

## **Audit and Governance Committee**

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**MEMBERS:** Councillor Swansborough (Chairman); Councillor Tester (Deputy-Chairman); Councillors Choudhury, di Cara, Holt, Metcalfe, Robinson and Taylor

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## **Agenda**

- 1 Minutes of the meeting held on 8 March 2017 - Previously circulated.**
- 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 Grants Report 2015/2016 (Pages 1 - 12)**

Report of External Auditors BDO.

#### **8 Internal Audit Report to 31st March 2017. (Pages 13 - 26)**

Report of Internal Audit Manager.

#### **9 Annual Governance Statement. (Pages 27 - 56)**

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

## GRANT CLAIMS AND RETURNS CERTIFICATION

Audit for the year ended 31 March 2016



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# INTRODUCTION

## Purpose of the report

This report summarises the main issues arising from our certification of grant claims and returns for the financial year ended 31 March 2016.

### Public Sector Audit Appointments Ltd (PSAA) regime

PSAA has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

We undertake the grant claim certification as an agent of PSAA, in accordance with the Certification Instruction (CI) issued by them after consultation with the Department for Work and Pensions (DWP).

After completion of the tests contained within the CI the grant claim can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified as a result of the testing completed.

### Other certification work

A number of grant claims and returns that were previously included within the scope of the audit have since been removed, but Departments may still seek external assurance over the accuracy of the claim or return.

These assurance reviews are undertaken outside of our appointment by PSAA and are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

The Council has requested that we undertake a 'reasonable assurance' review, based on the instructions and guidance provided by the Department for Communities and Local Government (DCLG) for the pooling of housing capital receipts return for the year ended 31 March 2016.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during our certification work.

## Fees

We reported our original fee proposals in our Planning Report. We have not had to amend our planned fees.

AUDIT AREA	PLANNED FEES (£)	FINAL FEES (£)
<b>PSAA regime</b>		
Housing benefits subsidy claim	8,297	8,297
<b>Other certification work</b>		
Pooling of housing capital receipts return	1,500	1,500
<b>Total certification fees</b>	<b>9,797</b>	<b>9,797</b>

## KEY FINDINGS

Below are details of each grant claim and return subject to certification by us for the financial year ended 31 March 2016. Where our work identified issues which resulted in either an amendment or a qualification (or both), further information is provided. An action plan is included at Appendix I of this report.

CLAIM OR RETURN	VALUE (£)	QUALIFIED	AMENDED?	IMPACT OF AMENDMENTS (£)
Housing benefit subsidy	£50,007,348	YES	NO	No amendments made to claim
Pooling of housing capital receipts	£1,472,550	NO	YES	No impact on total housing capital receipts subject to pooling

### HOUSING BENEFIT SUBSIDY

### FINDINGS AND IMPACT ON RETURN

Local authorities responsible for managing housing benefit are able to claim subsidies towards the cost of these benefits from central government. The final value of subsidy to be claimed by the Council for the financial year is submitted to central government on form MPF720A, which is subject to certification.

Our work on this claim includes verifying that the Council is using the correct version of its benefits software and that this software has been updated with the correct parameters. We also agree the entries in the claim to underlying records and test a sample of cases from each benefit type to confirm that benefit has been awarded in accordance with the relevant legislation and is shown in the correct cell on form MPF720A.

The methodology and sample sizes are prescribed by PSAA and DWP. We have no discretion over how this methodology is applied.

The draft subsidy return provided for audit recorded amounts claimed as subsidy of £50,007,348. No amendments were made as a result of the audit.

Our audit of 60 individual claimant files highlighted a number of errors the Council made in administering benefit and calculating subsidy entitlement.

Guidance requires auditors to undertake extended 40+ testing if initial testing identified errors in the benefit entitlement calculation or in the classification of expenditure. Such testing is also undertaken as part of our follow-up of prior year issues reported. This additional testing, combined with the original testing where there has been an overpayment of benefit, is extrapolated (or extended) across the population. Where the error can be isolated to a small population, the whole population can be tested and the claim form amended if appropriate. Where there is no impact on the subsidy claim, for example where the error always results in an underpayment of benefit, we are required to report this within our qualification letter.

This resulted in:

- All HRA rent rebate backdated payment cases were tested due to errors in the 2015/16 initial sample testing
- 40 earned income rent allowance cases were tested due to prior year calculation errors
- 40 rent allowance overpayments cases were tested due to classification errors in 2015/16 additional testing
- All modified scheme cases were tested because of prior year issues and a significant increase in the 2015/16 case load.

PSAA's methodology requires auditors to reperform a sample of the additional work undertaken by the Council to ensure conclusions have been satisfactorily recorded. We were able to rely on the conclusions drawn by the Council.

Our work was completed and the claim was certified on 21 December 2016. Our audit certification was qualified and we quantified the effect of the errors identified on the Council's entitlement to subsidy in a letter to DWP. The Council is awaiting the outcome of the DWP review of our qualification letter on its final subsidy amount for the year. A summary of our audit findings can be found on the following pages.



## DETAILED FINDINGS

Benefit type	Error description	Impact on claim
HRA Rent Rebate	<p><b>Backdated payments</b></p> <p>Initial testing identified one case where expenditure that attracts full subsidy had been classified as backdated expenditure in error. The impact of this error meant that backdated payments on the claim form were overstated by £1,242, although this had no impact on subsidy.</p> <p>Testing of the remaining population of backdated payments (38 cases), found a further four cases where expenditure had been classified as backdated payments in error. The impact of this error meant that backdated payments in the claim form were overstated by £902, although this had no impact on subsidy.</p>	<p>Backdated payments overstated by £2,144 (no impact on subsidy).</p> <p>No adjustment was made to the claim form.</p>
Rent Allowances	<p><b>Earned income calculations</b></p> <p>No errors were identified in respect of incorrect earned income calculations as part of the 2015/16 initial 20 case testing, which had 5 cases with earned income. However, due to prior year errors in respect of incorrect earned income calculations, an additional sample of 40 cases was tested. This testing identified the following errors:</p> <ul style="list-style-type: none"> <li>An underpayment of £286 because incorrect employment hours had been used to calculate the claimant's income and as a result an additional earned income disregard had not be applied. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified did not affect subsidy and was not classified as an error.</li> <li>An overpayment of £21 because the frequency of the claimant's earnings was input incorrectly. This error was extrapolated over all earnings cases in the LHA Expenditure cell on the claim form and this resulted in the cell being overstated by £4,835 and the LA error overpayment cell being understated by £4,835.</li> </ul>	<p>LHA expenditure attracting full subsidy was overstated by £4,835.</p> <p>LA error overpayment attracting £nil subsidy was understated by £4,835.</p> <p>No adjustment was made to the claim form.</p>

## DETAILED FINDINGS

Benefit type	Error description	Impact on claim
Rent Allowances (continued)	<p><b>Classification of overpayments</b></p> <p>No errors were identified in respect of overpayment classifications as part of the 2015/16 initial 20 case testing, which included 2 cases in the eligible overpayments cell. The Council tested all current year eligible overpayment cases over £1,500 (due to classifications errors identified in the prior year audit) and all errors identified were corrected in 2016/17 before the start of the audit. Additional testing of 40 cases was carried out on current year eligible overpayment cases below £1,500 as part of the audit (cases below £1,500 accounted for 69% of the total eligible overpayment cell value).</p> <p>Additional testing of 40 eligible overpayment cases under £1,500 identified three cases (total error £1,183), where the overpayment should have been classified as LA error and administrative delay overpayments, rather than eligible overpayments. In addition, our testing of modified schemes identified one case (total error £84) where the overpayment was incorrectly classified as eligible overpayments rather than LA error and administrative delay overpayments.</p> <p>As a result of the classification errors identified in the eligible overpayments cell, we calculated an extrapolation percentage and used this to estimate the total error in the remaining untested population. This resulted in the eligible overpayments cell being overstated by £27,063 and the LA error and administrative delay overpayments cell being understated by £27,063.</p>	<p>Eligible overpayments attracting 40% subsidy overstated by £27,063.</p> <p>LA error and administrative delay overpayments attracting £nil subsidy understated by £27,063.</p> <p>No adjustment was made to the claim form.</p>

## DETAILED FINDINGS

Benefit type	Error description	Impact on claim
HRA Rent Rebate	<p><b>Modified schemes</b></p> <p>All ten cases in the cell were tested and the following errors were identified:</p> <ul style="list-style-type: none"> <li>Four cases included expenditure that had been classified as local scheme expenditure however these cases did not include a 'local scheme' element and therefore the expenditure had been misclassified. This resulted in an overstatement of the local scheme expenditure cell and an understatement of the HRA rent rebate expenditure cell (and consequently the HRA rent rebate headline cell) amounting to £2,994. The Council has raised this issue with CIVICA who were testing a 'bug fix' to be rolled out to CIVICA sites to correct this issue.</li> <li>One case where earnings were input incorrectly resulting in overpaid benefit amounting to £93. This resulted in an overstatement of the local scheme expenditure cell and an understatement of the HRA rent rebate expenditure cell (and consequently the HRA rent rebate headline cell).</li> </ul>	<p>Local scheme expenditure attracting 75% subsidy overstated in total by £3,087.</p> <p>HRA rent rebate expenditure attracting full subsidy understated in total by £3,087.</p> <p>No adjustment was made to the claim form.</p>

