services and sustainable growth

(CH) Communities and Homes Achieve financial self-sufficiency by 2020

(EPR) Environment and Public Realm Enable our residents to live healthy, independent lives

(GI) Growth and Investment Optimise income and identify new revenue opportunities (CR)

Prioritise use of resources to meet changing customer needs and demands (CR)

Ensure that the council works efficiently and effectively (CR)

Ensure residents have a home that works for them and is affordable (CH)

Deliver digitally-enabled services that residents can access (CH)

Understand our communities and enable people to take an active part in them (CH)

Enhance our local, open spaces to make them places where people want to be (EPR)

- Continue to improve the efficiency of our waste and recycling services (EPR)
- Protect the public (EPR)
- Promote sustainable growth and economic prosperity (GI)
- Promote and grow Rugby's visitor economy with our partners (GI)
- Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)

Statutory/Policy Background: Public Sector Internal Audit Standards (PSIAS)

Summary: The report sets out progress against delivery of the Internal Audit Plan for 2020/21.

Financial Implications: No direct implications

Risk Management Implications: Non delivery of an adequate internal audit plan would have an adverse impact on the level of assurance provided in the Annual Governance Statement.

Environmental Implications: No direct implications

Legal Implications: No direct implications

Equality and Diversity: No direct implications

Options: None

Recommendation:

1. That the report be considered and noted.
2. That the proposed amendments to the internal audit plan be approved.

Reasons for Recommendation: To comply with the requirements of the terms of reference of the Audit and Ethics Committee, and to discharge the Committee's responsibilities under the Constitution.

Audit and Ethics Committee - 10 November 2020

2020/21 Internal Audit Plan - Progress Update

Public Report of the Executive Director

Recommendation

1. That the report be considered and noted.
2. That the proposed amendments to the internal audit plan be approved.

1. Introduction

- 1.1 The purpose of this report is to set out progress against the Internal Audit Plan for 2020/21.

The Council has a legal duty to maintain an adequate and effective Internal Audit service. The primary role of Internal Audit is to provide independent assurance that the Council has put in place appropriately designed internal controls to ensure that:

- The Council's assets and interests are safeguarded;
- Reliable records are maintained;
- Council policies, procedures and directives are adhered to; and
- Services are delivered in an efficient, effective and economic manner.

This work is normally referred to as Section 151 work.

2. Summary of Audit Work

- 2.1 The Internal Audit plan for 2020/21 was approved by the Audit and Ethics Committee on 9 June 2020. Progress against delivery of that plan is set out at Appendix A.
- 2.2 Appendix A also sets out the progress against the recommendations made by Internal Audit and details the latest position in relation to agreed actions which are overdue.

3. Revisions to the 2020/21 Audit Plan

- 3.1 The Committee's role as gatekeeper requires it to approve any significant changes to the internal audit plan, in accordance with the Public Sector Internal Audit Standards. It is also good practice to continually review the audit plan in light of emerging issues, to ensure that the work of internal audit adds maximum value by proactively responding to and aligning its work with the most significant risks facing the organisation.

3.2 There are several proposed amendments to the internal audit plan. These changes will ensure that the internal audit service continues to add value, be flexible and responsive to the needs of the organisation during the COVID 19 pandemic. There are 3 audits which are proposed for deferral and there are sound reasons for doing so in each case. Details of the proposed changes, and the rationale, are set out in the table below:

