



Audit and Governance Committee

Members of the public are welcome to attend and listen to the discussion of items in the "open" part of the meeting. Please see notes at end of agenda concerning public rights to speak and ask questions.



The Audit and Governance meets in the Court Room of the Town Hall which is located on the ground floor. Entrance is via the main door or access ramp at the front of the Town Hall. Parking bays for blue badge holders are available in front of the Town Hall and in the car park at the rear of the Town Hall.



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MEMBERS: Councillor Swansborough (Chairman); Councillor Sabri (Deputy-Chairman); Councillors Choudhury, Di Cara, Dow, Holt, Smart and Taylor

Agenda

- 1 Minutes of the meeting held on 2 December 2015.**
- 2 Apologies for absence.**
- 3 Declarations of Disclosable Pecuniary Interests (DPIs) by members as required under Section 31 of the Localism Act and of other interests as required by the Code of Conduct.**
- 4 Questions by members of the public.**

On matters not already included on the agenda and for which prior written notice has been given (total time allowed 15 minutes).

5 Urgent items of business.

The Chairman to notify the Committee of any items of urgent business to be added to the agenda.

6 Right to address the meeting/order of business.

The Chairman to report any requests received to address the Committee from a member of the public or from a Councillor in respect of an item listed below and to invite the Committee to consider taking such items at the commencement of the meeting.

7 Planning Report 2015/16. (Pages 1 - 22)

Report of External Auditors BDO.

8 Internal Audit Report to 31st December 2015. (Pages 23 - 42)

Report of Internal Audit Manager.

9 Draft Internal Audit Plan for 2016/17. (Pages 43 - 54)

Report of Internal Audit Manager.

Inspection of Background Papers – Please see contact details listed in each report.

Councillor Right of Address - Councillors wishing to address the meeting who are not members of the Committee must notify the Chairman in advance.

Public Right of Address – Requests by members of the public to speak on a matter which is listed in this agenda must be **received** in writing by no later than 12 Noon, 2 working days before the meeting e.g. if the meeting is on a Tuesday, received by 12 Noon on the preceding Friday). The request should be made to Local Democracy at the address listed below. The request may be made by letter, fax or e-mail. For further details on the rules about speaking at meetings please contact Local Democracy.

Disclosure of interests - Members should declare their interest in a matter at the beginning of the meeting, and again, at the point at which that agenda item is introduced.

Members must declare the existence and nature of any interest.

In the case of a DPI, if the interest is not registered (nor the subject of a pending notification) details of the nature of the interest must be reported to the meeting by the member and subsequently notified in writing to the Monitoring Officer within 28 days.

If a member has a DPI or other prejudicial interest he/she must leave the room when the matter is being considered (unless he/she has obtained a dispensation). If a member has a DPI he/she may not make representations first.

Further Information

Councillor contact details, committee membership lists and other related information is also available from Local Democracy.

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EASTBOURNE BOROUGH COUNCIL

Page 1 PLANNING REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE
Audit for the year ending 31 March 2016

17 February 2016



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INTRODUCTION

PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements and use of resources of the authority for the year ending 31 March 2016. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit and Governance Committee, and although it will be published on the Council's website, it should not be used by any other person without our express permission in writing.

In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person to whom it is shown or into whose hands it may come, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

YOUR BDO TEAM



Name	Contact details	Key responsibilities
JANINE COMBRINCK Engagement Lead	Tel: 020 7893 2631 Mob: 07879 816 470 janine.combrinck@bdo.co.uk	Oversee the audit and sign the audit report
KERRY BARNES Project Manager	Tel: 020 7893 3837 Mob: 07583 099 795 kerry.l.barnes@bdo.co.uk	Management of the audit
TAWANDA MUTENGA Senior	Tel: 01473 320 711 tawanda.mutenga@bdo.co.uk	Day to day supervision of the on-site audit

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Janine Combrinck is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements and use of resources.

In meeting this responsibility, she will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that:

- the financial statements are free from material misstatement, whether due to fraud or error
- the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

She is also responsible for the overall quality of the engagement.

OUR CLIENT SERVICE COMMITMENT TO YOU

CLIENT SERVICE EXPECTATIONS

1

High quality audit service at a reasonable cost.

2

A quality team, with relevant expertise.

3

Clear communication.

4

Concentrating our work on areas of higher risk.

5

Avoiding surprises through timely reporting of issues.

6

Consulting with management to resolve matters early.

7

Meeting deadlines.

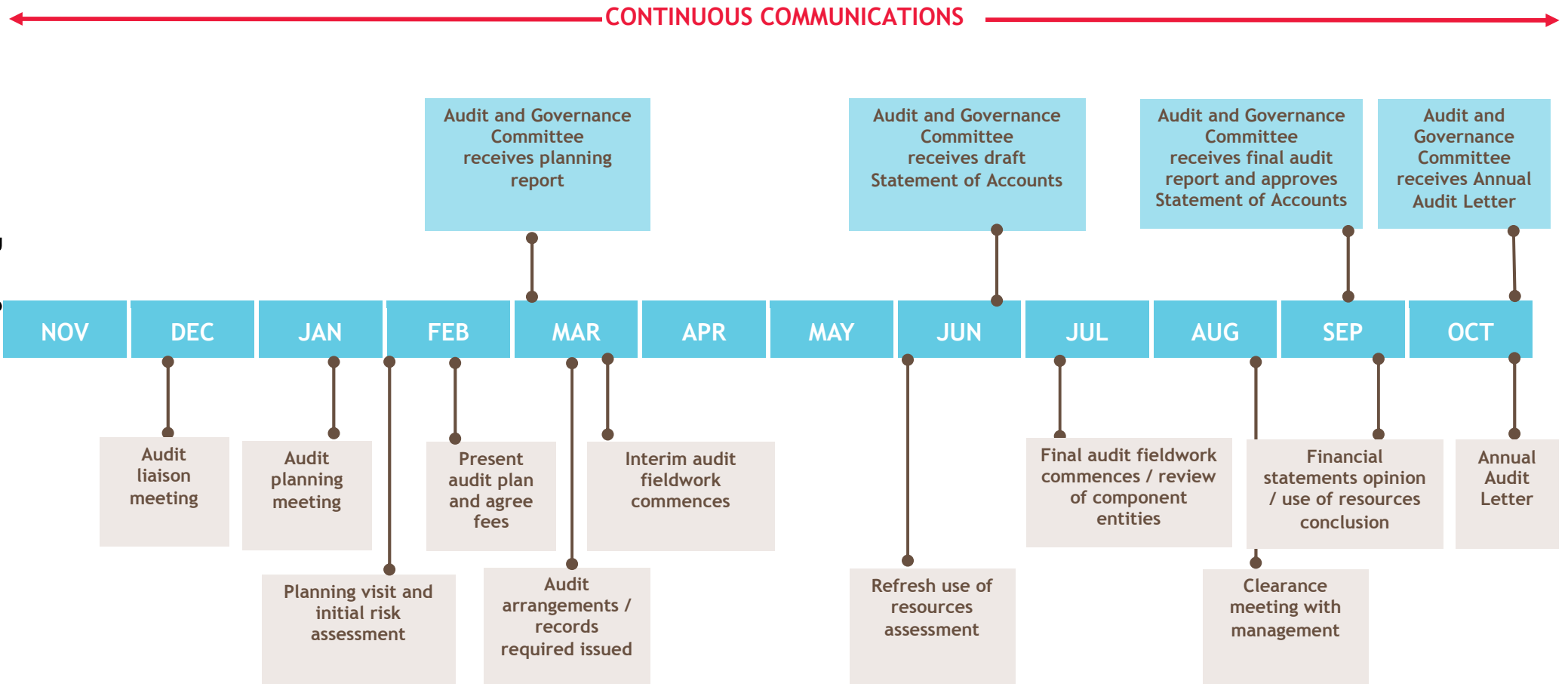
8

Identifying shortcomings in controls and processes.