## DETAILED FINDINGS

Benefit type	Error description	Impact on claim
Rent allowances	<p><b>Modified schemes</b></p> <p>All 56 cases in the cell were tested and the following errors were identified:</p> <ul style="list-style-type: none"> <li>15 cases included expenditure that had been classified as modified schemes however these cases did not include a 'local scheme' element and therefore the expenditure had been misclassified. This resulted in an overstatement of the local scheme expenditure cells and an understatement of the rent allowances expenditure headline cell amounting to £3,756. The Council estimated a corresponding understatement of cells attracting full subsidy totalling £2,885 and an understatement of a cell attracting 40% subsidy amounting to £871. The Council raised this issue with CIVICA who are testing a 'bug fix' to be rolled out to CIVICA sites to correct this issue.</li> <li>One case amounting to -£113 was included in the local scheme expenditure cell. The case included pre &amp; post 73 war widows pension which had been correctly disregarded and full award should have been paid under Modified Schemes however the award had been posted to statutory scheme and a negative amount has been included in the local schemes expenditure cell. This resulted in an understatement of the local expenditure scheme cells by £4,919, and a corresponding overstatement of the rent allowances expenditure cell attracting full subsidy. This issue was also raised with CIVICA.</li> <li>Two underpayments amounting to £3. As there is no eligibility to subsidy for benefit which has not been paid, the underpayments identified did not affect subsidy and were not classified as errors for subsidy purposes.</li> </ul>	<p>Local scheme expenditure attracting 75% subsidy understated in total by £1,163.</p> <p>Rent allowances expenditure cells attracting full subsidy overstated in total by £2,034.</p> <p>Rent allowances eligible overpayments cell attracting 40% subsidy understated in total by £871.</p>

DETAILED FINDINGS

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POOLING OF HOUSING CAPITAL RECEIPTS	FINDINGS AND IMPACT ON RETURN
<p>Local authorities are required to pay a portion of any housing capital receipt they receive into a national pool administered by central government. The Council is required to submit quarterly returns notifying central government of the value of capital receipts received.</p> <p>The return provided for audit recorded total housing capital subject to pooling of £1,472,550.</p> <p>DCLG requires that this return is certified but the work is not part of PSAA’s certification regime. We therefore agreed a separate letter of engagement to provide a reasonable assurance report.</p>	<p>Our audit identified two adjustments in respect of new-build expenditure in the year, which resulted in the amount of this expenditure disclosed in the return reducing by £125,670, to £1,065,064.</p> <p>New-build expenditure is disclosed in the return as information for DCLG and does not impact on total housing capital receipts subject to pooling.</p>

## APPENDICES

## APPENDIX I: 2015/16 ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<p>HRA rent rebate backdated payments incorrectly classified.</p> <p>Rent allowances earned income cases had been incorrectly calculated.</p> <p>Rent allowances overpayment cases incorrectly classified.</p>	<p>We recommend that additional checks are carried out to ensure that overpayments and backdated payments are classified correctly and that earnings are calculated accurately.</p>	High	<p>Funding allocated to procure a resource to do additional checks in these areas alongside the in- house checking regime.</p>	Senior Specialist Advisor	April 2017
<p>HRA rent rebate and rent allowances modified schemes cases had been incorrectly classified as modified schemes.</p>	<p>We recommend that issues identified in respect of modified schemes are followed up with Capita and 'bug fixes' are applied.</p> <p>If 'bug fixes' are not issued by CIVICA we recommend that the cases are manually corrected in the CIVICA system.</p>	High	<p>Upskilling of specialists in this area to enable manual correction where required.</p>	Senior Specialist Advisor	April/May 2017

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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<b>Body:</b>	AUDIT AND GOVERNANCE COMMITTEE
<b>Date:</b>	21 JUNE 2017
<b>Subject:</b>	Internal Audit Report to 31 <sup>ST</sup> March 2017
<b>Report Of:</b>	Internal Audit Manager
<b>Ward(s)</b>	All
<b>Purpose</b>	<p>To provide a summary of the activities of Internal Audit for the year 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017.</p> <p>To document the Internal Audit Manager's opinion of the internal control environment as required for the Annual Governance Statement.</p> <p>To consider compliance with the Public Sector Internal Audit Standards.</p>
<b>Recommendation(s):</b>	That the information in this report be noted and members identify any further information requirements.
<b>Contact:</b>	Jackie Humphrey, Internal Audit Manager, Telephone 01323 415925 or internally on extension 5925. E-mail address <a href="mailto:jackie.humphrey@eastbourne.gov.uk">jackie.humphrey@eastbourne.gov.uk</a>

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## 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 2016/17 was agreed by the Audit and Governance Committee in March 2016.

## 2.0 Review of work in the financial year 2016/17.

- 2.1 A list of all the audit reports issued in final from 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017 is as follows:

*NB. These are the Assurance Levels given at the time of the initial report and do not reflect findings at follow up.*

Open Revenues	Performing Well
Debtors (Annual 2015/16)	Performing Excellently
Planning (process)	Performing Well
Housing Rents (Annual 2015/16)	Performing Well

Creditors (Annual 2015/16)	Performing Adequately
Rent and Deposit Loans	Performing Well
Homelessness	Performing Adequately
Access to Information	Performing Well
Economic Development	Performing Excellently
Right To Buy	Performing Well
Capital Programme	Performing Excellently
Car Loans and Leasing	Performing Well
Internet/Intranet/Telephone payments	Performing Adequately
Council Tax (Annual 2016/17)	Performing Excellently
NNDR (Annual 2016/17)	Performing Excellently
Performance Management	Performing Well
Benefits (Annual 2016/17)	Performing Well
Cash and Bank (Annual 2016/17)	Performing Well
Creditors (Annual 2016/17)	Performing Adequately
Debtors (Annual 2016/17)	Performing Excellently
Housing Rents (Annual 2016/17)	Performing Well
Treasury Management (Annual 2016/17)	Performing Excellently
ICT (Annual 2016/17)	Performing Well
Treasury Management (Annual 2016/17)	Performing Excellently

#### **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 No reports have been issued with an assurance level of inadequate in the financial year.
- 2.3 Three of the annual audits appear to be duplicated in the list. This is due to these having been issued at the start of the year for work carried out for 2015/16 and then the work again at the end of the year for the work completed in 2016/17.
- 2.4 Appendix A shows the work carried out against the annual plan to the end of March 2017. The following comments explain the main points to be noted from the table:

#### Previously reported:

- Following the external auditor's qualification of the 2014/15 Housing Benefit final subsidy claim the DWP required further work to be undertaken in light of errors found due to the data migration between

Northgate and Open Revenues.

- Right To Buy – there was a change in the Auditor carrying out this review. Therefore extra time was spent on the new Auditor familiarising themselves with the subject and the work that had already been carried out.
- Rent and Deposit Loans and Homelessness – research carried out by the Auditor into legislation in order to ensure a correct understanding.
- Leisure Trust – time was put aside to provide input into this review. However it has been carried out solely by the Head of Audit at Lewes.
- Box Office Computer System – this has been postponed until 17/18 as a new system is being purchased.
- Some annual reviews commenced a little earlier this year. This was in response to a request by the Manager, Customer First (Account Management) that we avoid their busiest time in the lead up to the end of the financial year.
- IT reviews were delayed because the Head of ICT is very busy with numerous projects across the two authorities.

All reviews which were either not completed or not begun in the year have been carried forward into the plan for 2017/18.

- 2.5 Appendix B is the list of all reports issued in final during the year which were given an assurance level below “Performing Well”, with any issues highlighted in the reviews which informed the assurance level given.
- 2.6 The committee is reminded that 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. In order to clarify this a column has been added to show the assurance level given in the latest follow up carried out.
- 2.7 Where follow ups of reviews given an Inadequate assurance level show recommendations are not being addressed, the outstanding recommendations, and client comments from the report, have been listed at Appendix C. 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.
- 2.8 However, there is no appendix C attached to this report since a follow up was carried out of Licences in March and of Events in May 2017. Both these follow ups showed that all outstanding recommendations had been addressed.

### **3.0 Corporate Fraud**

- 3.1. During the third quarter the Corporate Fraud Team (CTF) commenced a Tenancy Occupancy Review. This involved sending out a letter and review form to each Eastbourne Homes tenant. This large and detailed piece of work was undertaken by the team to improve the quality of the data held, to assist with more accurate data matching and to ensure accurate and up to date data prior to a system migration. Approximately 80% of households have returned their review forms. 50% of which required their information updating and/or amendments made to their Council Tax accounts. Further work will be carried out to review the 20% not returned.
- 3.2. Following on from the initial Right to Buy (RTB) project undertaken earlier in the year, a review of Lewes District Council's RTB procedures took place just prior to Christmas. This has resulted in a change of practice at Eastbourne which aligns the processes of the two teams. This has been put in place as a trial for the period of 01/01/17 to 31/03/17. Following this period an analysis will be carried out to see if a permanent change to current processes will be undertaken. At the end of the financial year, 28 RTB have been withdrawn due to CTF intervention.
- 3.3. At the end of January 2,195 National Fraud Initiative (NFI) matches were received. To date 454 high risk matches have been reviewed and closed.
- 3.4. From August 2016 a project has been undertaken looking at Council Tax Reduction cases where no changes have taken place for over 2 years. To date this has resulted in 301 cases reviewed with £22,860.16 weekly incorrect award identified and £47,754.04 of excess CTR being identified. These values have been recorded in appendix D in the fourth quarter. This is because this is when the project was completed and this is the reason why the final quarter's figures are much higher than the previous quarters.
- 3.5. Appendix D shows the work of the Corporate Fraud team across the year.