| <u>Assignment</u> | <u>Objectives</u> | <u>Proposed Change</u> | <u>Rationale</u> |
|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Community Safety Partnership | Assurance that the partnership is delivering its action plans and expected outcomes. Assurance that statutory requirements under the Crime and Disorder Act are being fulfilled. | Defer to 2021/22 | The purpose and remit of the partnership is currently under review and following discussion with the Deputy Director it was agreed that an audit would not add value at present. |
| Licensing | Assurance that efficient and effective controls are in place complying with all legislative requirements. | Defer to 2021/22 once the new system has been fully implemented. | Implementation of the new system is behind schedule and internal audit assurance work would not add maximum value at the present time. |
| WSU Garage | Assurance that the garage is being run efficiently and effectively, in compliance with applicable health and safety regulations. Assurance that expenditure represents value for money. | Defer to Q1 2021/22 | It is not considered practical to complete this audit during 2020/21 because on site testing would be necessary. This will not be possible for the next 6 months without compromising safety. This has been discussed and agreed with the Deputy Director. |
| Self Isolation Payments | Assurance that the new system of payments, announced by Central Government, are being administered effectively whilst minimising the risk of fraud or error. | Add to the internal audit plan. | A new system is being implemented at short notice. As such, whilst payment volumes are expected to be low, there are risks of fraud, error, and/ or incorrect application of the scheme. |

| <u>Assignment</u> | <u>Objectives</u> | <u>Proposed Change</u> | <u>Rationale</u> |
|---------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| IT Governance and Polices | Assurance that appropriate and embedded ICT governance arrangements are in place, including strategy and policies. A joint ICT/HR review of policies including ICT security and code of conduct, and agile working. Review of arrangements in place to ensure that agile staff are being effectively managed. | Amend to a consultancy assignment. | Organisational need for a new policy framework to be launched as a matter of some urgency, following a step change to a situation where a high proportion of staff are working remotely. Without this work being led on a consultancy basis there would be a risk of the new framework being delayed. TIAA to perform a desktop review to provide assurance that the policies are fit for purpose and represent good practice, prior to the framework being adopted. |
| Housing Management System - Data Pass | Assurance during the new system testing phase that data sets are accurately and completely transferred. | Add to the internal audit plan. | Key new system being implemented. Risk of error in data transfer. |
| Control Environment - Advice | Review of any changes to key controls applied during the COVID 19 crisis response. Review of any management override of controls during the COVID 19 crisis response, with any significant risks being highlighted to management and the Audit & Ethics Committee. | Expand to include support for setting up a new dedicated policy area on the Intranet. | This will ensure: 1) There is one common area that staff can access to view policies, 2) There is visibility of all the Council's suite of policies and the coverage. Any gaps can then be addressed. 3) Staff are able to see the ownership of each policy and the date due for review, which should help to ensure policies do not become outdated or unsuitable. |

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 10 November 2020
Subject Matter: 2020/21 Internal Audit Plan - Progress Update
Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY **YES** **NO**

LIST OF BACKGROUND PAPERS

| Doc No | Title of Document and Hyperlink |
|---------------|----------------------------------------|
| Appendix A | Internal Audit Plan – Progress Update |
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The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

Exempt information is contained in the following documents:

| Doc No | Relevant Paragraph of Schedule 12A |
|---------------|-------------------------------------------|
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**INTERNAL AUDIT PROGRESS UPDATE
NOVEMBER 2020**

Date: 10 November 2020

Introduction

- 1.1** The Public Sector Internal Audit Standards (the Standards) require the Audit and Ethics Committee to scrutinise the performance of Internal Audit and to satisfy itself that it is receiving appropriate assurance that the controls put in place by management address the identified risks to the Council. This report aims to provide the Committee with details on progress made in delivering planned work, the key findings of audit assignments completed since the last Committee meeting, updates on the implementation of actions arising from audit reports and an overview of the performance of the team.

Performance

2.1 Will the Internal Audit Plan be delivered?

The expected position by the date of the Committee meeting is as follows:

- 3 final reports have been issued;
- 2 draft reports have been issued;
- 1 assignment is at the fieldwork completion stage; and
- 11 assignments are in progress.

As reported at the last Committee meeting, delivery of internal audit work is continuing as far as possible remotely through COVID 19 pandemic response. It is envisaged that most audit work can be completed remotely; the exception might be where there are complex processes which are difficult to explain online, or where the auditor needs to observe a process live with an officer. Use of the screen share option within MS Teams helps to mitigate this. Meetings are permitted in the workplace but only where essential, and safety remains the primary consideration. If there are any areas which cannot practically be covered in any audits, these will be highlighted in the reports and any significant implications will be reported to the Committee. Where there are any gaps in assurance, it may be possible to revisit those areas at a later date.

