

Agenda Item No: 7 **Report No:** 167/17

Report Title: Interim Report on the Council's Systems of Internal Control 2017/18

Report To: Audit and Standards Committee **Date:** 27 November 2017

Ward(s) Affected: All

Report By: Head of Audit and Counter Fraud

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Purpose of Report:

To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control during the first seven months of 2017/18, and to summarise the work on which this opinion is based.

Officers Recommendation(s):

- 1 To note that the overall standards of internal control were satisfactory during the first seven months of 2017/18 (as shown in Section 3).
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Reasons for Recommendations

- 1 The remit of the Audit and Standards Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk.

Information

2 Background

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that were first applied from 1 April 2013. The PSIAS have been updated, with new standards published in March 2017. The new standards are not materially different from the previous version, and so have not been separately reported to the Committee.
- 2.2 The PSIAS 2017 continue to specify the requirements for the reporting to the Audit and Standards Committee and senior management by Head of Audit and Counter

Fraud (HACF). These requirements are met via a series of reports, including interim reports to each meeting of the Committee.

- 2.3** Each interim report includes a review of the work undertaken by Internal Audit compared to the annual programme, an opinion of HACF on the internal control, risk management and governance environment at the Council, together with any significant risk exposures and control issues, in the period since the beginning of the financial year. Each interim report contains an appendix that includes an outline of each of the final audit reports issued since the previous meeting of the Committee, and an appendix that outlines any significant recommendations that have not yet been implemented.
- 2.4** In September 2015, Cabinet approved a strategy for the development of shared services between Lewes District Council (LDC) and Eastbourne Borough Council (EBC) based on the integration of the majority of council services via a Joint Transformation Programme (JTP). The formal integration of the Internal Audit and Counter Fraud Teams in both councils took place on 1 July 2017.

3 Internal Control Environment at Lewes District Council

- 3.1** The Annual Report on the Council's Systems of Internal Control for 2016/17 included the opinion of HACF that the overall standards of internal control are satisfactory. This opinion was based on the work of Internal Audit and the Council's external auditors, BDO, and the Council's work on risk management. In the seven months since the start of the financial year there has been nothing to cause that opinion to change and there have been no instances in which internal control issues created significant risks for Council activities or services.

4 Internal Audit work 2017/18

- 4.1** Table 1 shows that a total of 292 audit days have been undertaken compared to 363 days planned in the first seven months of the year.

Table 1: Plan audit days compared to actual audit days for April to October 2017

| Audit Area | Actual audit days for the year 2016/17 | Plan audit days for the year 2017/18 | Actual audit days to date | Pro rata plan audit days to date |
|--|--|--------------------------------------|---------------------------|----------------------------------|
| Main Systems | 347 | 295 | 177 | |
| Central Systems | 83 | 65 | 32 | |
| Departmental Systems | 86 | 65 | 1 | |
| Performance and Management Scrutiny | 8 | 45 | 15 | |
| Computer Audit | 2 | 5 | 4 | |
| Management Responsibilities/Unplanned Audits | 113 | 147 | 63 | |
| Total | 639 | 622 | 292 | 363 |

Note: The 'Pro rata plan audit days to date' provides a broad guide to the resources required to carry out planned audits. The actual timing of the individual audits will depend on a variety of factors, including the workloads and other commitments in the departments to be audited.

The variance of 71 days has arisen mainly from the retirement of the Senior Auditor in January 2017, with the vacancy filled on 4 September 2017, and the additional

time being spent on management tasks arising from the JTP. It is estimated that the audit days will be closer to plan by the year end.