### **4.0 East Sussex Counter Fraud Hub**

- 4.1. Eastbourne Borough Council now hosts the East Sussex Counter Fraud Hub (ESCFH) Hotline which was advertised in the press and on radio earlier in the year. The team monitors calls and circulate allegations to the other authorities as appropriate.
- 4.2. A new ESCFH website is nearing completion. A publicity campaign to promote the website will be launched as soon as the website is completed.
- 4.3. The Hub procured training for its members and recently events have been attended by staff on Non Domestic Rates and an update on RIPA regulations.

### **5.0 Managing the Risk of Fraud and Corruption**

- 5.1. Cipfa suggests it is good practice to make a statement on the adequacy of an authority's counter fraud arrangements in the annual governance report. In September 2015 it produced a Counter Fraud Assessment Tool to sit

alongside its Code of Practice on Managing the Risk of Fraud and Corruption.

- 5.2. The Cipfa Code of Practice on Managing The Risk of Fraud and Corruption gives five key principles for authorities to follow. These are shown below along with the current conformance:

<b>Acknowledge the responsibility of the governing body for countering fraud and corruption.</b>
The Anti Fraud and Corruption Policy has been adopted by the Audit and Governance Committee and this states that "the Council is committed to promoting an environment of effective corporate governance (i.e. the systems by which it is directed and controlled) through the openness, integrity and accountability of its Members and officers. These individuals are expected to lead by example by adhering to legally sound and honest procedures and practices."
The authority has also shown its commitment to countering fraud and corruption by retaining a Corporate Fraud team.
<b>Identify the fraud and corruption risks.</b>
When the investigation of benefit fraud was transferred to the DWP the authority retained the fraud team and their focus was changed to looking at other areas of fraud. A fraud risk self-assessment will be carried out in conjunction with Lewes District Council.
<b>Develop an appropriate counter fraud and corruption strategy.</b>
The authority has a policy in place and this will be regularly updated as knowledge of this area of work grows. A strategy will also be written to take into account shared working with Lewes District Council.
<b>Provide resources to implement the strategy.</b>
In November 2014 the authority took the decision to retain the members of the Benefit Fraud Team to focus on corporate fraud initiatives.
<b>Take action in response to fraud and corruption.</b>
The Corporate Fraud team are undertaking ongoing training and have a plan of work to investigate areas of potential fraud. They are also mindful of national trends and emerging frauds.

- 5.3. The Cipfa Counter Fraud Assessment Tool goes into more detail on the five principles and to meet these some actions are necessary.
- 5.4. Having considered the principles the Internal Audit Manager is satisfied that, subject to the actions identified below, the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

Action:	Responsibility:	Target Date:
Write a Counter Fraud Strategy to clarify points raised in the assessment tool which are not currently clearly stated.	Internal Audit Manager	April 2018
Carry out a fraud risk assessment.	Internal Audit Manager	April 2018

- 5.5. With the Eastbourne and Lewes fraud teams beginning to work together more closely it is proposed to address the above actions in partnership to ensure that both authorities are working in the same way.

## **6.0 Annual Governance Statement and Opinion of the Internal Audit Manager**

- 6.1 The work referred to in this report has been used as the basis for the opinion of the overall effectiveness and adequacy of the internal control environment along with other ad hoc work undertaken by the auditors.
- 6.2 It is the opinion of the Internal Audit Manager that internal controls in processes and IT systems across the authority were generally found to be sound.
- 6.3 CMT were asked to consider potential governance issues to be reported in the Annual Governance Statement.

## **7.0 Conforming with the Public Sector Internal Audit Standards**

- 7.1 The Public Sector Internal Audit Standards came into effect from 1<sup>st</sup> April 2013 and the work of the Internal Audit section is assessed for compliance against these standards annually.
- 7.2 A checklist for compliance has been completed and it is found that the Internal Audit function is “generally conforming” to the standards. Of the 211 (applicable) points against which conformance is measured the following was found:

**99.05% conformance**  
0.95% partial conformance

- 7.3 Areas of partial conformance are listed in the table at the end of this report with explanations and actions to be taken where appropriate. These remain the same as last year. However as of 1<sup>st</sup> April 2017 the Internal Audit Manager reports to the Head of Audit who now covers both authorities. It is therefore proposed that these outstanding issues will be addressed in collaboration with the Lewes team.
- 7.4 It is the opinion of the Internal Audit Manager that the Council’s Internal Audit Service generally conforms with the Public Sector Internal Audit Standards (PSIAS) which came into effect from 1 April 2013.
- 7.5 The standards require an external review to be carried out at least every five years. A review of the audit function was carried out as a peer review by other members of the Sussex Audit Group. The results of this review were fully reported to the Audit and Governance Committee at the September meeting. The report from the reviewers stated that the audit function at Eastbourne generally conforms with the standards.
- 7.6. The Internal Audit team has maintained its independence throughout 2016/17 in accordance with the Audit Charter.

## **8.0 Consultation**

8.1 Respective Service Managers and Heads of Service as appropriate.

## **9.0 Resource Implications**

9.1 Financial – Delivered within the approved budget for Internal Audit

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

## **10.0 Other Implications**

10.1 None

## **11.0 Summary of Options**

11.1 None

## **12.0 Recommendation**

12.1 That the information in this report be noted and members identify any further information requirements.

**Jackie Humphrey**  
**Internal Audit Manager**

### **Background Papers:**

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

*Public Sector Internal Audit Standards - checklist*

## AREAS OF NON COMPLIANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS

No/ Partial conformance	Requirement	Reason for partial/non conformance	Actions	Timescale
Partial	Has the Internal Audit Manager carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?	The governance framework for the authority is included in the Annual Governance Statement in both visual form and in prose, demonstrating how information is used in the governance process. However a full assurance mapping exercise has not been completed. To do so training is required.	A relevant training session is being researched.	One year
Partial	Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud?	There is now a Corporate Fraud team which reports to the Internal Audit Manager. This team is a member of the East Sussex Counter Fraud Hub and forecasts for savings have been made based on figures of probable fraud levels which were produced by Audit Commission in their publication "Protecting the Public Purse". The team needed time adjust from solely reviewing benefit fraud and work on the predictions of fraud levels from Protecting the Public Purse.	A full fraud risk assessment is still to be carried out.	April 18



			Planned days	Actual days	Reason for Variance
ANNUAL REVIEWS	Benefits	Governance	15	16.4	1 day of which 15/16 work - Completed
	Cash and Bank	Governance	10	12.7	Completed
	Council Tax	Governance	10	10.1	Completed
	Creditors	Governance	15	18.6	2.6 days of which 15/16 work - Completed
	Debtors	Governance	15	16.3	1 day of which 15/16 work - Completed
	Housing Rents	Governance	15	9.7	Completed
	Main Accounting	Governance	10	9.9	In draft
	NNDR	Governance	10	13.3	Completed
	Payroll	Governance	10	10.1	In draft
	Treasury Management	Governance	10	9	Completed
	IT	Governance	4	9	Completed
	Theatres Reconciliation	Governance	5	4.3	Completed
	Claims work		100	117.4	15/16 extra work requested
			<b>229</b>	<b>256.8</b>	
CARRY FORWARD DS FROM 15/16 PLAN	Contingency		40		
	Special Investigations/advice		40	18.6	
	Follow ups re audits carried out in previous year		30	53.7	
			<b>110</b>	<b>72.3</b>	
CARRY FORWARD DS FROM 15/16 PLAN	Right to Buy	Operational	10	<b>16.3</b>	Completed - changed auditor
	IT Contract	IT	10	<b>5.6</b>	Carried forward to 17/18
	Change Controls	IT	5	<b>5.1</b>	Carried forward to 17/18
	Performance Management	Operational	10	<b>10.5</b>	Completed
			<b>35</b>	<b>37.5</b>	
REQUESTS	Prevent and Detect	Joint Lewes	5		
	Leisure Trust	Joint Lewes	5	0.1	Carried out by Lewes Head of Audit
			<b>10</b>	<b>0.1</b>	
HIGH RISK	Buildings H & S (asbestos, legionella, gas)	Operational	10	12.4	Ongoing
	VAT	Operational	10	11.3	In draft
			<b>20</b>	<b>23.7</b>	

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over

			Planned days	Actual days	Reason for Variance
<b>MEDIUM RISK REVIEWS</b>	Private Housing Grants	Operational	10		
	Rent and Deposit Loans	Operational	10	15.5	Completed - researching legislation
	Planning Process	Operational	10	11.2	Completed
	Engineering	Operational	10	0.1	
	Homelessness/Temporary Accommodation	Operational	10	18.9	Completed - researching legislation
	Box Office Computer System	IT	10	1.5	Postponed to 17/18 as getting a new computer system
	Access to Information	Operational	15	15.7	Completed
	Security of Data Movement	IT	5	5.7	Ongoing
	Economic Development	Operational	8	8.2	Completed
	Capital Programme	Operational	10	10.7	Completed
			<b>98</b>	<b>87.5</b>	
<b>LOW RISK</b>	Car Loans and Leasing	Operational	10	10.7	Completed
	Internet/Intranet/Phone payments and PCIDSS	IT/Operational	10	10.9	Completed
			<b>20</b>	<b>21.6</b>	

**PLAN TOTAL**

<b>522</b>	<b>499.5</b>
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**APPENDIX B****Reasons for original assurance levels given (below Well)**