One member of the team is expected to require a period of sick leave of approximately 6 weeks later in the current year. The impact on resources and delivery of the internal audit plan have been assessed. Workloads are being managed across the team and impact on the internal audit plan has been minimised.

The Corporate Assurance and Improvement Manager currently expects to deliver an adequate internal audit plan which meets the requirements of the PSIAS. There remains, however, a higher risk than normal that this may not be possible especially if the recent increasing trend in COVID 19 cases continues. The situation will be closely monitored and the Committee will be informed as soon as possible of any change in the position.

Progress on individual assignments is shown at pages 7 to 10 of this report.

2.2 Based upon recent Internal Audit work, are there any emerging issues that impact upon the Internal Audit opinion of the Council's Control Framework?

At this stage there are no emerging issues arising from the work of Internal Audit which significantly impact upon the Internal Audit opinion of the Council's Control Framework.

2.3 Are clients progressing audit recommendations with appropriate urgency?

At the date of reporting, a combined **78.9% of management actions have been implemented by the agreed implementation date, with a further 16% implemented late, giving an overall implementation rate of 94.9%**. There has been an increase in the overall implementation rate compared to 89% in June. Considering the impact of the COVID 19 pandemic on the workload of officers, performance is better than expected. A summary analysis of progress on implementation of audit recommendations is shown at pages 11 to 12. **At the time of reporting there are 9 agreed management actions for which implementation is overdue, two of which are regarded as High Risk and none of which are regarded as Medium risk.** The details of the actions related to High or Medium risks, along with a summary of the latest position, are set out at page 13 of this report. Implementation of the actions will continue to be monitored by the Corporate Assurance and Improvement Team and reported to each Committee meeting.

2.4 Internal Audit Performance Indicators

The effectiveness with which Internal Audit discharges its section 151 responsibilities is being measured by the following indicators, as agreed by the Audit and Ethics Committee:

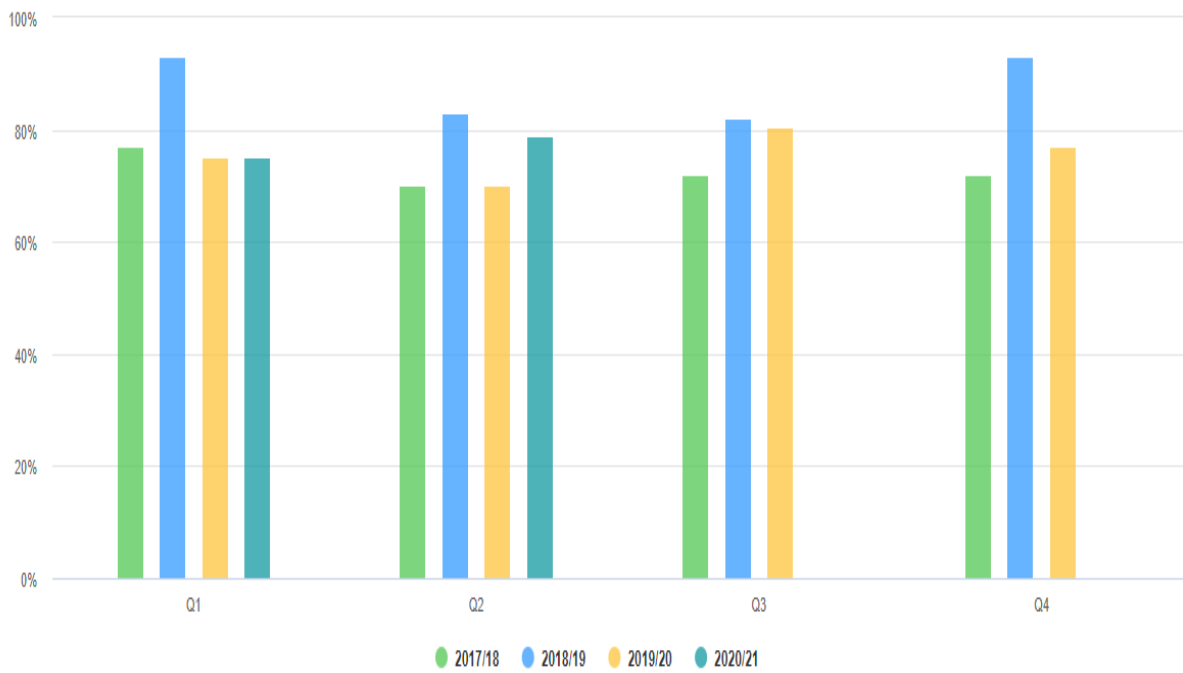
| <u>Theme</u> | <u>Title of Performance Indicator</u> | <u>Current Performance</u> |
|---------------|----------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Delivery | Average end to end time for audits (number of days) | <p>Q2 2020/21 Result: 82 days</p> <p>Q2 2019/20 Result: 133 days</p> <p>Average - Terms of Reference to draft report issue: 62 days (reduction of 1 day from previous quarter)</p> <p>There has been a reduction of 51 working days (10 weeks) in the average end to end time over the last year. A new approach has been adopted for clearing audit reports with management, which has enabled a substantial improvement.</p> |
| Adding Value | Customer Satisfaction – Average Rating | Reported as an annual measure. |
| Timeliness | Timeliness of Reporting – Average time taken to issue draft reports following fieldwork completion | <p>9.7 days</p> <p>Increase in 2020/21 is caused by prioritisation of additional COVID 19 related work; it was harder to schedule in audit file reviews. However, it has still taken less than two weeks on average to issue a draft audit report, once fieldwork has been completed.</p> |
| Effectiveness | Implementation of Agreed Actions – Percentage implemented on time | 78.9% - at the time of reporting there are 9 recommendations which are past their agreed implementation date, 2 of which are regarded as High risk and none as Medium risk. Refer to page 13 for detail. |

2.5 Internal Audit Performance Trend Graphs

Internal Audit Fieldwork Performance Trend-



Percentage of agreed audit actions fully implemented on time-



Limitations and Responsibilities

Limitations inherent to the Internal Auditor's work

Internal Audit is undertaking a programme of work agreed by the council's senior managers and approved by the Audit and Ethics Committee subject to the limitations outlined below.

Opinion

Each audit assignment undertaken addresses the control objectives agreed with the relevant responsible managers. There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of the programme of work were excluded from the scope of individual internal audit assignments or were not brought to the attention of Internal Audit. As a consequence, the Audit and Ethics Committee should be aware that the Audit Opinion for each assignment might have differed if the scope of individual assignments was extended or other relevant matters were brought to Internal Audit's attention.

Internal Control

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls, and unforeseeable circumstances.

Future Periods

The assessment of each audit area is relevant to the time at which the audit was completed. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance, and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.

Progressing the Annual Internal Audit Plan

| |
|---------------------------------------------|
| KEY |
| Current status of assignments is shown by ✓ |

| Assignment | Budget (days) | Not Started | Planning | Field Work Underway | Field Work Complete | Draft Report | Final Report | Assurance Rating | Comments |
|-----------------------------------------------|---------------|-------------|----------|---------------------|---------------------|--------------|--------------|------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| Financial Risks | | | | | | | | | |
| Payroll | 20 | | | ✓ | | | | | |
| Business Refund Grants – Mandatory | 30 | | | | | ✓ | | | |
| Business Grants – Discretionary | 20 | | | | | ✓ | | | |
| Self-Isolation Payments | 7 | | | ✓ | | | | | |
| Counter Fraud | | | | | | | | | |
| Expenses | 15 | | ✓ | | | | | | |
| ICT | | | | | | | | | |
| Payment Card Industry Data Security Standards | 8 | | | ✓ | | | | | Being delivered by TIAA |
| IT Governance & Policies | 15 | | | | ✓ | | | | Expanded to incorporate support for the development and roll out of 8 new policies covering Information Governance and Agile Working. |