ENGAGEMENT TIMETABLE

TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements and completion of the use of resources audit.



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the National Audit Office (NAO) Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

To form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
<p>1 The financial statements give a true and fair view of the financial position of the authority and its expenditure and income for the period in question.</p>	<p>2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.</p>	<p>3 Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).</p>	<p>4 The return required to facilitate the preparation of WGA consolidated accounts is consistent with the audited financial statements.</p>	<p>5 The authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

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ADDITIONAL POWERS AND DUTIES

6 To consider the issue of a report in the public interest, where necessary.
To make a written recommendation to the authority, where necessary.

7 To allow electors to raise questions about the accounts and consider objections.
To apply to the court for a declaration that an item of account is contrary to law, where necessary.
To consider whether to issue an advisory notice or to make an application for judicial review, where necessary.

MATERIALITY

AUTHORITY MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Council	£2,000,000	£40,000

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the Council has been based on 2% of the prior year gross expenditure. This will be revisited when the draft financial statements are received for audit.

The clearly trivial amount is based on 2% of the materiality level.

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the authority's financial statements and use of resources

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the authority's business and the specific risks it faces. We discussed the changes to the business and management's own view of potential audit risk during our planning meetings in order to gain an understanding of the authority's activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and authority-specific level, and draw on relevant cost and performance information as appropriate.

We then carry out our audit procedures in response to risks.

Risks and planned audit responses

For the financial statements audit, under International Standard on Auditing 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties

- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has provided information on potential significant risks such as:

- Organisational change and transformation
- Significant funding gaps in financial planning
- Legislative or policy changes
- Repeated financial difficulties or persistently poor performance
- Information from other inspectorates and review agencies suggesting governance issues or poor service performance.

We consider the relevance of these risks to the authority in forming our risk assessment and audit strategy.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will consider these reports as part of our audit planning and consider whether we are able to place any reliance on internal audit work as evidence of the soundness of the control environment.

Group Accounts audit strategy

At the time of drafting this planning letter, the Council is awaiting further information regarding the accounts of a number of entities in which it has financial interests. We will issue a separate planning report that sets out our strategy for the audit of the Group Accounts when this information is available.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk ■ Other issue

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under International Standards on Auditing (UK and Ireland) 240 “The Auditor’s responsibility to consider fraud in an audit of financial statements”, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent. We consider the manipulation of financial results through the use of journals and management estimates as a significant fraud risk.</p> <p>In every organisation, management may be in a position to override routine day to day financial controls. Accordingly, our audit has been designed to consider this risk and adapt procedures accordingly.</p>	Not applicable.
Revenue recognition	<p>Under International Standard on Auditing 240 there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the completeness, accuracy and existence of income.</p> <p>We consider there to be a significant risk over the completeness, existence and accuracy of income in relation to fees and charges recorded in the Comprehensive Income & Expenditure Statement (CIES).</p>	<p>We will carry out audit procedures to gain an understanding of the authority’s internal control environment for fees and charges, including how this operates to prevent loss of income, and ensure that income is recognised in the correct accounting period.</p> <p>We will substantively test a sample of income received and debtor accruals to ensure that accounting policies have been correctly applied in determining the point of recognition of income.</p>	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Group Accounts</p>	<p>The Council holds 49% of the voting rights and 21% of the non-voting rights in Welbeing and 25% of the shares in CloudConnX. These are considered to be associates, as the Council has significant influence but not control over these organisations. However, historically the Council has not included these organisations in its Group Accounts as their transactions have not been material. Welbeing has now completed its third year of operation and it is possible that accumulated retained profits have increased to a material level. This would require the transactions in both Welbeing and CloudConnX, if cumulatively material, to be included in the Council's Group Accounts, using equity accounting.</p> <p>The Council has a wholly owned subsidiary called Eastbourne Homes Investment Company (EHIC). In 2015/16 it is likely that EHIC's accounts will be material to the Council, in which case it will need to be consolidated into the Council's Group Accounts.</p> <p>The Council also another wholly owned subsidiary, Eastbourne Homes Ltd (EHL), for which Group Accounts have historically been prepared.</p>	<p>We will review the financial statements of Welbeing, CloudConnX and EHIC, and their management accounts if their year ends are prior to 31 March 2016, to determine if they need to be included in the Council's Group Accounts.</p> <p>We will review the Council's processes and controls for adjusting FRS 102 accounts to IFRS for all Group entities.</p> <p>We will review the Group Accounts and check that assets, liabilities, income and expenditure and relevant disclosures have been correctly consolidated into the Council's Group Accounts.</p>	<p>Not applicable.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Group Accounts (continued)</p>	<p>There is a risk that income, expenditure, assets and liabilities in the Group Accounts will not be complete if the Council does not account for its share of material transactions in Welbeing and CloudConnX, and if the Council does not consolidate a material interest in EHIC.</p> <p>In addition, EHL, Welbeing and CloudConnX have previously prepared their financial statements under UK GAAP. The Financial Reporting Council (FRC) has, from 1 January 2015, replaced UK GAAP with FRS 102 for small and medium-sized entities. The transition to FRS 102 will change not only the format of, and disclosures in, these organisations' financial statements but also the criteria for recognition of some assets and liabilities, the measurement basis of some items and the treatment of some gains and losses.</p> <p>The Council will need to convert the financial statements prepared under FRS 102 for group entities to IFRS when including them in the Group Accounts. There is therefore a risk that income, expenditure, assets, liabilities and disclosures in the Group Accounts may not be accurately adjusted from FRS 102 to IFRS, as this is the first year of implementation and there may be some complex accounting adjustments required.</p>		