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

**Quarter 4**

<b>AUDIT REVIEW</b>	<b>ASSURANCE LEVEL</b>	<b>ISSUES NOTED</b>	<b>Level at follow up</b>
Creditors (Annual 16-17)	Adequate	<ul style="list-style-type: none"> <li>• Authorised signatory list requires updating</li> <li>• Authorisation levels on Cafi requires review</li> <li>• Checks of payments over £25k are not always recorded</li> </ul>	Annual audits not subject to follow ups

**Previously reported**

<b>AUDIT REVIEW</b>	<b>ASSURANCE LEVEL</b>	<b>ISSUES NOTED</b>	<b>Level at follow up</b>
Creditors (Annual 15-16)	Adequate	<ul style="list-style-type: none"> <li>• Payments over £25k were not always checked promptly by a senior officer</li> <li>• Purchase order and Goods Received Notes not being raised in a timely manner.</li> </ul>	Annual audits not subject to follow ups
Homelessness/Temporary Accommodation	Adequate	<ul style="list-style-type: none"> <li>• Homelessness Strategy has not been reviewed since being published in 2008</li> <li>• Incorrect data was input into a return on Homelessness</li> </ul>	Excellent – all recs addressed
Internet, intranet, telephone payments and PCIDSS	Adequate	<ul style="list-style-type: none"> <li>• PCIDSS self-assessment had not been completed.</li> <li>• Card payments taken over the phone without a third party handling card details.</li> </ul>	Excellent – all recs addressed

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NATIONAL FRAUD INITIATIVE	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
Number of cases open	55												12							
Number of cleared cases	13												454				467			
Number of errors identified	10												2				12			
Number of frauds identified	0												0							
Overpayments identified			8,636.68												1,303.37				9940.05	
HOUSING BENEFIT MATCHING SERVICE																				
Number of open matches	0				15				7				22				44			
Number of closed matches	118				152				77				33				380			
Overpayments identified			12,651.85				21,354.80				7,643.25				9,254.32				50,904.22	
Weekly incorrect benefit identified			26,790.72				44,465.92				19,925.12				32,563.84				123,745.60	
OTHER INVESTIGATIONS																				
Number of open investigations	37								39				31				107			
Number of closed investigations	46				70				66				62				244			
Overpayments identified			21,504.88				9,402.64				29,033.13				91,390.62				151,331.27	
Weekly incorrect benefit identified			15,473.60				17,245.12				40,306.24				59,259.84				132,284.80	
Removal of SPD saving			961.17																961.17	
Increase in Council Tax liability			2,002.03				3,194.84				3,453.81				3,622.97				12,273.65	
Recovery of Council property							18,000.00								54,000.00				72,000.00	
Income from court costs																		0.00		
Income from Adpen collection																		0.00		
Right To Buy interventions							759,000.00				449,524.00				835,400.00				2,043,924.00	
TOTALS	279	£0.00	£88,020.93	£30,857.02	237	£0.00	£872,663.32	£28,575.83	189	£0.00	£549,885.55	£32,936.98	616	£0.00	£1,086,794.96	£32,632.81	1282	£0.00	£2,597,364.76	£125,002.64

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<b>Body:</b>	AUDIT AND GOVERNANCE COMMITTEE
<b>Date:</b>	21 JUNE 2017
<b>Subject:</b>	Annual Governance Statement
<b>Report Of:</b>	Internal Audit Manager
<b>Ward(s)</b>	All
<b>Purpose</b>	To consider the Annual Governance Statement to be signed by the Council Leader and Chief Executive.
<b>Recommendation(s):</b>	The Committee considers and approves the Annual Governance Statement.
<b>Contact:</b>	Jackie Humphrey, Internal Audit Manager, Telephone 01323 415925 or internally on extension 5925. E-mail address <a href="mailto:jackie.humphrey@eastbourne.gov.uk">jackie.humphrey@eastbourne.gov.uk</a>

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## **1.0 Background**

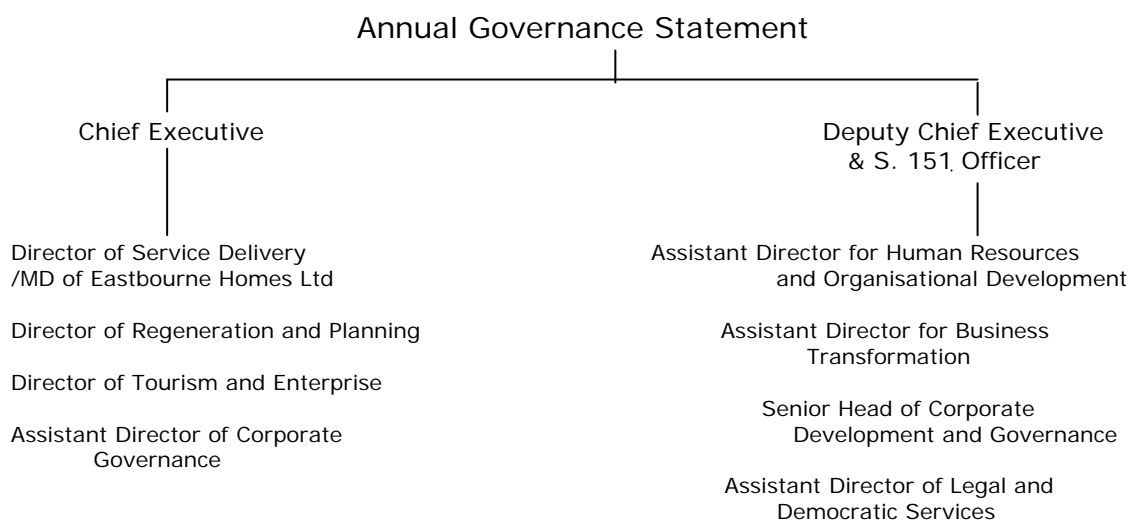
- 1.1 Corporate governance involves everyone in local government. Two definitions are:
- “Ensuring the organisation is doing the right things, in the right way, for the right people, in an open, honest, inclusive and timely manner” – Audit Commission.
- “How the local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.” – CIPFA/SOLACE
- 1.2 The Council has a legal requirement to produce an Annual Governance Statement each year. The statement accompanies the Statutory Statement of Accounts once adopted.
- 1.3 The Audit and Governance Committee is tasked with overseeing the risk management, internal control and reporting to the Council. A key component of this work is to approve the Annual Governance Statement.

## **2.0 Governance Framework**

- 2.1 The Annual Governance Statement is the report produced at the end of the year on the control environment of the Council. However this is just the end product of the framework of governance operating within the authority

throughout the year.

- 2.2 Appendix 1 shows the framework for gathering the assurances and how this is affected by and affects the relationship with partners, stakeholders and the community. Following this framework should ensure that the Council meets the six principles of corporate governance.
- 2.3 Use of this framework also allows the Council to demonstrate how its assurance gathering process links the strategic objectives and statutory requirements of the authority and how these objectives are to be delivered.
- 2.4 Appendix 2 shows a timetable for the gathering of assurances to produce the Annual Governance Statement. Certain elements are ongoing throughout the year whereas others are specifically produced at the year end in order to feed directly into the Annual Governance Statement.
- 2.5 It is important to have a defined timeline for the gathering of information on assurance as there is a deadline (end June) for the publication of the Statement of Accounts alongside of which the Annual Governance Statement must be published.
- 2.6 Appendix 3 shows the Managers' Assurance Statement which includes coverage of the Bribery Act, Safeguarding, RIPA and frauds over £10k. The statements are intended to cover the operational, project and partnership responsibilities of Heads of Service. These can also be used to highlight concerns and actions required to improve governance throughout the Council.
- 2.7 These statements are completed by Directors and Assistant Directors and are then passed through the Chief Executive and Deputy Chief Executive. The comments made on the statements are considered for inclusion in the Annual Governance Statement. e.g.:





### **3.0 Annual Governance Statement**

3.1 The Annual Governance Statement is a document that provides a structure in which to consider the Council's governance arrangements and their effectiveness. This ensures that major control issues are identified and action taken to address these issues.

3.2 There are essentially three parts to the statement:

- ☐ A statement of responsibility and purpose
- ☐ A description of the components of the governance framework that exist in the Council
- ☐ The resulting issues and actions arising from those arrangements

3.3 The Annual Governance Statement also carries a statement on the adequacy of the Authority's counter fraud arrangements.

### **4.0 The 2016/17 Review**

4.1 The 2016/17 governance issues and subsequent action plan has been compiled from:

The annual report of the Internal Audit Manager  
Corporate Management Team  
Scrutiny reports  
Standards reports  
External Audit reports  
Reports of external review bodies  
Managers' Assurance Statements  
Evidence from the Council's Monitoring Officer(s)  
Review by the Chief Finance Officer, Deputy Chief Executive and Internal Audit Manager.

4.2 This Council is continuing with its transformation programme. Eastbourne is working with Lewes District Council on a Joint Transformation Programme. This will create a more flexible, customer-focussed and cost-effective way of delivering services by integrating Eastbourne Borough and Lewes District to form a single team. These changes will both improve customer service and reduce costs enabling each authority to reach their savings targets by 2020. A strategy for integration of services across the Councils has been agreed and from January 2016 the authorities share a Chief Executive. The Cabinets of both authorities have agreed the Joint Transformation Programme Business Case and Implementation Plan.

4.3 Completed Managers' Assurance Statements were returned from all Directors and Assistant Directors and from Eastbourne Homes Limited. Several raised concerns around the Joint Transformation Programme. These centred around the following:

- Aligning of policies across the authorities

- Ensuring the good governance is embedded in new systems
- Ensuring adequate knowledge transfer
- Ensuring new ways of working are delivered in line with assumptions.