| Assignment | Budget (days) | Not Started | Planning | Field Work Underway | Field Work Complete | Draft Report | Final Report | Assurance Rating | Comments |
|---------------------------------------------------|---------------|-------------|----------|---------------------|---------------------|--------------|--------------|------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| CCTV | 8 | | ✓ | | | | | | Fieldwork currently on hold due to the COVID 19 pandemic. To be delivered by TIAA. |
| Corporate Risks | | | | | | | | | |
| Corporate Health & Safety | 18 | | | ✓ | | | ✓ | | Two reviews being conducted in this area. The first, related to validation of the corporate COVID 19 risk assessment, has been completed. The second, related to Homeworker DSE assessments, is in progress. |
| Equal Pay/ Single Status | 10 | | | ✓ | | | | | |
| Risk Management Controls Assurance | 40 | | | ✓ | | | | | |
| Performance Management Effectiveness | 80 | | | ✓ | | | | | |
| Complaints, Compliments & Suggestions – Follow up | 10 | ✓ | | | | | | | |
| Operational Procedures | 25 | | | ✓ | | | | | |

| Assignment | Budget (days) | Not Started | Planning | Field Work Underway | Field Work Complete | Draft Report | Final Report | Assurance Rating | Comments |
|------------------------------------------------|---------------|-------------|----------|---------------------|---------------------|--------------|--------------|------------------|---------------------------------------------------------------------------------------------------------|
| Housing Project Management | 20 | ✓ | | | | | | | |
| HR Capability & Disciplinary | 15 | | | | | | ✓ | Not Graded | |
| Ethical Risks | | | | | | | | | |
| Local Government Transparency Code – Follow up | 10 | ✓ | | | | | | | |
| Member Development | 10 | | | ✓ | | | | | |
| Operational Risks | | | | | | | | | |
| Follow up work | 16 | | | ✓ | | | | | |
| Planning, Development & Enforcement | 30 | | ✓ | | | | | | |
| Housing Management Data Pass | 10 | | ✓ | | | | | | Assurance during the new system testing phase that data sets are accurately and completely transferred. |
| Land Charges | 15 | | ✓ | | | | | | |

| Assignment | Budget (days) | Not Started | Planning | Field Work Underway | Field Work Complete | Draft Report | Final Report | Assurance Rating | Comments |
|------------------------------|---------------|-------------|----------|---------------------|---------------------|--------------|--------------|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Additional Support | | | | | | | | | |
| Annual Governance Statement | 12 | | | | | | ✓ | Substantial | Statement submitted to Audit & Ethics Committee, and the Senior Management Team, for approval. |
| National Fraud Initiative | 8 | | | | | | | | Ongoing co-ordination of the Council's NFI work. |
| Control Environment - Advice | 15 | | | ✓ | | | | | Expanded to include support for setting up a new dedicated policy area on the Intranet, and review of any significant control changes implemented during the pandemic. |
| Corporate Investigation Work | 25 | | | | | | | | No investigations are currently in progress. |