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Property, plant and equipment valuations</p>	<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date.</p> <p>The fair value for land and buildings included in PPE is a management estimate based on market values or depreciated replacement cost (DRC).</p> <p>Management use external valuation data to assess whether there has been a material change in the value of classes of assets and periodically (minimum of every five years) employs an external expert (valuer) to undertake a full valuation.</p> <p>The indices available to management to assess valuation changes are produced independently by Wilks Head and Eve and are based on observable data (asset sales and building contract prices). The valuation expert is independent of management and will use its sector knowledge of local sales to estimate the fair values and remaining useful economic lives of assets.</p> <p>We consider there to be a risk over the valuation of land and buildings where valuations are based on assumptions or where updated valuations have not been provided for a class of asset at year-end.</p>	<p>We will review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert.</p> <p>We will confirm that the basis of valuation for assets valued in year is appropriate based on their usage.</p> <p>We will confirm that an instant build modern equivalent asset basis has been used for assets valued at DRC.</p>	<p>We will review indices and price movements for classes of assets provided by Gerald Eve LLP against the percentage movement used by the Council.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Pension liability assumptions	<p>The net pension liability comprises the authority's share of the market value of assets held in the East Sussex County Council's Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is required to be based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We will obtain assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.</p> <p>We will review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p> <p>We will agree the disclosure to the information provided by the actuary.</p>	<p>We will agree the disclosures to the report received from the actuary, Hymans Robertson LLP.</p> <p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>
Allowances for doubtful debts	<p>In 2014/15 the Council implemented a new revenues and benefits system. There were some issues with migration of data from the old system and as a result collection of aged debt reduced. The Council uses historical collection and write off information to calculate a percentage that is applied to housing benefit overpayments, council tax and non-domestic rates aged debt that are unlikely to be collected.</p> <p>As the collection of aged debt has reduced over the last year, as a result of implementing the new system, percentage rates previously applied to aged debt may not be appropriate to use in 2015/16 when calculating the allowance for doubtful debts.</p>	<p>We will review the calculation of impairment allowances and ensure that the percentage rates applied to aged debt are supported by reasonable assumptions and adequate historical data.</p>	<p>Not applicable.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Narrative reporting	The Council will be required to produce a 'Narrative Report' replacing the Explanatory Foreword in the financial statements. The Narrative Report includes additional information not previously included in the Explanatory Foreword.	We will review the Narrative Report to ensure that it complies with current guidance and regulations.	Not applicable.
Fraud and error	We are required to discuss with you the possibility of material misstatement, due to fraud or error. We are informed by management that there have not been any cases of material fraud or error, to their knowledge.	We will continue to consider this throughout the audit process and discuss with management.	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 16</p> <p>Sustainable finances</p>	<p>The Medium Term Financial Strategy (MTFS) was updated in July 2015 to cover a four year period to 2019/20. This showed that the Council was required to make an average level of savings of £600,000 per annum over the life of the MTFS. The MTFS has since been refreshed to incorporate the Chancellor’s autumn budget announcement. The result of the announcement means that the Council is required to incorporate further annual savings amounting to £200,000 into the MTFS. Identifying the required level of savings from 2016/17 will be a challenge and is likely to require further difficult decisions around service provision and alternative delivery models.</p> <p>The Council currently has a number of major development/transformation programmes in place to either help facilitate these savings or create additional revenue streams in the medium term. These programmes include:</p> <ul style="list-style-type: none"> • Joint transformation programme with Lewes District Council to provide joint services • Major project for the enhancement of the current Devonshire Park Complex • Set up of Eastbourne Homes Investment Company for residential and commercial leasing outside of the Housing Revenue Account. <p>The Council needs to ensure that the MTFS adequately takes account of the investment costs and savings associated with these projects.</p>	<p>We will review the reasonableness of the assumptions in the MTFS, including the level of Government grant reductions expected, cost pressures, and investment and savings associated with transformation and development programmes.</p> <p>We will review the arrangements in place for the Council to make informed decision making in relation to its major development programmes. In particular, we will consider how the Council understands and uses reliable financial information to make decisions and how it supports the delivery of strategic priorities, as well as reviewing the governance structures and processes in making decisions.</p>	<p>Business cases including sensitivity analysis of future outcomes for the Council’s major developments.</p>

INDEPENDENCE

INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit and Governance Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ending 31 March 2016.

On the following page, we have recorded details of non audit services provided in relation to BDO’s tax subscription service. We have reviewed the service provided and have not identified any potential threats to our independence as auditors’ of Eastbourne Borough Council’s financial statements.

We have not identified any other potential threats to our independence as auditors.

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired. These policies include engagement lead and manager rotation. The table in appendix II sets out the length of involvement of key members of the audit team and the planned year of rotation.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, are:

	2015/16	2014/15
	£	£
Code fee - audit of financial statements	67,781	90,374
Code fee - certification of housing benefit subsidy claim	8,297	11,062
Fees for audit related services - review of the pooling of housing capital receipts return	1,500	1,500
Fees for non audit services - BDO tax subscription services	2,500	2,500
TOTAL FEES	80,078	105,436

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Code audit fee invoices will be raised as set out below, following which our firm's standard terms of business state that full payment is due within 14 days of receipt of invoice:

- Instalment 1 £16,945 in June 2015
- Instalment 2 £16,945 in September 2015
- Instalment 3 £16,945 in December 2015
- Instalment 4 £16,946 in March 2016

Fee invoices for other audit and non audit related services will be raised as the work is completed.

Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the Statement of Accounts prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
 - Narrative disclosure e.g. accounting policies, going concern
 - Instances when greater precision is required (e.g. senior management remuneration disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the authority, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
 - Assist in establishing the scope of our audit engagement and audit tests
 - Calculate sample sizes
 - Assist in evaluating the effect of known and likely misstatements on the financial statements.

APPENDIX I: MATERIALITY

Continued

REASSESSMENT OF MATERIALITY

- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

UNADJUSTED ERRORS

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- In accordance with auditing standards, we will communicate to the Audit and Governance Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
 - Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
 - We will obtain written representations from the Audit and Governance Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
 - There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
 - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
 - Other misstatements that we believe are material or clearly wrong.
-

APPENDIX II: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
JANINE COMBRINCK - Engagement lead	1 st year as engagement lead and 2 years as project manager	2019/20
KERRY BARNES - Project manager	1 st year as project manager	2024/25

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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Agenda Item 8

Body:	AUDIT AND GOVERNANCE COMMITTEE
Date:	9th MARCH 2016
Subject:	Internal Audit Report to 31 st December 2015
Report Of:	Internal Audit Manager
Ward(s)	All
Purpose	To provide a summary of the activities of Internal Audit for the third quarter of the financial year 2015/16.
Recommendation(s):	That the information in this report be noted and members identify any further information requirement and timescales.
Contact:	Jackie Humphrey, Internal Audit Manager, Telephone 01323 415925 or internally on extension 5925. E-mail address jackie.humphrey@eastbourne.gov.uk

1.0 Introduction

- 1.1 The work of Internal Audit is reported on a quarterly basis to demonstrate work carried out compared to the annual plan and to report on the findings of audit reports issued since the previous meeting of the committee.
- 1.2 The annual audit plan for 2015/16 was agreed by the Audit and Governance Committee in March 2015.