- 4.2 This section of the report summarises the work undertaken by Internal Audit, compared to the annual plan that was presented to the Audit and Standards Committee in March 2017. Further information on each of the audits completed since the previous meeting of the Committee is given at Appendix A1.
- 4.3 **Main Systems:** The main work has been on the testing of the major financial systems in order to gain assurance on the adequacy of internal controls for the Annual Governance Statement (AGS) and to inform BDO's work on the Council's accounts for 2016/17. A final report has been issued, together with a separate final report on the issues arising from the review of Non-Domestic Rates (NDR).
- 4.4 The work on behalf of BDO to test the Council's HB subsidy claim 2015/16 was completed, and the audited claim submitted, during July 2017. BDO's initial planning for this work had set out the standard testing requirements and identified the likely need for significant additional testing to address the issues noted in the previous year's claim. The standard testing and the initial additional testing were completed in late September. The timetabled date for BDO to have signed off and submitted the audited claim was at the end of November 2016, but that date was not met because of the extra work that was required. This included further additional testing, reperformance by BDO, and the resolution of queries and challenges. The overall value of the claim was £36.5m. In July 2017, DWP confirmed the results of the audit - there had been an overpayment of subsidy of £6,976, but with a related understatement of £2,367 the net effect was a recovery of £4,609 by DWP.
- 4.5 The work on the HB subsidy claim for 2016/17 is underway. BDO have identified the need for significant additional testing to address the issues noted in the 2015/16 claim. The timetabled date for BDO to sign off and submit the audited claim is the end of November 2017, but it is likely that the audited claim will not be submitted before the end of February 2018.
- 4.6 In order to avoid similar delays in the completion of the audit of the HB subsidy claim for 2017/18, Internal Audit assisted operational managers to engage external consultants Branch and Lee to carry out data analysis of the HB files. Branch and Lee have performed a similar service for EBC for the last two years, and this has been shown to have positive impacts on the records of HB claims ahead of the formal audit. Branch and Lee reported their results on 14 November 2017, and service managers are assessing the potential need for training and revised procedures to address the issues raised in the report.
- 4.7 **Central Systems:** A draft report has been prepared for the audit of Ethics, with the work having been done by the Audit Manager at EBC. A final report has been issued for a review of EBC/LDC compliance with aspects of the Regulatory Powers Act (RIPA), and a similar review of compliance with the General Data Protection Regulation (GDPR) at both councils is at the draft report stage. HACF has carried out an independent consultancy review of options for the future management of the Lewes and Eastbourne Leisure Trusts – the results of the review are summarised at Appendix A1.

- 4.8 Departmental Systems:** The audit of Estates Management, incorporating work on the corresponding function at EBC, began in January 2017 but was put on hold to free resources for the work on the HB subsidy claim 2015/16 and the testing of the major financial systems – the audit will recommence as soon as resources become available. An audit of the procedures for managing the Housing Register is at the initial planning stage.
- 4.9 Performance and Management Scrutiny:** The main work in this category has been in reviewing the data that supports the Annual Governance Statement (AGS) for 2017.
- 4.10 Computer Audit:** Internal Audit has examined the IT aspects of the main financial systems (see 4.3 above).
- 4.11 Management Responsibilities/Unplanned Audits:** This category provides resources for activities such as support for the Audit and Standards Committee, managing the Counter Fraud Team, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.
- 4.12** HACF has carried out an independent consultancy review of the options for the future management of strategic procurement at both councils. A report has been considered by CMT, and a summary of the review results is included at Appendix A1. A review of the Prevent and Protect Strategy – also being carried out by HACF – is underway.
- 4.13** Internal Audit continues to coordinate the Council’s work on NFI data matching exercises. Internal Audit, the Investigations Team and service managers prepared for the receipt of the reported matches, and nominated officers to investigate matches in their service areas. The reported matches arrived in late January 2017 - there are over 2,000 separate matches detailed across 93 reports. Each report sets out different types of potential frauds among benefit claimants, housing tenants, and anyone receiving payments or discounts from the Council. The exercise involves analysis of the matches to identify those that are the result of error or coincidence, and then the examination of the remaining matches to assess the likelihood of fraud - 335 matches have been examined, with no fraud or error noted so far. The Audit and Standards Committee will be kept advised of progress.

5 Follow up of Audit Recommendations

- 5.1** All audit recommendations are followed up to determine whether control issues noted by the original audits have been resolved. The early focus for follow up in 2017/18 has been on confirming the implementation of the recommendations that had been agreed in the previous year.