CMT were asked to consider whether any of these individual issues or the Joint Transformation Programme as a whole should be noted as a significant governance issue or just noted in the body of the Annual Governance Statement.

CMT recognised that these were indeed risks inherent in the current programme. However it is felt that these risks are being prioritised and work is ongoing to mitigate the risks. Phase one of the programme has gone well and it was felt that this demonstrates that controls are already in place. For example, extended notices have already been issued for those leaving post where the transfer of knowledge is important. It was therefore agreed that it should appear in the body of the Annual Governance Statement but not as a separate significant governance issue.

4.4 Cipfa suggests it is good practice to make a statement on the adequacy of an authority's counter fraud arrangements in the annual governance report. In September 2015 it produced a Counter Fraud Assessment Tool to sit alongside its Code of Practice on Managing the Risk of Fraud and Corruption.

4.5 The Cipfa Code of Practice on Managing The Risk of Fraud and Corruption gives five key principles for authorities to follow. These are shown below along with the current conformance:

<b>Acknowledge the responsibility of the governing body for countering fraud and corruption.</b>
<p>The Anti Fraud and Corruption Policy has been adopted by the Audit and Governance Committee and this states that "the Council is committed to promoting an environment of effective corporate governance (i.e. the systems by which it is directed and controlled) through the openness, integrity and accountability of its Members and officers. These individuals are expected to lead by example by adhering to legally sound and honest procedures and practices."</p> <p>The authority has also shown its commitment to countering fraud and corruption by retaining a Corporate Fraud team.</p>
<b>Identify the fraud and corruption risks.</b>
<p>The Corporate Fraud team was previously handling benefit fraud but is now focussed on identifying fraud across the functions of the authority. As this work was new to the team it has started by using the areas of fraud identified in the publication "Protecting the Public Purse". However as the team has now adopted a new way of working a fraud risk assessment for the authority will be carried out in the year 16/17.</p>
<b>Develop an appropriate counter fraud and corruption strategy.</b>
<p>The authority has a policy in place and this will be regularly updated as knowledge of this area of work grows. A strategy will also be written to take into account shared working with Lewes District Council.</p>

<b>Provide resources to implement the strategy.</b>
In November 2014 the authority took the decision to retain the members of the Benefit Fraud Team to focus on corporate fraud initiatives for an initial period of two years.
<b>Take action in response to fraud and corruption.</b>
The Corporate Fraud team are undertaking ongoing training and have a plan of work to investigate areas of potential fraud. They are also mindful of national trends and emerging frauds.

- 4.6 The Cipfa Counter Fraud Assessment Tool goes into more detail on the five principles and to meet these some actions are necessary.
- 4.7 Having considered the principles the Internal Audit Manager is satisfied that, subject to the actions identified below, the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

Action:	Responsibility:	Target Date:
Write a Counter Fraud Strategy to clarify points raised in the assessment tool which are not currently clearly stated.	Internal Audit Manager	April 2018
Carry out a fraud risk assessment.	Internal Audit Manager	April 2018

- 4.8 These actions were noted last year but have been postponed in order that they can be considered alongside Lewes to ensure that there is shared best practice.

## 5.0 Recommendation

- 5.1 The committee considers and approves the Annual Governance Statement

**Jackie Humphrey**  
Internal Audit Manager

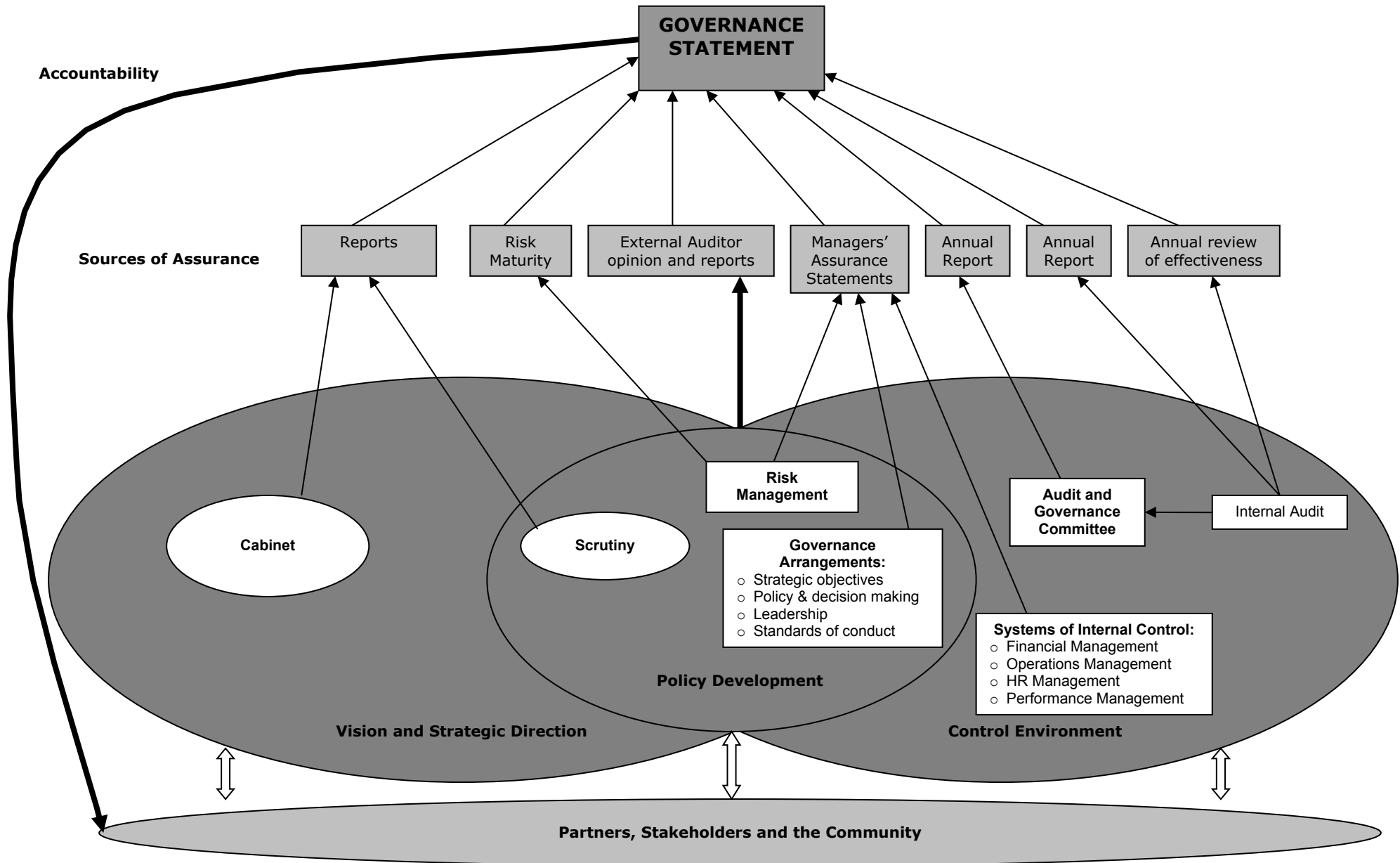
### Background Papers:

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

*None*

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## APPENDIX 1



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## Appendix 2

### ANNUAL GOVERNANCE STATEMENT TIMETABLE

Deadline	Responsibility	Action
Throughout year		1/4ly updates of the Strategic Risk Register
	Internal Audit Manager	Internal Audit reports
	BDO	External Audit reports
	All Managers	Management reports
		Other sources of assurance
April/May	All Managers	Managers Assurance Statements completed (to include RIPA statement)
	Chief Finance Officer	Preparation of the Annual Governance Statement
	CMT	Annual Governance Statement considered
June	Internal Audit Manager	Internal Audit Annual report presented to Audit and Governance Committee
	Internal Audit Manager	Draft Annual Governance Statement presented to Audit and Governance Committee
	Chief Finance Officer, Leader and Chief Executive	Annual Governance Statement signed by Leader and Chief Executive
	Audit and Governance Committee	Annual Governance Statement published

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## Appendix 3 - MANAGERS' ASSURANCE STATEMENT

**DEPT:**

Ref	Governance Responsibility	No Concerns	Minor Concerns	Some Concerns	Substantial Concerns	Major Concerns	Explanation of concerns Action Plan
1.	<b>Services are planned and managed to implement the priorities of Eastbourne Borough Council.</b>  Demonstrated through: <ul style="list-style-type: none"> <li>• Service plan aligned to the Council's priorities</li> <li>• Plans in place to monitor the quality of service to users and seek continuous improvements</li> <li>• Making best use of resources to ensure excellent service and value for money is achieved</li> <li>• Dealing effectively with any failures in service delivery.</li> </ul>						

## Appendix 3 - MANAGERS' ASSURANCE STATEMENT

**DEPT:**

Ref	Governance Responsibility	No Concerns	Minor Concerns	Some Concerns	Substantial Concerns	Major Concerns	Explanation of concerns Action Plan
2.	<b>There are good working relationships with Members and officers responsibilities are clearly defined.</b>  Demonstrated through: <ul style="list-style-type: none"> <li>Statutory Officers have clearly defined scope and status to fulfil their roles</li> <li>Delegated powers are clearly defined and understood</li> <li>Member/officer protocol operates effectively in practice</li> <li>Partnership governance arrangements are clearly defined and appropriate</li> </ul>						
3.	<b>The values of good governance are demonstrated and high standards of conduct and behaviour.</b>  Demonstrated through: <ul style="list-style-type: none"> <li>Effective communication to all staff of the code of conduct, standing orders, Financial Procedure Rules, Contract Procedure Rules and Anti Fraud and Corruption Policy</li> <li>Effective performance</li> </ul>						