2.0 Review of work in the third quarter of the financial year 2015/16.

- 2.1 A list of all the audit reports issued in final from 1st April to 31st December 2015 is as follows:

Benefits (Annual 2014/15)	Performing Well
Council Tax (Annual 2014/15)	Performing Well
Housing Rents (Annual 2014/15)	Performing Excellently
NNDR (Annual 2014/15)	Performing Excellently
IT (Annual 2014/15)	Performing Inadequately
Conferences and Group Travel	Performing Adequately
Internet Controls	Performing Adequately
Electoral Computer System	Performing Excellently
Planning System	Performing Adequately
Leasing and Licensing	Performing Adequately
Telephones	Performing Well
Personal Loans	Performing Well
Licences (Entertainment and Taxi)	Performing Inadequately
Waste Contract	Performing Excellently
Software Compliance	Performing Adequately
CHRIS	Performing Well

Contact Centre	Performing Adequately
Seafront Services	Performing Well
Procurement	Performing Inadequately

Levels of Assurance - Key

Performing inadequately	Major weaknesses. Insufficient controls in place or controls not being applied. Fundamental improvements required. – High risk.
Performing adequately	Some important weaknesses. Key controls need to be improved. – Medium to high risk.
Performing well	Important strengths but some areas for improvement. – Medium to low risk.
Performing excellently	Major strengths. Minor or no recommendations. A good example of internal control. – Low risk.

2.2 One report has been issued in this quarter with an assurance level of inadequate. This is explained at 2.4 and appendix B.

2.3 Appendix A shows the work carried out against the annual plan to the end of December 2015. The following comments explain the main points to be noted from the table:

- Some reviews went over the time allocated. These were carried out by new members of staff, one of which only joined the team in May. This is being monitored and feedback given.
- A extra piece of work was requested as part of the audit of the Customer Contact Centre this took the audit slightly over the time allowed.
- Claims work – extra testing was again required this year. The DWP also stated that testing must be carried out on errors that had been found in the previous year’s testing. This has meant the time allowance for claims work has been exceeded.
- As previously reported, requests have been made for the postponement of the following reviews:

Performance Management - to be postponed until 2016/17. The reasons given were that with Phase 2 there were changes to the team with one member still not in post, a new Corporate Plan being produced and developing a new performance framework.

Engineering - to be postponed to 2016/17 in view of current maternity leave.

Asset Management - to be postponed until 2017/18 to allow for the implementation of Corporate Landlord.

- 2.4 Appendix B is the list of all reports issued in final during the year which were given an assurance level below "Performing Excellently", with any issues highlighted in the reviews which informed the assurance level given. NB. These are the assurance levels that were given at the time the final report was issued and do not reflect recommendations that have been addressed.
- 2.5 Appendix C shows the outstanding high and medium priority recommendations from audits and the reasons why they have not been implemented along with the month when the next follow up is due.
- 2.6 Where the column "priority" in Appendix C shows "High" the outstanding recommendations, and client comments from the report, have been listed at Appendix D. Appendix D is designated as "Confidential" to reduce the risk of opportunities to commit fraud. It should be noted that the recommendations listed were outstanding at the time of the last follow up review. If they have been addressed since this time this will not be noted or reported until the next follow up review is carried out.
- 2.7 The review of Events is the only audit still listed on Appendix D. The Senior Head of Tourism and Enterprise has given his comments which are included at the foot of the table.

The approach to the address the issues appears robust and it is therefore proposed not to continue to follow up the recommendations, which were first made when the report was issued in April 2014, but to conduct another full audit of the area at a later date.

3.0 Corporate Fraud

- 3.1 The team has carried out work to review and cleanse Band A of the Housing waiting list. This has resulted in:-

Removed from waiting list	27
Band lowered from A	47
Awaiting change of status	17
Other change actioned	13
Request sent for update/ further info	12
Advice letter sent	19
No change	34

In addition 203 National Fraud Initiative (NFI) waiting list matches have been reviewed by the team resulting in 137 removals and 6 being moved to a different banding. In total the work undertaken has resulted in 164 applicants, who should not have been on the waiting list, being removed and 66 having their banding reduced. Currently there is no financial value put on this work. Work now being undertaken on viewing all persons listed on Band B (approx 700)

- 3.2 Work on NFI matches to date has resulted in 70 errors being uncovered with £54,066.16 worth of benefits overpayments. Currently there are 346 NFI matches under review. The Corporate Fraud Team now deals with the whole

of the NFI data matches which previously were dealt with by different departments. This ensures an unbiased and uniform approach to investigating the matches.

- 3.3 In addition to NFI data matches the team continues to deal with Housing Benefit Matching Service matches. Since the beginning of the financial year the team has reviewed 487. This work is undertaken in the form of 'interventions' (reviewing customer's circumstances against their claim) as the team can no longer investigate housing benefit. This work is still carried out by the Corporate Fraud team as it is currently not covered by another department.

The team currently have 60 investigations open looking at a variety of issues including Council Tax Reduction, Tenancy, Single Person Discount, Non Domestic Rates, Homeless, Council Tax Discount and HB interventions.

To date the team has undertaken reviews of 147 individual cases (not including projects) resulting in 91 positive outcomes (62%).

- 3.4 Other work currently being carried out by the team includes:

- Working with Electoral Services to help verify residents addresses;
- Acting as link between Case Management and HMO Licencing, Planning and Building Regs to help ensure that a holistic view is made of claimant's circumstances when applications
- Giving fraud awareness training to Customer Advisors, Account Management and Case Management Caseworkers. Training has also been arranged for Neighbourhood Officers.

- 3.5. A table showing the work of the team and the savings made can be found at Appendix E.

4.0 East Sussex Counter Fraud Hub

- 4.1 A consensus has been reached for the choice of a case management system and implementation of the software across the member authorities is commencing.
- 4.2 A company for the provision of publicity has also been agreed and an initial meeting will be held to arrange launching publicity for the Hub.
- 4.3 The Hub is working towards a uniform approach to recording performance outcomes. This will help to provide a financial representation of the work being undertaken by the fraud teams within the Hub.
- 4.4 The Hub has collated its performance figures for the three quarters of 15/16. The figures come from the member authorities; Eastbourne, East Sussex County Council, Wealden, Lewes and Brighton and Hove. The summary can be seen below.

April - December 2015	No of proven cases	Value of proven cases £
Reduction in procurement fraud	0	0
Social housing tenancy fraud	45	662,000
Right to Buy fraud	0	0
CTRS fraud	44	46,000
CT discount fraud	27	11,500
NNDR fraud	0	0
Grant fraud	0	0
Blue Badge fraud	324	175,000
Direct Payments	0	0
Housing Benefit		118,650
Employment fraud		1,500
Rental recovery		9,765
Totals	440	1,024,415

Figures for savings on social housing tenancy fraud and blue badge fraud are those suggested by the Audit Commission in the Protecting the Public Purse publication. This suggests a saving of £18,000 for each property returned and £500 for each Blue Badge rescinded.