6 Quality Reviews/Customer Satisfaction Surveys/Performance Indicators (PIs)

- 6.1** The results of the Internal Audit quality reviews, customer satisfaction surveys and PIs for 2016/17 were reported to the June meeting of the Audit and Standards Committee. The results enabled the HACF to report that the Internal Audit service at Lewes is fully effective, is subject to satisfactory management oversight, achieves its aims, and objectives, and operates in accordance with the Internal Audit Strategy as approved by the Audit and Standards Committee.

7 Combatting Fraud and Corruption

Local initiatives

- 7.1** The Counter Fraud Team is a member of the East Sussex Fraud Officers Group (ESFOG), a body that enables information sharing and joint initiatives with neighbouring authorities on a wide range of counter fraud work.
- 7.2** A sub group of six authorities within ESFOG are working together in a 'Hub' approach to coordinate new anti-fraud initiatives across East Sussex and Brighton. The Hub is managed by officers at EBC with input from ESFOG partners. Recent Hub activities have included a shared approach to publicity for Hub activities and the development of an on-line system to allow the public to report suspected frauds – the Counter Fraud Teams at EBC and LDC will use a shared web link to receive these reports.

LDC Counter Fraud Team

- 7.3** At present, countering housing tenancy fraud and abandonment, and preventing RTB fraud, are the main operational priorities for the Counter Fraud Team because of the evidence of this being a high risk area for the Council. There are 15 cases of suspected abandonment and/or subletting under investigation, plus one of suspected housing application fraud. Three properties have been returned to stock after cases of abandonment. Further property returns are anticipated in current cases where evidence gives a strong indication that the tenant no longer lives at the property. Three cases of suspected RTB fraud are being investigated, and 18 RTB applications have been withdrawn since April 2017 after intervention by the team. The team will assess the withdrawn applications to determine whether the cases indicate potential fraud.
- 7.4** Recent months have seen a number of case referrals that have required extensive liaison with a range of Council services and external agencies to protect residents and prevent fraud. The team will be working further with front line staff to help in recognising possible issues such as attempted identity fraud.
- 7.5** Internal Audit has in place an agreement with DWP for the management of cases of HB fraud. The major work on each HB case is the responsibility of the national Single Fraud Investigation Service (SFIS) within DWP. LDC retains a role in referring cases of suspected HB fraud to SFIS and handling requests for information. In an agreement with Counter Fraud colleagues at EBC, a member of that team carries out the DWP liaison work for LDC and thus allows the LDC team to focus on case work in other areas. In the period since April 2017, there have been twelve referrals to SFIS, and 58 information requests have been actioned.
- 7.6** NDR is the development priority for the team, based upon initial research, training and a pilot study in 2016. The team will revisit the risk assessment for NDR to determine the impact of recent government announcements on NDR, and the possible effect on rate reliefs to small businesses. The aim is to have a coordinated exercise to counter business rates fraud across the county, using a methodology developed with Hub partners.

8 Risk Management

- 8.1** Cabinet approved the Risk Management Strategy in September 2003. Since then risk management at the Council has been developed via a series of action plans, with the result that all the elements of the risk management framework set out in the strategy are in place and are maintained at best practice standards.
- 8.2** The risk management process has identified that most risks are mitigated by the effective operation of controls or other measures. However, there are some risks that are beyond its control, for example a major incident, a 'flu' pandemic, a downturn in the national economy or a major change in government policy or legislation. The Council has sound planning and response measures to mitigate the effects of such events, and continues to monitor risks and the effectiveness of controls. The overall satisfactory situation for risk management has helped to inform the opinion on the internal control environment.
- 8.3** In response to reductions in Government funding for local authorities, the Council has been making significant savings each year in its General Fund budget (which covers all services except the management and maintenance of Council owned homes) since 2011/12.
- 8.4** The General Fund savings continue to be required over the next four years, with net expenditure to reduce by £2.2m, from £13.2m to £11.0m by 2020/21. The savings target for 2017/18 is £0.6m, half of which is to come from the continuing Joint Transformation Programme (JTP) with EBC. This target is expected to be achieved although the realization of some of the JTP saving is likely to be deferred, reflecting the timing of key phases of the programme.
- 8.5** There are also pressures to reduce spending on the management and maintenance of Council owned (HRA) housing. Starting in 2016/17, the Government has required all housing authorities to reduce tenants' rents by a 1% in cash terms in each of the four years through to 2019/20. As a result, by 2019/20, total annual rent income will have fallen by £0.6m to £14.4m. This means that savings of £2.2m will be needed to offset the expected impact of inflation on expenditure budgets over that period. A share of the JTP savings will pass through to the HRA.