## Appendix 3 - MANAGERS' ASSURANCE STATEMENT

**DEPT:**

Ref	Governance Responsibility	No Concerns	Minor Concerns	Some Concerns	Substantial Concerns	Major Concerns	Explanation of concerns Action Plan
	management of staff and regular appraisals <ul style="list-style-type: none"> <li>The Council's values are understood and promoted</li> </ul>						
4.	<b>Management decision making and advice to Members are well founded and involve consideration of professional advice and identified risks.</b>  Demonstrated through: <ul style="list-style-type: none"> <li>Effective arrangements to ensure data quality (complete, accurate, timely and secure)</li> <li>The internal control framework operates effectively</li> <li>Professional advice is obtained where appropriate and is recorded</li> <li>Risk management operates effectively in strategic, project and operational areas</li> <li>Decisions made are in accordance with delegated powers and the Council's constitution</li> <li>Arrangements are in place to obtain assurance on the management of key risks</li> </ul>						
5.	<b>The capacity and capability of officers has been developed to ensure effective performance.</b>						

## Appendix 3 - MANAGERS' ASSURANCE STATEMENT

**DEPT:**

Ref	Governance Responsibility	No Concerns	Minor Concerns	Some Concerns	Substantial Concerns	Major Concerns	Explanation of concerns Action Plan
-----	---------------------------	-------------	----------------	---------------	----------------------	----------------	--

	Demonstrated through: <ul style="list-style-type: none"> <li>• Training and development of staff</li> <li>• Workforce planning to ensure there are adequate staffing levels</li> <li>• Statutory officers have sufficient resources to fulfil their role</li> </ul>						
6.	<b>Robust public accountability is ensured by engaging with local people and stakeholders</b>  Demonstrated through: <ul style="list-style-type: none"> <li>• Arrangements to communicate with relevant sections of the community</li> <li>• Undertaking effective consultation with public and other stakeholders</li> <li>• Consultation with staff and engagement in decision making is undertaken</li> </ul>						

7.	<b>Adequate processes have been put in place for the safeguarding of children and vulnerable adults.</b>						
8.	<b>Adequate action has been taken to ensure compliance with the requirements of the Bribery Act.</b>						

## Appendix 3 - MANAGERS' ASSURANCE STATEMENT

**DEPT:**

Ref	Governance Responsibility	No Concerns	Minor Concerns	Some Concerns	Substantial Concerns	Major Concerns	Explanation of concerns Action Plan
	Demonstrated through: <ul style="list-style-type: none"> <li>• Proportionate procedures have been put in place to prevent bribery</li> <li>• The risks of bribery have been assessed and added to the departmental risk register</li> <li>• Procedures and risks are regularly monitored and reviewed.</li> </ul>						
		<b>Yes</b>	<b>No</b>	<b>Considered but not used</b>			
9.	<b>Have you had reason for using/considering using surveillance which would fall under RIPA?</b>						
10.	<b>Have you used or considered using covert surveillance either under RIPA or outside it?</b>						
		<b>Yes</b>	<b>No</b>	<b>If yes, please give details</b>			
11.	<b>Are you aware of any frauds over £10k that have not already been informed to the Internal Audit section.</b>						
12.	<b>Has any external review been carried out?</b>						

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# **Annual Governance Statement**

## **Scope of responsibility**

Eastbourne Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Eastbourne Borough Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is available on the website ([www.eastbourne.gov.uk](http://www.eastbourne.gov.uk))

This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(3) of the Accounts and Audit Regulations 2011 which requires all relevant bodies to prepare an annual governance statement.

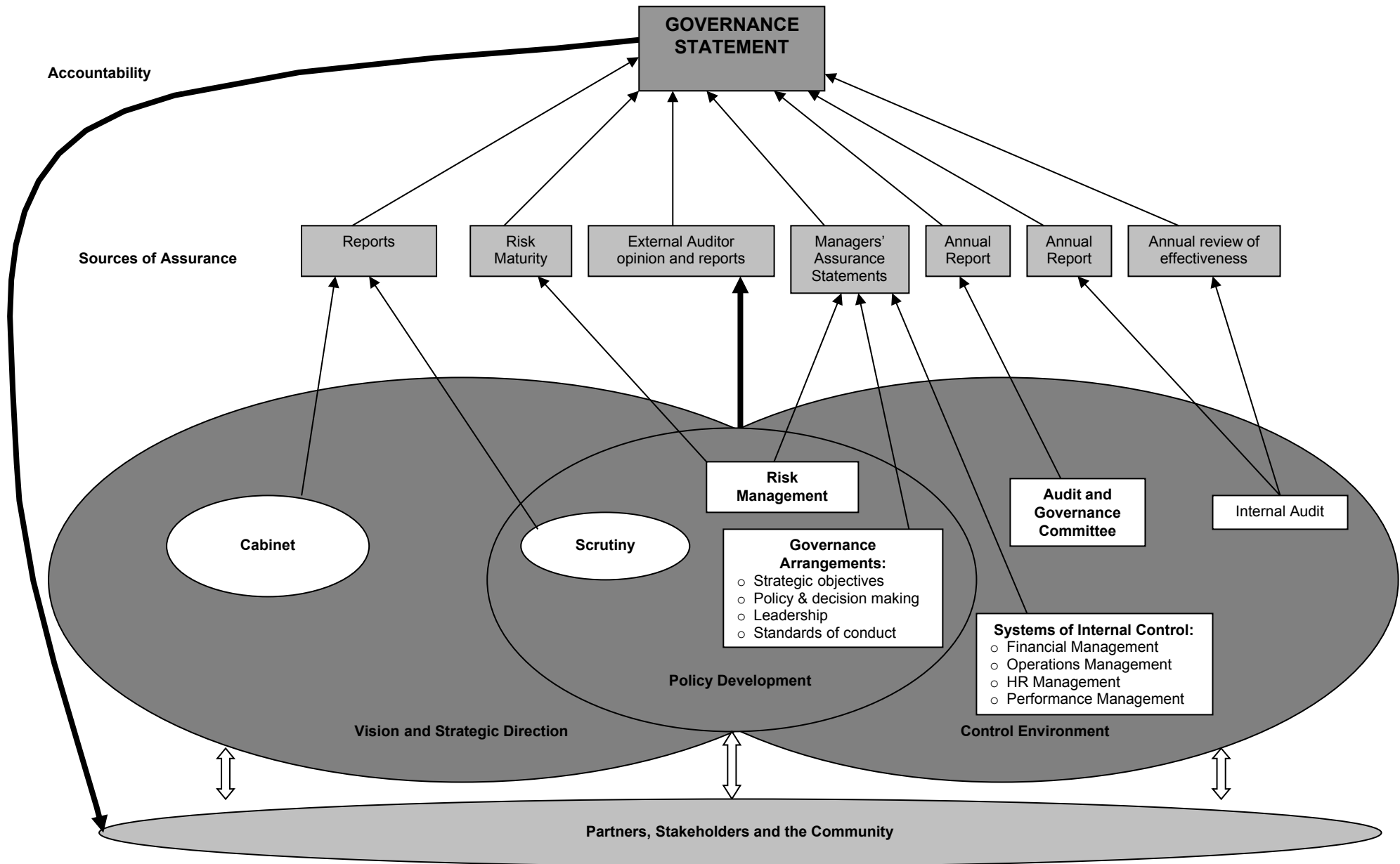
## **The purpose of the governance framework**

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it is accountable to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2016 and up to the date of approval of the Annual Reports on financial Outturn and performance and Statement of Accounts.

# THE GOVERNANCE FRAMEWORK





## **THE GOVERNANCE FRAMEWORK**

The diagram of the governance framework at Eastbourne Borough Council demonstrates how the information concerning the needs, requirements and views of partners, stakeholders and the community are used in decision making processes across the authority and eventually feeds into the Annual Governance Statement as part of our accountability to the community.

Key elements of the systems and processes that comprise the authority's governance arrangements are described below.

The Council approved the new Corporate Plan for 2016-20 on 11 May 2016. The new plan builds on the work of the previous one and has been the subject of extensive consultation with local residents and stakeholders with over 1500 responses to those consultations. The overarching corporate priority themes remain unchanged but the vision statements going forward have been refreshed and updated, and are underpinned by both new and continued priority projects going forward. These priorities have been chosen both as a result of consultation responses received and also in respect of the current economic climate and data demonstrating Eastbourne's standing on a local, regional and national comparative basis.

The plan is reviewed annually with high level public consultation exercises taking place to re-test the top priorities ahead of a refresh of the plan. Each year the plan is approved by full Council. The Corporate Plan is available to view on the Council's website.

The priorities listed in the Corporate Plan are set up as programmes and key projects / activities feeding into these are specified. Each project is allocated an owner and the relevant objectives, milestones, performance indicators, planned activities and time tables are identified. All this information is uploaded into performance management software to allow for ease of monitoring and reporting. This is then regularly updated with information about progress against the objectives. There are monthly monitoring management and intervention arrangements in place through the Corporate Management Team and Scrutiny in addition to quarterly reporting to Cabinet.

The Council is required to hold a written constitution under the provisions of the Local Government Act 2010. The constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to the people it serves. The Council's current constitution was originally adopted in May 2002 and has been the subject of update and amendment since that time. Some of the content of the constitution is required by law and other content is for the Council itself to determine. There is also a raft of legislation which is reflected in the constitution e.g. Access to Information. The constitution also details the responsibility for functions and roles across the Council including Council, Cabinet and committees

(see “The Modernised Political Structure – How It Works” diagram). It also contains a Scheme of Delegation which allows officers to take decisions on behalf of the Council. The responsibilities of each officer are clearly documented.