- 4.5 When the bid for funding from the DCLG was submitted, a forecast of savings had to be included. As none of the authorities had carried out proactive corporate fraud work previously these figures had to be estimated based on the savings suggested in Protecting the Public Purse 2013 "Estimated annual loss to fraud in local government". A lower estimate was given for the first year of work as it was felt that the Hub members would just be testing the water to understand the areas where fraud and inconsistencies could occur.
- 4.6 The projected savings for the Hub in 15/16 and the actual for the three quarters of the year are shown on Appendix F.
- 4.7 The forecasts for the year were based on the main areas of fraud as listed in "Protecting the Public Purse". However, the Hub is finding that it is also taking on other pieces of fraud work. These are now included in the performance figures to demonstrate the full range of work by the Hub. The performance of the Hub for the first three quarters of the year is over the projected target.

5.0 SFIS Update

- 5.1 A meeting has been arranged with the DWP to discuss the backlog of work currently with them. Since migration in November 2014, 242 Housing Benefit cases have been referred to DWP for investigation. To date, 63 have been closed – 56 of which were closed as unproven or no action taken. 3 Adpens, 4 proven.

6.0 Consultation

- 6.1 Respective Service Managers and Heads of Service as appropriate.

7.0 Resource Implications

7.1 Financial – Delivered within the approved budget for Internal Audit

7.2 Staffing – None directly as a result of this report.

8.0 Other Implications

8.1 None

9.0 Summary of Options

9.1 None

10.0 Recommendation

10.1 That the information in this report be noted and members identify any further information requirement and timescales.

Jackie Humphrey
Internal Audit Manager

Background Papers:

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

None

			Planned days	Actual days	Reason for Variance
ANNUAL REVIEWS	Benefits	Governance	15	5.3	14/15 work being completed
	Cash and Bank	Governance	10		
	Council Tax	Governance	10	10.1	14/15 work being completed - 15/16 work commenced
	Creditors	Governance	15	5.5	
	Debtors	Governance	15		
	Housing Rents	Governance	15	1.6	14/15 work being completed
	Main Accounting	Governance	10	0.1	14/15 work being completed
	NNDR	Governance	10	9.6	14/15 work being completed - 15/16 work commenced
	Payroll	Governance	10		
	Treasury Management	Governance	10	0.1	14/15 work being completed
	IT	Governance	4	4.1	14/15 work being completed
	Theatres Reconciliation	Governance	5	0.2	14/15 work being completed
	Claims work		80	116.8	14/15 work being completed and 15/16 work begun - also extra testing required for 15/16
		209	153.4		

Contingency		25	15.7	
NFI		20		
Special Investigations/advice		40	12.1	
Follow ups re audits carried out in previous year		30	12.3	
Consultancy		20		
		135	40.1	

CARRY FORWARDS FROM 14/15 PLAN	Waste contract	Contract	10	6.8	Completed
	Software Compliance	IT	5	11.4	Completed
	Internet Controls	IT	10	5.9	Completed
	Change Controls	IT	5	0.3	
	CHRIS	IT	5	4.6	Completed
	Electoral Computer System	IT	5	3.6	Completed
	Customer Contact	Review	10	12.3	Completed - extra piece of work requested.
	Planning System	IT	10	17	Completed
	Leasing and Licensing	Review	10	15.9	Completed
	Right to Buy	Review	10	4.7	Ongoing
		80	82.5		

REQUESTS	IT Systems Resilience and Redundancy	Review	10		
	Building Control	Review	10	0.7	
			20	0.7	

			Planned days	Actual days	Reason for Variance
HIGH RISK	Open Revenues	Review	10	9.4	Ongoing
			10	9.4	
MEDIUM RISK REVIEWS	Engineering	Review/Contract	10	0.4	Postponed to 16/17
	Telephones	Review	10	16.9	Completed
	Personal Loans	Review	10	10.8	Completed
	Seafront Services	Review	15	8.2	Completed
	Asset Management	Review	10	0.3	Postponed to 17/18
	Licences (Entertainment and Taxis)	Review	10	18.8	Completed
	Procurement	Review	20	21.3	Completed
	Business Continuity Planning	Review	10	3.9	
	Cafi Bank Rec	IT	10	5.7	Draft
	Performance Management	Review	10	1.8	Postponed to 16/17
			115	88.1	
LOW RISK	IT Contract	Contract	5	2.2	
			5	2.2	
PLAN TOTAL			574	376.4	

APPENDIX B

Reasons for original assurance levels given (below Excellent)

N.B. The issues noted here may have been addressed since the original report was issued.

AUDIT REVIEW	ASSURANCE LEVEL	ISSUES NOTED	Level at follow up
Conferences and Group Travel	Adequate	<ul style="list-style-type: none"> • The contract template needs to be reviewed • Retention of documentation needs to be improved • Official names and addresses of businesses were not routinely requested or retained. • The payment terms written into the contracts do not reflect those followed in practice. 	Due Oct
Benefits (Annual 14/15)	Well	<ul style="list-style-type: none"> • Testing showed cases where overpayments were not being highlighted for recovery action 	N/A
Council Tax (Annual 14/15)	Well	<ul style="list-style-type: none"> • The suspense account is not regularly checked and cleared. 	N/A
IT (Annual 14/15)	Inadequate	<ul style="list-style-type: none"> • Some gaps noted in an earlier IT Health check had not been addressed • There is no current Disaster Recovery Plan • There is no current Business Continuity Plan. 	N/A
Licences	Inadequate	<ul style="list-style-type: none"> • No taxi licensing policy is in place. • In some cases the Police had not been informed of suspended premises licences. • In some cases there was no record of the consent form from the Designated Premises Supervisor. • In some cases there was no record of criminal record disclosure checks. • Debt recovery was found to be inconsistent. • A process is not in place to ensure that taxi vehicles over 7 years old have biannual checks. • Some vehicle suitability checks on file were found to have not been correctly completed. 	Due Oct

APPENDIX B**Reasons for original assurance levels given (below Excellent)**

N.B. The issues noted here may have been addressed since the original report was issued.

AUDIT REVIEW	ASSURANCE LEVEL	ISSUES NOTED	Level at follow up
Leasing and Licensing	Adequate	<ul style="list-style-type: none"> • One instance where a licensee had been told to stop using a piece of land which was not followed up. • Rent reviews deferred with no reason noted. • Leaseholders insurance details out of date with no process in place for chasing information. 	Due Dec
Internet Controls	Adequate	<ul style="list-style-type: none"> • The list of those with access to systems shows staff known to have left the Council, duplicated entries and 984 entries of unknown names or other identification. • Issues around leavers from agencies or Towner not being notified to IT. • Use of personal drives is not made clear in the IT Acceptable Use Policy. 	Due Jan
Planning System	Adequate	<ul style="list-style-type: none"> • Possible Data Protection issues around data held on the website. • Issues with the current payment process which means applications may not be fully completed. Requires Civica upgrade. 	Due Jan
Telephones	Well	<ul style="list-style-type: none"> • Tariffs need to be reviewed to ensure that the best one is obtained for the authority. • The list of which officers hold which mobiles is out of date. 	Due Jan
Personal Loans	Well	<ul style="list-style-type: none"> • The loans booklet states that managers must liaise with the Exchequer Manager before authorising loans but this is not being complied with. • Wording about repayment is not consistent on forms being used. 	Due Apl

APPENDIX B

Reasons for original assurance levels given (below Excellent)

N.B. The issues noted here may have been addressed since the original report was issued.