9 System of management assurance

- 9.1** The Council operates a management assurance system, which enabled senior officers to confirm the proper operation of internal controls, including compliance with the Constitution, in those services for which they are responsible. As part of this process all members of the Corporate Management Team (CMT) are required to consider whether there were any significant governance issues during 2016/17. At its meeting on 30 May 2017 CMT confirmed that there were no significant governance issues to report, and there has been nothing in the first seven months of the financial year to change these assessments.

10 Corporate governance

- 10.1** The Council is required to produce an Annual Governance Statement (AGS), which outlines the main elements of the Council's governance arrangements and the results of the annual review of the governance framework including the system of

internal control. The AGS for 2017 was presented to the June 2017 meeting of the Committee – a version of that AGS with minor amendments was issued with the financial statements for 2016/17.

11 External assurance

11.1 The Government relies on external auditors to periodically review the work of the Council to make sure it is meeting its statutory obligations and performing well in its services. The Council's current external auditors are BDO, and the results of their external reviews have helped inform the opinion on the internal control environment. The recent results are summarised below.

11.2 Audit Completion Report (September 2017) – This interim report summarised the key issues from the audit work carried out by BDO for the year ending 31 March 2017, and was presented to the September 2017 meeting of the Committee. The key issues were:

- Subject to the successful resolution of outstanding matters in respect of two property additions and potential errors in Housing Benefit testing, which are largely procedural, BDO anticipate issuing an unmodified opinion on the financial statements for the period ended 31 March 2017.
- BDO identified a number of immaterial misstatements, but these were found to have no impact on the value of net assets or the surplus on provision of services.
- BDO did not identify any significant deficiencies in internal controls.
- BDO have no exceptions to report in relation to the consistency of the Annual Governance Statement (AGS) with the financial statements or other knowledge.
- BDO anticipate issuing an unmodified opinion on the Council's use of resources.
- BDO noted that the Council has appropriate arrangements to remain financially sustainable over a period of the Medium Term Financial Strategy (MTFS). All of the required savings for 2017/18 have been identified.
- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for further work other than to submit the WGA Assurance Statement - the relevant section of the statement would be submitted prior to the statutory deadline.
- BDO noted that the Council had made progress against all the recommendations that were raised in respect of the New Homes Project, and there is evidence that the learning from this project has been applied to other capital projects.

12 Future external audit arrangements

12.1 Under the provisions of the Local Audit and Accountability Act 2014, the Secretary of State for Communities and Local Government has specified that a company, Public Sector Audit Appointments (PSAA) Limited, will appoint auditors to local government, police and some NHS bodies.

12.2 The Council has opted into the PSAA arrangements, and has recently been consulted on the appointment of the external auditor for the period of five years from 2018/19. PSAA have appointed Deloitte LLP, and the Council has responded to the

consultation to confirm its acceptance of the appointment, which will start on 1 April 2018. Deloitte LLP will also be the external auditors for EBC.

12.3 BDO will carry out the audits of the 2017/18 accounts and the 2017/18 HB subsidy claim, and will therefore be working with the Council until at least November 2018.

13 Financial Appraisal

13.1 There are no additional financial implications from this report.

14 Sustainability Implications

14.1 I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is an internal monitoring report.

15 Risk Management Implications

15.1 If the Audit and Standards Committee does not ensure proper oversight of the adequacy and effectiveness of the Council's systems of internal control there is a risk that key aspects of the Council's control arrangements may not comply with best practice.