Summary: Implementation of Audit Recommendations

| Audit | Not yet due | Overdue | Within time | Extended time | Out of time | Total Recs |
|-----------------------------------------------|--------------------|----------------|--------------------|----------------------|--------------------|-------------------|
| Business Continuity and Emergency Planning | 0 | 0 | 0 | 0 | 1 | 1 |
| Corporate Credit Cards | 1 | 0 | 0 | 0 | 0 | 1 |
| Council Tax and NDR | 1 | 3 | 0 | 0 | 2 | 6 |
| Fleet Management | 0 | 1 | 3 | 5 | 0 | 9 |
| Financial System Key Controls | 0 | 1 | 1 | 0 | 1 | 3 |
| Housing Rent Arrears | 0 | 0 | 0 | 0 | 2 | 2 |
| Payment Card Industry Data Security Standards | 0 | 0 | 0 | 2 | 0 | 2 |
| Partnership Governance | 0 | 0 | 1 | 0 | 0 | 1 |
| Property Repairs Stock Control | 1 | 0 | 0 | 2 | 0 | 3 |
| PTC Interface | 0 | 0 | 2 | 0 | 0 | 2 |
| Risk Management | 1 | 0 | 1 | 3 | 0 | 5 |
| Values and Behaviours | 1 | 0 | 5 | 0 | 0 | 6 |
| Absence Management | 4 | 0 | 4 | 0 | 0 | 8 |
| Benefits | 0 | 0 | 0 | 0 | 1 | 1 |
| Car Parking Enforcement | 0 | 0 | 1 | 0 | 0 | 1 |
| Creditors | 2 | 0 | 3 | 0 | 2 | 7 |
| Data Protection Governance | 5 | 0 | 3 | 1 | 0 | 9 |
| Elections | 1 | 1 | 0 | 0 | 0 | 2 |
| Fraud Risk Review | 2 | 0 | 4 | 6 | 0 | 12 |
| Grants to Community Groups | 0 | 0 | 13 | 0 | 0 | 13 |
| Green Waste Optimisation | 0 | 0 | 2 | 0 | 0 | 2 |
| Health and Safety Follow Up | 8 | 2 | 1 | 0 | 2 | 13 |



| Audit | Not yet due | Overdue | Within time | Extended time | Out of time | Total Recs |
|-------------------------------------------|-------------|----------|-------------|---------------|-------------|------------|
| Independent Living | 2 | 0 | 8 | 0 | 3 | 13 |
| Insurance | 0 | 0 | 1 | 0 | 0 | 1 |
| ICT Backup | 0 | 0 | 3 | 1 | 0 | 4 |
| Patch Management | 2 | 0 | 4 | 0 | 0 | 6 |
| Property Repairs | 1 | 0 | 6 | 2 | 2 | 11 |
| Treasury Management | 0 | 0 | 2 | 0 | 4 | 6 |
| Tenant Recharges | 0 | 1 | 5 | 0 | 1 | 7 |
| Freedom of Information | 2 | 0 | 6 | 0 | 0 | 8 |
| Local Government Transparency Code | 2 | 0 | 6 | 7 | 3 | 18 |
| Complaints, Compliments & Suggestions | 3 | 0 | 4 | 0 | 1 | 8 |
| IT Security | 1 | 0 | 0 | 2 | 0 | 3 |
| Cash & Bank | 6 | 0 | 5 | 3 | 0 | 14 |
| Customer Service Centre Demand Management | 7 | 0 | 0 | 0 | 1 | 8 |
| Housing Rent Arrears | 9 | 0 | 0 | 0 | 1 | 10 |
| Digitalisation | 5 | 0 | 1 | 3 | 0 | 9 |
| IT Business Continuity | 5 | 0 | 0 | 0 | 0 | 5 |
| Completeness of Income | 2 | 0 | 6 | 0 | 1 | 9 |
| Totals | 74 | 9 | 101 | 37 | 28 | 249 |

Notes:

Extended time: This is where the Corporate Assurance and Improvement Manager had agreed an extension to the original timescale.

Out of time: This is where the action was implemented later than the agreed timescale.

Details of Overdue Medium and High Risk Audit Recommendations

| Audit | Title | Due Date | Latest Note | Risk Rating Description |
|---------------------------|---------------------------------------------------------------------------------------|-------------|----------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| Health & Safety follow up | Design one form to record all accidents, incidents and near misses in the same place. | 30-Jun-2020 | Safety & Resilience Manager: A paper seeking approval for a new health & safety system has been presented to SMT and is under consideration. |  High Risk |
| Health & Safety follow up | Update the driver handbook. | 30-Jun-2020 | Safety & Resilience Manager: work on this has commenced but has been delayed due to COVID 19. |  High Risk |