AUDIT REVIEW	ASSURANCE LEVEL	ISSUES NOTED	Level at follow up
Software Compliance	Adequate	<ul style="list-style-type: none"> • No structured process for obtaining and retaining licence statements. • No evidence retained of audits carried out by external agencies. • No central register retained to log: software held, no. of licences, no. of users. • No of reviews of no. of users actually accessing the software. 	Due Mar
CHRIS	Well	<ul style="list-style-type: none"> • Records are retained indefinitely. 	Due Jan
Contact Centre	Adequate	<ul style="list-style-type: none"> • Apparent time lags in loading scripts. • Some confusion over evacuation procedures. • Documents being photocopied and then scanned. • A need to remind staff of data security issues. • Lack of Business Continuity Planning. 	Due Mar
Seafront Services	Well	<ul style="list-style-type: none"> • Safe is of an old design and insured for less than it holds. • Wifi provider is not being regularly invoiced. 	Due Feb
Procurement	Inadequate	<ul style="list-style-type: none"> • 22 suppliers with large (£75k+) annual expenditure but no contract in place. • 43 suppliers with a medium (£25 to £74,999) annual expenditure but no contract in place. • Unclear if all payments to main IT supplier are within the scope of the contract. (This was later checked by the Senior Head of Projects, Performance and Technology and payments were found to be correct and within contracts). • No comprehensive and up to date contracts database 	Due Feb

APPENDIX B

Reasons for original assurance levels given (below Excellent)

N.B. The issues noted here may have been addressed since the original report was issued.

		is in place.	
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AUDIT	NUMBER OF		FOLLOW UP DUE	OUTSTANDING		CURRENT POSITION	NOTES RE FOLLOW UP/RECS OUTSTANDING	PRIORITY
	HIGH	MEDIUM		HIGH	MEDIUM			
Petty Cash	0	8	Mar-16	0	2	NYD	Work progressing on outstanding recs	Low
Conferences and Group Travel	3	2	Oct-15	-	-	Ongoing		
Events	6	3	Mar-16	2	0	Not Yet Due	Head of Service aware. Issues raised are ongoing, particularly around raising purchase orders and goods received notes.	Medium/High
Printing	5	6	Feb-16	0	1	Not Yet Due	Work is progressing on remaining rec.	Low
Licences	12	2	Nov-15	-	-	Ongoing		
Leasing and Licensing	1	5	Dec-15	-	-	Ongoing		
Planning System	2	2	Apl-16	2	0	Not Yet Due	Awaiting fix from Civica	Medium
Internet Controls	0	6	Jan-16	-	-	Not Yet Due		
CRIS	0	1	Jan-16	-	-	Not Yet Due		
Telephones	0	3	Jan-16	-	-	Not Yet Due		
Personal Loans	0	2	Apl-16	-	-	Not Yet Due		
Shared Sports Facilities	0	5	Apl-16	0	5	Not Yet Due	Actions to be taken post Phase 2 changes	Medium
Car Parking	1	2	Apl-16	0	1	Not Yet Due	Replacing of signage continuing	Medium
Waste	0	1	Feb-16	-	-	Not Yet Due		
Seafront Services	1	4	Feb-16	-	-	Not Yet Due		
Procurement	3	1	Feb-16	-	-	Not Yet Due		
Software Compliance	0	4	Mar-16	-	-	Not Yet Due		
Customer Contact	9	1	Mar-19	-	-	Not Yet Due		

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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	QUARTER ONE				QUARTER TWO				QUARTER THREE				QUARTER FOUR				YEAR TOTAL			
	Cases	Income	Savings	Cost of Corp Fraud	Cases	Income	Savings	Cost of Corp Fraud	Cases	Income	Savings	Cost of Corp Fraud	Cases	Income	Savings	Cost of Corp Fraud	Cases	Income	Savings	Cost of Corp Fraud
NATIONAL FRAUD INITIATIVE																				
Number of cases open	180				182				346								708			
Number of cleared cases	1376				273				27								1676			
Number of errors identified	64				6				0								70			
Number of frauds identified	0				0				0								0			
Overpayments identified			35,688.61				6,160.06				12,217.49								54,066.16	
HOUSING BENEFIT MATCHING SERVICE																				
Number of open matches	41				0				0								41			
Number of closed matches	204				123				16								343			
Overpayments identified			12,905.57				34,914.29				43,479.41								91,299.27	
Weekly incorrect benefit identified			39,713.28				96,759.36				97,864.64								234,337.28	
OTHER INVESTIGATIONS																				
Number of open investigations	19				52				60								131			
Number of closed investigations	57				44				46								147			
Overpayments identified			29,426.44				4,013.61				37,831.59								71,271.64	
Weekly incorrect benefit identified			39,888.64				29,216.96				24,633.92								93,739.52	
Removal of SPD saving			603.78				569.14				1,731.19								2,904.11	
Increase in Council Tax liability			1,372.37				1,745.33				0								3,117.70	
Recovery of Council property							18,000.00				0								18,000.00	
Income from court costs		60.00								20								80.00		
Income from Adpen collection		3,364.03				2041.95												5,405.98		
TOTALS	1941	£3,424.03	£159,598.69	£31,179.85	680	£2,041.95	£191,378.75	£24,090.73	495	£20.00	£217,758.24	£24,090.73	0	£0.00	£0.00	£0.00	3116	£5,485.98	£568,735.68	£80,424.81

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	FIRST THREE QUARTERS OF YEAR			FULL YEAR		
	Forecasted performance 15/16 (£,000)	Actual performance First three quarters of year (£,000)	Variance (£,000)	Forecasted performance 15/16 (£,000)	Actual Performance (£,000)	Variance (£,000)
Reduction in procurement	375	0	-375	500	0	-500
Social housing tenancy fraud	375	662	287	500	662	162
Right to Buy fraud	56.25	0	-56.25	75	0	-75
CTRS fraud	37.5	46	8.5	50	46	-4
CT discount fraud	75	11.5	-63.5	100	11.5	-88.5
NNDR fraud	37.5	0	-37.5	50	0	-50
Grant fraud	3.75	0	-3.75	5	0	-5
Blue Badge fraud	7.5	175	167.5	10	175	165
Direct Payments	0	0	0	0	0	0
	967.5	895	-73	1290	895	-396
Other work not forecast						
Housing Benefit	0	119	118.5	0	119	118.5
Employment fraud	0	1.5	1.5	0	2	1.5
Rental recovery	0	10	10	0	10	10
	0	130	130	0	130	130
TOTAL	967.5	1,025	57	1290	1,025	-266

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Agenda Item 9

Body:	AUDIT AND GOVERNANCE COMMITTEE
Date:	09 MARCH 2016
Subject:	Draft internal audit plan for 2016/17
Report Of:	Internal Audit Manager
Ward(s)	All
Purpose	To propose an internal audit plan for 2016/17
Recommendation(s):	To consider and adopt the proposed plan.
Contact:	Jackie Humphrey, Internal Audit Manager, Telephone 01323 415925 or internally on extension 5925. E-mail address jackie.humphrey@eastbourne.gov.uk

1.0 Introduction

- 1.1 The internal audit function contributes to the Council's overall governance arrangements through the audits carried out in the annual internal audit plan.
- 1.2 The annual audit plan includes a number of managed audits which are required to be carried out by the external auditors and upon which they place reliance for the work of internal audit.