16 Legal Implications

16.1 There are no legal implications arising from this report.

17 Equality Screening

17.1 This report is for information only and involves no key decisions. Therefore, screening for equality impacts is not required.

18 Background Papers

[2017/18 Annual Audit Plan](#)

19 Appendices

19.1 Appendix A1 - Statement of Internal Audit work and key issues.

19.2 Appendix A2 - Table of abbreviations.

19.3 There is no Log of Significant Outstanding Recommendations (normally Appendix B) for this report.

APPENDIX A1

Statement of Internal Audit work and key issues

Audit Report: Review of governance and options for the future management of the Lewes and Eastbourne Leisure Trusts

Date of issue: November 2016

This review was commissioned by the Chief Executive to advise on the governance and future options for the management of the leisure trusts, focusing on the potential to combine the services. The key findings were:

Community leisure services are discretionary, and as such councils do not have to provide them. Both EBC (2004) and LDC (2006) chose to adopt an enabling model that allowed most or all of their leisure services to be put under trust status. The current review identified that there is scope for improvements in the way that the leisure services can be managed and there are a number of options for how those services can be provided jointly.

There are significant variations in the way the trusts operate. These include differences in organisational structures, financing arrangements, the scale of facilities operated, the arrangements for maintenance of the buildings, and the oversight and governance by each council. These differences are due to the way the trusts were set up and the different objectives for leisure services at the two councils.

The review identified areas for potential improvement in some performance and governance information. The review concluded that, if a decision is made to combine the services, consideration should be given to combining the best of the current arrangements from each trust.

Seven options for the future delivery of a combined managed leisure service were identified, with four options being considered as potentially viable. These were:

- Create one new trust for both EBC and LDC;
- Outsource to a leisure services trust (private sector) for both councils;
- Outsource to an existing trust (not for profit) for both councils; and
- Establish a Teckal¹ company for LDC and EBC leisure services.

Senior management was asked to consider the four options for the future management of the two trusts. If the decision is that services are not to be jointly managed then there are a number of similar options for EBC to manage its leisure services in future.

Following the review, management has considered the procurement implications of the various options, as follows:

- The nature of the management structure chosen will affect the way in which leisure

¹ Most Local Authority Trading Companies (LATCs) begin with a period where contracts are awarded directly. This allows them time to increase their commerciality before entering markets that are more competitive. The so-called Teckal exemption allows councils to award contracts directly to LATCs and gives the company freedom to trade commercially for up to 20% of its turnover. Both the council and the company need to have clarity in this area.

services might be procured. Any decision to outsource leisure services to an external provider under a contractual arrangement for the provision of leisure services will require the councils to undertake a public procurement exercise, so opening up the service provision to competition. This will be the case, irrespective of whether the arrangement is structured as a services contract or a services concession contract under EU regulations.

- Use of a Teckal company owned by EBC and /or LDC would not require competition through a public procurement exercise.
- There is one further suggestion which the councils might wish to consider. The councils could enter an arrangement which does not create a services contract under the public procurement regulations. Typically, this would involve the grant of a lease of the council's premises to a leisure operator with NO binding service obligations. The lease itself would determine the user of the premises i.e. use restricted to leisure and closely related ancillary activities. There would be no binding obligation on the lessee to provide services under any sort of service level agreement. However, it would be possible to create incentives for the operator to meet prescribed council targets in return for which the operator might receive a grant from the councils. It would also be possible to enter specific contracts to ensure the provision of certain services provided they were below the EU Threshold which would require a procurement exercise. In the event of a lease being granted, our own Contract Procedure Rules (at both EBC and LDC) would usually require a form of invitation to tender/expressions of interest and advertisement in those cases where the estimated rent is likely to exceed £25,000 per annum. However, Cabinet does have the power to decide to waive this rule in any particular case if it believes there is good reason to do so.

This summary of the review findings has not been previously reported to the Audit and Standards Committee as the decision on the future direction of the leisure trusts remains under consideration. Significant time has elapsed since the results of the review were reported to CMT, and with no decision yet reached the HACF is now reporting the key findings of the review to the Committee.