Standards of behaviour and conduct of Members and staff are laid down in relevant sections of the constitution. Other relevant policies include the Anti Fraud and Corruption Policy (containing sections on Whistleblowing and the Bribery Act), disciplinary and grievance procedures and the Dignity at Work Policy. The Monitoring Officer and the Standards Panel have responsibility for considering complaints against Members. All policies and guidance are available to staff and Members on the Council’s intranet.

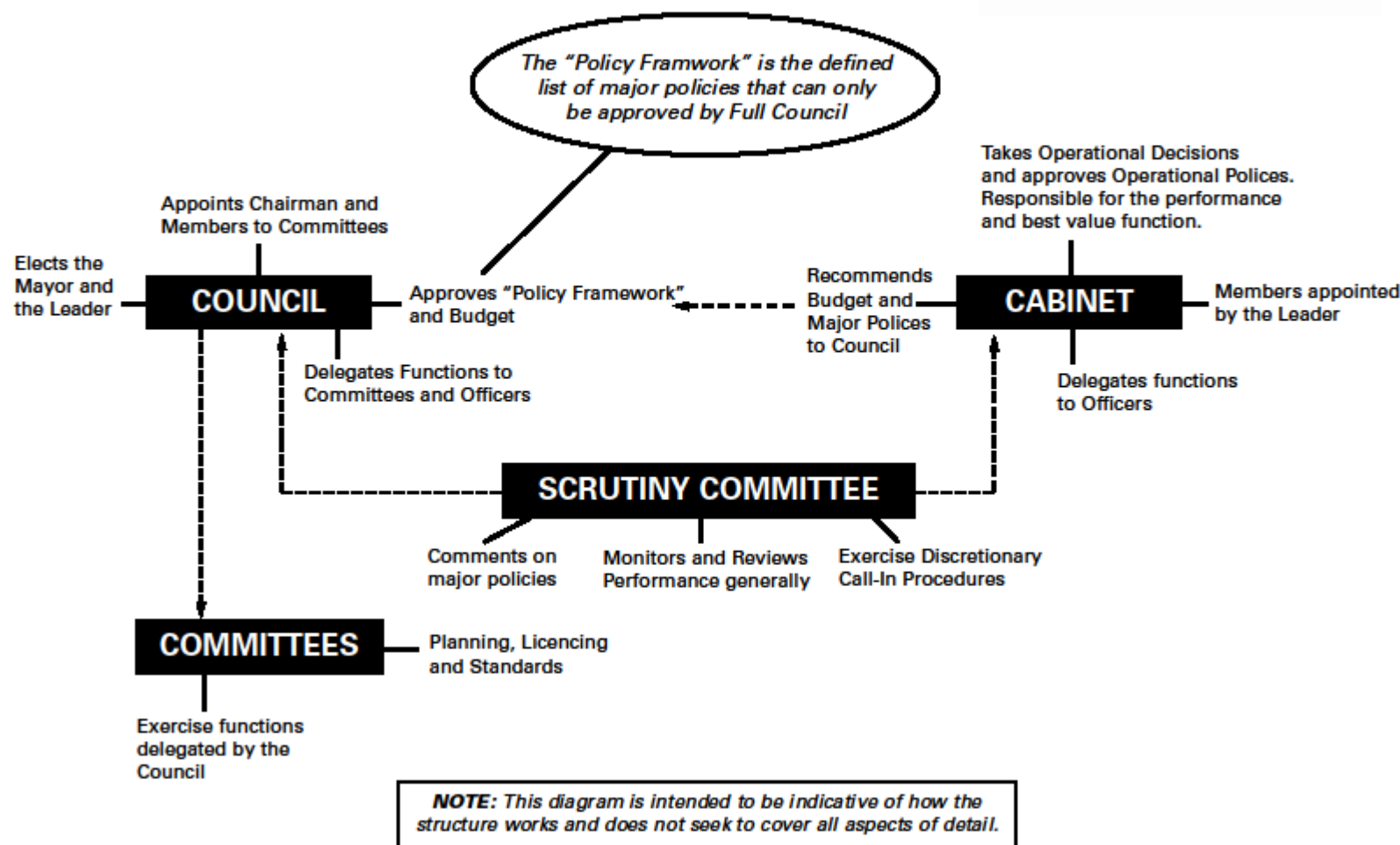
All aspects of the decision making framework, including schemes of delegation, are contained in detail in the Council’s constitution and summarised in the articles of the constitution. The content of this document is specifically ratified each year by the annual meeting of the Council. Any proposed changes to the Council’s constitutional rules and delegations can be considered at any time, drafted, and put to the next available Council meeting for decision. Different elements of the constitution are owned by the Monitoring Officer and the Section 151 Officer as relevant. The Constitution is published in full on the Council’s website.

The Data Quality Strategy is reviewed annually and any changes are signed off by the Audit and Governance Committee. Data Quality is managed day to day by managers using performance management software. Any issues are reported to the Corporate Management Team and reports are taken quarterly to the Scrutiny Committee.

The Council holds a Risk Management Strategy which sets out the way in which risks are to be identified, scored and recorded. This strategy is reviewed annually. Project, operational, departmental and strategic risk registers are now held on performance management software so that they can be updated regularly by managers who have complete ownership and responsibility for reviewing and updating the registers. The Strategic Risk Register is reviewed by the Corporate Management team quarterly.

The terms of reference for the Audit and Governance Committee include the requirement to review the effectiveness of the Council’s arrangements for identifying and managing risks, internal control environment and corporate governance arrangements.

## The Modernised Political Structure - How it Works



The Council holds an Anti Fraud and Corruption Policy which contains sections on Whistleblowing, Anti Money Laundering and the Bribery Act. This is reviewed annually to ensure that it is kept up to date. The Council has a Corporate Fraud team which proactively seeks out cases of fraud across all areas of the Authority. The Council also participates in the biennial National Fraud Initiative programme which seeks to identify fraud by matching data with other authorities and agencies. An overview of these areas is set out in the terms of reference for the Audit and Governance Committee.

This Council is continuing with its transformation programme. Eastbourne is now working with Lewes District Council on a Joint Transformation Programme. This will create a more flexible, customer-focussed and cost-effective way of delivering services by integrating Eastbourne Borough and Lewes District to form a single team. These changes will both improve customer service and reduce costs enabling each authority to reach their savings targets by 2020. A strategy for integration of services across the Councils has been agreed and from January 2016 the authorities share a Chief Executive. The Cabinets of both authorities have agreed the Joint Transformation Programme Business Case and Implementation Plan. The programme is being overseen by senior management and Members and is being managed using established project management protocols.

The Chief Finance Officer role is held by the Deputy Chief Executive and s.151 Officer and is a member of the Council's Corporate Management Team. In this position the Deputy Chief Executive and s.151 Officer has input into developing and implementing strategies and advising on financial resources. The Deputy Chief Executive and s.151 Officer is responsible for developing the authority's financial strategies and will consider business decisions in line with these. The Deputy Chief Executive and s.151 Officer manages the Finance and Internal Audit teams and is a suitably qualified accountant. The Council therefore conforms with the governance arrangements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The Council holds Financial Procedure Rules and monthly budget monitoring meetings are held by Finance staff with managers responsible for budgets. Financial performance is reported regularly to Members.

The Internal Audit Manager proposes a risk-based audit plan for the year which is discussed with, and agreed by, the Corporate Management Team and the Audit and Governance Committee. It is ensured that the scope of the plan is sufficient to allow the Internal Audit Manager to be able to use the evidence gained during the year to base the opinion of the control environment upon at the end of the year. Each audit review carried out during the year is given an assurance rating based on the risks and controls in operation in that area. Each of these is taken into consideration when the annual report of the work of Internal Audit is written and feeds into the overall opinion of the control environment operating at the Authority.

The Internal Audit Manager undertakes an annual review of the Internal Audit function which assesses the function against the Public Sector Internal

Audit Standards. The results of this self-assessment and any non-conformity with the standards is reported to the Audit and Governance Committee.

The role of Monitoring Officer sits with the post of Assistant Director of Corporate Governance. As monitoring officer, the post has appropriate autonomy and/or a direct reporting line to the Chief Executive. The function is also supported by a designated deputy and a network of officers trained in investigative procedures. Reporting line to members is to a specifically constituted Standards Sub Committee which in turn reports to the Council's Audit and Governance Committee.

The Council has established an Audit and Governance Committee. The committee generally conforms to the best practice identified in CIPFA's "Audit Committees – Practical Guidance for Local Authorities". Its terms of reference include:

- To receive reports on and to monitor the operation of the Council's constitution;
- Have an overview on the Council's whistleblowing policy;
- Deal with audit or ethical standards issues which may arise;
- Carry out independent scrutiny and examination of the Council's processes, procedures and practices with a view to providing governance arrangements and risk and financial management;
- Meet the requirements of the Audit and Account Regulations Act 2011;
- Consider reports from the external auditors;
- To make recommendations to Council, the Cabinet or Scrutiny as appropriate with a view to improving the effectiveness, accountability and transparency of the decision making process and the Council's governance arrangements;
- Promoting and maintaining high standards of conduct within the Council and monitoring the operations of the Council's codes of conduct and registers of interest.