2.0 The Audit Universe

- 2.1 The Audit Universe is the list of all areas around the Council which can be reviewed.
- 2.2 The universe was completely reviewed in discussion with Heads of Service ahead of the 2014/15 plan.

3.0 Production of the draft audit plan for 2016/17

- 3.1 The internal audit plan for each year begins by calculating the number of audit days available. For 16/17 this has reduced owing to the Internal Audit Manager now working one day a week for Lewes District Council.
- 3.2 There are twelve "managed" audits which have to be undertaken every year in order to satisfy the external auditors. These are:-

- Benefits
- Cash and Bank
- Council Tax
- Creditors
- Debtors
- Housing Rents
- Main Accounting (Financial Ledger)
- NNDR
- Payroll

- 3.3 As well as these core audits, work is carried out annually on verifying the Benefits Subsidy Claim and time must also be set aside in the audit plan for unplanned work (contingency), advice, special investigations, follow ups, work on the National Fraud Initiative etc. Non chargeable time (holidays, sick leave, admin etc) is also calculated.
- 3.4 Once the days necessary to carry out the work listed above are calculated the figure can be taken from the "auditor time available" and the remaining figure is the number of days available for carrying out other audits specifically for the Council. These calculations can be seen as part of Appendix A.
- 3.5 In order to produce the annual internal audit plan a risk assessment of the areas listed in the audit universe is carried out by the Internal Audit Manager. Weighting factors used are :-

The number of transactions in the system;
System changes;
Internal control score (evaluated from last review);
Length of time since last review.

- 3.6 The completed risk assessment can be found at Appendix B. This has been sorted by level of risk and then by the date the last audit review was undertaken.
- 3.7 The draft audit plan is then produced using the risk assessment to select areas for review up to the amount of time available.

4.0 Draft audit plan for 2016/17

- 4.1 The draft audit plan for the new year has to be produced before the end of the previous audit year. A judgement therefore has to be made as to whether any outstanding reviews are likely to be completed. As the focus of the audit work at this time of year turns to completion of the annual audits, all the outstanding reviews have been carried forward to the new year plan.
- 4.2 Two other reviews (Engineering and Performance Management) were requested to be postponed and these have been added to the new year plan.
- 4.3 The risk assessment shows five high risk areas. Open Revenues is being completed in the current year and Procurement was completed in November so is subject to follow up reviews.
- 4.4 The remainder of the plan is made up of medium risks which have not been carried out for a number of years and some low risk areas which were last audited four to five years ago.
- 4.5 The draft audit plan for the new year which was drawn up using the process described above was taken to CMT for discussion on the 9th February 2016.
- 4.6 At the meeting it was requested that consideration be given to adding a review of Prevent and Protect to the plan and suggested that this could be carried out in

conjunction with Lewes.

4.7 In discussion with the Head of Audit, Fraud and Procurement at Lewes it was agreed to include this in each of our plans with just 5 days each. As there was not a low risk audit of only five days that could be replaced in the plan the number of days for contingency was marked down by 5 days to allow for the requested review to be undertaken.

4.8 Lewes also planned to carry out a review of the use of agency staff and consultants and it was agreed to carry out the review across both authorities.

4.9 This plan can be seen at Appendix C.

5.0 Future Audit Plans

5.1 With the sharing of services with Lewes District Council there will be closer working of the Audit teams. Currently the Internal Audit Manager at Eastbourne is carrying out a review of Right to Buy at Lewes and lessons learned from this will be used to inform a later review of Right to Buy at Eastbourne. As mentioned above the plan for 16/17 now includes the first joint review across Eastbourne and Lewes. It is therefore probable that the audit plan for 17/18 will be a joint one with Lewes.

6.0 Consultation

6.1 The Corporate Management Team.

7.0 Resource Implications

7.1 Financial – Delivered within the approved budget for Internal Audit

7.2 Staffing – None directly as a result of this report, staff are engaged in risk matters on an ongoing basis.

8.0 Other Implications

8.1 None

9.0 Summary of Options

9.1 None

10.0 Recommendation

10.1 To consider and adopt the proposed plan.

Jackie Humphrey
Internal Audit Manager

Background Papers:

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

None

APPENDIX A

AUDIT RESOURCE FOR THE 2016/17 AUDIT PLAN					
	Totals	Internal Audit Manager	Revenues & Benefits Auditor	Internal Auditor	Internal Auditor
FTE POSTS	3.60	1.00	1.00	1.00	0.60
Lewes		0.8			
DAYS AVAILABLE	884	208	260	260	156
PLANNED AUDITS					
Annual Governance Audits	129				
Grant Claims / National Fraud Initiative	100				
Audit Advice / Special Investigations	40				
Follow ups	30				
High Risk Audits	20				
Carry forwards	55				
Medium Risk Audits	83				
Low Risks	20				
Requests	0				
Contingency	45				
Total Chargeable Days	522				
NON-CHARGEABLE TIME					
Supervision and management	50	50			
Seminars and training	33	11	6	6	10
Team meetings	5	5			
Performance appraisals	0				
Strategic, Annual and Business Planning	5	5			
Annual Leave	98	27	27	27	17
Public Holidays	35	10	10	10	5
Concessionary Leave	7	2	2	2	1
Sickness	18	5	5	5	3
Monthly / Quarterly reports on Audit	10	10			
Maternity / Paternity leave	0				
Vacancies	0				
Admin / Reading / Elections	61	20	16	15	10
External Audit Liaison	15	10	5		
Total Non-Chargeable Days	337	155	71	65	46
RISK MANAGEMENT	20				
PEER REVIEWS	5				
TOTAL EBC RESOURCE REQUIREMENT	884				
TOTAL EBC AVAILABLE DAYS	884				
EHL INTERNAL AUDITING DAYS	36				

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Appendix B - Risk Assessment

Service Name	Audit Type	Transactions Score	Internal Control Score	System Changes Score	Risk Level	Planned Time	Last audited / followed up		
Buildings (security/fire/asbestos/gas/legionella)	Review	5	5	4	38	8	NYA		
Right To Buy	Review	5	5	4	38	8	NYA	16/17 if not completed	15/16
Open Revenues	Computer	5	4	4	35	10	NYA	Ongoing	
VAT	Review	5	5	2	34	8	NYA		
Procurement (Purchasing and contracts)	Review	5	5	2	34	10	Nov 15		
Private Housing Grants	Review	4	5	2	31	8	NYA		
Rent and Deposit Loans	Review	3	5	3	30	8	NYA		
Planning	Review	3	4	3	27	10	NYA	16/17	
Engineering	Review	3	4	2	25	10	NYA	16/17	
Homelessness/Temp Accommodations	Review	4	3	3	27	10	Jun-04	16/17	
Software Compliance	Computer	3	3	2	22	5	Nov-15		
Box Office Computer System	Computer	5	3	3	30	5	Jul-09		
Access to Information	Review	3	2	3	21	15	Aug-10		
Security of Data Movement	Computer	4	1	3	21	5	Nov-10		
Economic Development	Review	3	3	2	22	15	Jan-12		
Cafi - Bank Reconciliations	Computer	5	3	4	32	10	Feb-12	Ongoing	
Capital Programme	Review	5	1	2	22	15	Mar-12		
W2	Computer	5	2	4	29	15	Sep 12		
Asset Management	Review	5	3	4	32	15	Nov-12	17/18	
Cafi - Debtors	Computer	5	1	4	26	10	Nov-12		
Cafi - General Ledger	Computer	5	1	3	24	4	Nov-12		
Theatres (Box office/FOH/ Marketing)	Review	5	3	2	28	20	Feb-13		
Cafi - Purchasing	Computer	5	1	4	26	25	Jul-13		
Housing (inc EHL contract)	Review	5	2	3	27	15	Oct-13		
Cafi - Creditors	Computer	5	1	4	26	15	Oct-13		
Health & Safety	Review	5	1	3	24	20	Oct-13		
Devolved Budgets	Review	3	2	4	23	10	Oct-13		
Land Charges & Searches	Review	4	2	4	26	5	Dec-13		
Community Grants	Review	4	1	3	21	10	Jan-14		
Tenancy Management	Review	4	5	2	31	10	Feb-14		
Information Governance inc records management	Review	3	5	3	30	15	Feb-14		

Appendix B - Risk Assessment

Leaseholders and Recharges	Review	4	2	2	22	10	Feb-14		
Civil Contingency	Review	3	2	3	21	15	Mar-14		
Redoubt	Review	5	2	2	25	20	May 14		
Daily Cash Reconciliations at venues	Review	4	2	2	22	10	Jun-14		
Project Management Control	Review/Comp	3	3	3	24	15	Jul-14		
Human Resources (Pers/recruit/training)	Review	5	2	3	27	15	Sep 14		
Catering	Review	4	3	4	29	10	Jan-15		
Sports and Community Centres	Review	5	2	2	25	10	Mar-15		
Petty Cash	Review	3	3	2	22	10	Mar-15		
GIS System & LLPG	Computer	3	3	3	24	5	Apl 15		
Public Services Network	Computer	3	2	3	21	10	Apl 15		
Conferences & Group Travel	Review	3	3	2	22	10	May-15		
Open Spaces	Review	4	3	2	25	10	Jun-15		
Licenses - Entertainment & Taxi	Review	3	4	2	25	10	Jul-15		
Planning System	Computer	3	3	3	24	10	Jul-15		
Leasing & Licensing	Review	5	3	2	28	15	Aug-15		
Internet Controls	Computer	3	3	3	24	10	Aug-15		
Car Parking inc. Parking Permits	Review	3	2	3	21	10	Aug-15		
Telephones	Review	4	2	3	24	10	Sep-15		
Waste Contract	Review	4	1	4	23	10	Oct-15		
CHRIS Computer System	Computer	3	2	3	21	5	Oct-15		
Events & Attractions	Review	5	4	2	31	15	Nov-15		
Seafront Services	Review	2	4	2	22	10	Nov-15		
Business Continuity Planning (Incl IT)	Review	3	5	3	30	15	Jan-16		
IT Contract	Computer	3	1	1	14	10	Jul-08	16/17 if not	completed 15/16
Change Controls	Computer	3	1	2	16	5	Nov-09	16/17 if not	completed 15/16
Performance Management	Review	3	1	3	18	15	May 10	16/17	
Car Loans/Leasing	Review	3	1	2	16	8	Nov-10		
Internet/intranet/telephone payments/PCIDSS	Computer	5	1	1	20	10	Oct-11		
Insurances	Review	3	1	2	16	10	Feb-12		
Corporate Strategy/Priorities/Plan	Review	3	1	3	18	10	Jun-12		
Development Control & S106	Review	4	1	2	19	20	Nov-12		
Partnerships	Review	4	1	2	19	15	Nov-12		
Elections and Electoral Register	Review	3	1	4	20	10	Dec-12		
Postal Services	Review	3	1	4	20	10	Mar-13		
APP	Computer	3	1	3	18	10	Mar-13		
Covalent	Computer	3	1	2	16	5	Mar-13		

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DRAFT AUDIT PLAN 2016/17		
ANNUAL GOVERNANCE AUDITS	Audit type	Planned days
Benefits	Financial	15
Cash and Banking	Financial	10
Council Tax	Financial	10
Creditors	Financial	15
Debtors	Financial	15
Housing Rents	Financial	15
Main Accounting	Financial	10
NNDR	Financial	10
Payroll	Financial	10
Treasury Management	Financial	10
ICT	IT	4
Theatres	Financial	5
TOTAL		129
GRANT CLAIMS / NFI		100
AUDIT ADVICE / SPECIAL INVESTIGATIONS		40
FOLLOW UPS		30
CONTINGENCY		40
CARRY FORWARDS FROM 15/16 PLAN		
Right to Buy	Operational	10
IT Contract	IT	10
Change Controls	IT	5
Performance Management	Operational	10
TOTAL		35
HIGH RISK AUDITS		
Buildings H&S (asbestos, legionella, gas)	Operational	10
VAT	Operational	10
TOTAL		20
REQUESTS		
Prevent and Protect (across Lewes and Eastbourne)		5
Agency staff and Consultants		5
TOTAL		10
MEDIUM RISK AUDITS		
Private Housing Grants	Operational	10
Rent and Deposit Loans	Operational	10
Planning (process)	Operational	10
Engineering	Operational	10
Homelessness/Temporary Accommodation	Operational	10
Box Office Computer System (and taking payments)	IT/Operational	10
Access to Information	Operational	15
Security of Data Movement	IT	5
Economic Development	Operational	8
Capital Programme	IT	10
TOTAL		98
LOW RISK AUDITS		
Car Loans and Leasing	Operational	10
Internet/Intranet/phone payments and PCIDSS	IT/Operational	10
TOTAL		20
CHARGEABLE TIME		522
NON-CHARGEABLE TIME		337
OVERALL TOTAL		859

TYPES OF REVIEW

Financial	Reviewing processes and controls within the main financial areas
Contract	Reviewing processes and controls within or across contracts
IT	Reviewing processes and controls within IT systems
Operational	Reviewing processes and controls within the area under review

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