The Council holds a Whistleblowing Policy which forms part of the Anti-Fraud and Corruption Policy. This clearly sets out how concerns raised should be handled, recorded and reported. The Authority also has a Comments, Compliments and Complaints procedure. The public may contact the Council with a complaint via telephone, email, letter or online. A page on the website clearly explains the process. Complaints are managed and monitored using performance management software. Similarly the public can make complaints about Councillors. Information on how to do so can also be found on the website. These complaints are handled by the Monitoring Officer.

When there is a change of administration or a raft of new Councillors then a general induction programme is organised. Annually the leaders of the parties will discuss with members any specific training or development needs. Human Resources will then put together a programme of training events for Members to attend. There are also statutory updates. Senior officers have annual appraisals at which any training and development needs

are identified. Some of this may be necessary CPD (continuing professional development) required for professional memberships.

Annual bespoke consultation is designed each year alongside the Corporate Plan, budget and service planning processes jointly owned by senior management and Scrutiny. This consultation uses a variety of methods including social media, online surveys, presentations to groups and open public sessions to test the proposed priority projects in the annual refresh of the Corporate Plan.

Other communications include:

- Comprehensive consultation on corporate priority themes and goals prior to the publication of each new 5-year Corporate Plan.
- Monthly electronic communiqué to a list of free subscribers (business partners and community groups) providing updates on progress of major projects.
- Frequent engagement with equality groups – DIG (Disability Involvement Group), Faiths Forum and Bourne-Out.
- A new scheme “Talk with Us” has been put together whereby ward Councillors in partnership with neighbourhood officers from other agencies (e.g. Police and Housing agencies) will visit communities for direct contact. Estate audits will also be carried out and all observations will be fed back into relevant projects at the Council.
- Annual Youth Fair to bring together agencies that provide services and activities with the youth of the town to increase awareness.
- Standing items on Cabinet and committee agendas enabling public rights of address on items to be discussed and/or open questions by members of the public.
- Improving service delivery from the Council with the introduction of the Neighbourhood First Team which has regular community contact and feedback surgeries.

All working partnerships have previously been the subject of equality impact assessments and are properly constituted. Elected member representatives appointed annually by full Council and listed in the Council’s constitution.

## **REVIEW OF EFFECTIVENESS**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes the following elements:

### **Internal Audit**

The Council's Internal Audit section is an independent assurance function that reports on the adequacy of the whole system of internal control across the Authority. The Internal Audit Manager carries out an annual self assessment of the Audit function and states that the section generally conforms with the Public Sector Internal Audit Standards (PSIAS). During this financial year an external peer review has been carried out and this also concluded that the work of the section generally conforms with the standards. This has been reported to the Audit and Governance Committee. There are no major areas of non conformance to report within the Annual Governance Statement.

All reports from Internal Audit reviews are seen by the Section 151 Officer, Chair of the Audit and Governance Committee and the Portfolio Holder for Finance. Quarterly and annual reports on the work carried out by the Internal Audit function are considered by both the Corporate Management Team and the Audit and Governance Committee. The "audit opinion" of the control environment, including IT governance, given in the annual report feeds into the Annual Governance Statement.

During the financial year no issue were noted by Internal Audit that needed to be reported in the Annual Governance Statement. The opinion of the Internal Audit Manager, as noted in the annual report on the work of Audit, was that the internal controls in processes and IT systems across the authority were generally found to be sound. This, and the work carried out specifically for the Annual Governance Statement, allow the Internal Audit Manager to hold the opinion that the governance arrangements provide adequate assurance and are fit for purpose.

The Strategic Risk Register has been adopted by the Audit and Governance Committee. The register is reviewed quarterly by the Internal Audit Manager and the Corporate Management Team and any changes are reported to the Audit and Governance Committee.

## **Managing the Risk of Fraud and Corruption**

The Cipfa Code of Practice on Managing the Risk of Fraud and Corruption was published in October 2014 with guidance issued in September 2015. This guidance suggests it is good practice to make a statement on the adequacy of an authority's counter fraud arrangements in the annual governance statement. It also gives suggested wording for the statement and recommends the inclusion of a table listing actions required to ensure full conformance with the code of practice.

Having considered the principles in the code of practice the Internal Audit Manager is satisfied that, subject to the actions identified below, the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

Action:	Responsibility:	Target Date:
Write a Counter Fraud Strategy to clarify points raised in the assessment tool which are not currently clearly stated.	Internal Audit Manager	April 2018
Carry out a fraud risk assessment.	Internal Audit Manager	April 2018

## **Corporate Management Team**

The roles of this team are to provide strategic management and planning, oversee priority and budget setting, service planning and performance management. The team provides organisational leadership, engages with Cabinet on strategic issues/direction and, in partnership with members, develops relationships with key stakeholders.

Individual members of the team are responsible for the performance of their relevant department/service area, progress of their relevant portfolio themes and liaison with portfolio holding members.

The Corporate Management Team gives consideration to the Internal Audit Plan, Strategic Risk Register and Annual Governance Statement.

Consideration was given by the Corporate Management Team to any significant non-delivery of strategic objectives, potential exposure to loss through fraud, corruption or error and litigation through non-compliance. No instances were identified as significant governance issues.

## **Audit and Governance Committee**

The Audit and Governance Committee is responsible, amongst other things, to carry out independent scrutiny and examination of the Council's financial and non-financial processes, procedures and practices to the extent that they affect the Council's control environment and exposure to risk. This is



with a view to providing assurance on the adequacy and effectiveness of internal controls, risk, financial and performance management, fraud detection and prevention and the work of Internal Audit.

The Audit and Governance Committee reviews reports submitted by the Head of Internal Audit including the Annual Governance Statement, Internal Audit provision, all internal audits and the Strategic Risk Register. It also considers the draft annual financial statements including the Annual Governance Statement in June and then the final statements following audit in September.

### **Scrutiny Committee**

The Scrutiny Committee meets to review the delivery of services as a result of previous council decisions, the performance of existing policies and strategies, the submission of performance indicators and recommend appropriate courses of action to the Council or Cabinet.

The Scrutiny Committee reviews the delivery of services and performance and supports the work of the Cabinet and the Council as a whole. It allows Councillors outside the Cabinet and members of the public to have a greater say in Council matters by investigating issues of local concern. It also acts as the Council's Crime and Disorder Committee to look at the formulation and implementation of the Crime and Disorder strategies.

### **Cabinet**

The Cabinet is responsible for most day-to-day decisions of the Council. The Cabinet is made up of the Leader of the Council and 5 Councillors from the majority political group, the Liberal Democrats. Each member is assigned portfolios identifying areas of responsibility for which they provide a political lead at Cabinet meetings and for working in consultation with officers.

The Shadow Cabinet is made up of 7 members of the Opposition, the Conservative group, with each member similarly being assigned portfolios.

Cabinet can consider the External Auditor's Annual Audit and Inspection Letter and other commissioned audit reports. It also sponsors and recommends adoption of the accounts.

### **Managers' Assurance Statements**

One of the sources of assurance for the Annual Governance Statement should come from Senior Managers responsible for the operation, management and monitoring of controls within their area of responsibility. The Managers' Assurance Statement is intended to collect this assurance by covering operational, project and partnership responsibilities as well as the Bribery Act, Safeguarding, RIPA and frauds over £10k. The senior manager can highlight concerns and the necessary actions required to improve governance. Assurance statements are sent out to Directors and Assistant Directors, the monitoring officer and Eastbourne Homes Ltd. Once completed their contents are used to inform the governance statement.

Completed Managers' Assurance Statements were returned from all Directors and Assistant Directors and from Eastbourne Homes Limited. Several raised concerns around the Joint Transformation Programme. These centred around the following:

- Aligning of policies across the authorities
- Ensuring the good governance is embedded in new systems
- Ensuring adequate knowledge transfer
- Ensuring new ways of working are delivered in line with assumptions.

CMT were asked to consider whether any of these individual issues or the Joint Transformation Programme as a whole should be noted as a significant governance issue or just noted in the body of the Annual Governance Statement.

CMT recognised that these were indeed risks inherent in the current programme. However it is felt that these risks are being prioritised and work is ongoing to mitigate the risks. Phase one of the programme has gone well and it was felt that this demonstrates that controls are already in place. For example, extended notices have already been issued for those leaving post where the transfer of knowledge is important. It was therefore agreed that it should appear in the body of the Annual Governance Statement but not as a separate significant governance issue.

## **External Reviews**

The external auditor's Annual Audit Letter and other commissioned audit reports are presented to, and considered by, the Audit and Governance Committee.

Reviews carried out by external agencies, e.g. APP; Benefit Performance Review; RIPA inspection, which impact on the governance framework are taken into consideration when preparing the Annual Governance Statement.

## **Eastbourne Homes Ltd**

Governance arrangements at Eastbourne Homes Ltd (EHL) are also considered. Reviews are carried out and reports written by the internal and external auditors engaged by EHL which are reported to their own Audit and Risk Committee and Board. Currently EHL engages the Council's Internal Audit section to carry out their internal audit reviews. At the end of year the Audit and Risk Committee of EHL have a minuted disclaimer concerning fraud and corruption. EHL are also required to complete an assurance statement at the end of each year which helps inform the Annual Governance Statement.

## **SIGNIFICANT GOVERNANCE ISSUES 2016/17**

There are no significant governance issues to report.

### **STATEMENT**

We have been advised on the implications of the result of the review of effectiveness of the governance framework by the Audit and Governance Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Signed on behalf of Eastbourne Borough Council:

.....  
Leading Member

.....  
Chief Executive

Date:

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