Audit Report: Review of options for the future management and location of strategic procurement at Eastbourne Borough Council (EBC) and Lewes District Council (LDC)

Date of issue: June 2017

This review was commissioned by the Chief Executive to examine the current arrangements for strategic procurement and the options for its future delivery at EBC and LDC.

Strategic procurement is an essential part of the work by councils to improve the way they acquire goods, services and works whilst at the same time identifying savings and ensuring best value. It embraces all activities within the procurement cycle from specification to receipt and payment, and provides a planned approach to procurement that is aligned to the councils' corporate priorities. Operational procurement focuses on

the day to day acquisition of goods, works and services.

EBC and LDC between them procure in the region of £50 million in goods, services and works each year. This represents a substantial proportion of the councils' budgets. Best practice recommends that there is a strong focus on strategic procurement. The LDC and EBC Joint Transformation Programme (JTP) has given an opportunity for the re-evaluation of the role of strategic procurement and consideration as to where this might sit within the councils' shared services. The following key issues were identified in the review:

- The staff resources available for strategic procurement have been reduced by 0.4 FTE at EBC and LDC. In addition, strategic procurement resources have been reduced by a further 0.2 FTE because of the end of the Improvement and Efficiency South East (IESE) contract. The impact of these changes is that there is currently limited focus on strategic procurement tasks.
- The state of readiness for effective strategic procurement is reasonable in a number of areas. However, in other areas there is scope for significant improvement.
- Detailed spend analysis is a key tool for identifying opportunities for improved procurement methods and savings.
- The number and value of the contracts that are coming up for renewal from 2018/19 onwards are significant. Work will need to start on the renewals process in the current year, and similar efforts will be required in following years. This renewal process will give officers an opportunity to consider how these services might be provided in the future.
- A review of good practice in district and borough councils has noted that there has been a focus on the sharing of procurement resources either through a shared service arrangement or a procurement hub led by one authority.
- There are three realistic options for the future location of the strategic procurement function. These options are transferring the function to the East Sussex Procurement Hub (ESPH), locating it in Legal Services or locating it in Property and Facilities. It is the opinion of HACF that all of the options would require additional specialist resources to ensure the effective management of strategic procurement. It estimated that at least an additional one FTE is required for this function if it remains within the two councils. If this function were to be transferred to the Hub there could be a significant increase in costs for EBC and LDC.
- The National Procurement Strategy (NPS) represents the "gold standard" that councils are aiming to achieve in the management of procurement. Neither LDC or EBC have currently assessed where they currently stand against this standard.

As a result of the review, CMT has agreed that strategic procurement should be under the control of the Director of Regeneration and Planning. The strategic procurement role has been delegated to the recently appointed Head of Commercial Business, who will develop the strategic procurement arrangements at the councils over the coming year, taking into account the findings of this review.

Audit Report: Key Financial Systems 2016/17

Date of issue: 4 October 2017

Overall opinion:

The audit has confirmed that procedures and controls within the key systems are operating to a reasonable standard in most respects. The audit has not identified any significant control issues that will have an impact on the Council's main accounts.

In a number of cases the controls over ordering and the receiving of goods and services have not operated as intended, or are not operated consistently across the Council. These issues reflect a situation in which lists of authorised signatories and the operation of other controls appear unable to keep pace with changes in staffing and officers' responsibilities. In other areas, particularly the write off of debts, established procedures have not operated as originally planned. These issues are not considered likely to have a material effect on the integrity of the main accounts but the issues themselves indicate a change in the control environment within the Finance team and service areas in response to new structures at the Council. On balance, the control environment is appropriate to the Council's requirements in all significant respects.

This review, which supplements the other work of Internal Audit, enables HACF to form an opinion on the Council's control environment for the purposes of the Annual Governance Statement (AGS). BDO uses the results of this review to gain assurance about the systems operated by the Council and the effectiveness of the controls that are applied.

The report contains summaries of the findings for the twelve key systems. The findings from the audit of NDR justified a separate report as shown below.

Audit Report: Non Domestic Rates (NDR)

Date of final issue: 4 October 2017

Overall opinion:

From the audit work carried out during this review Internal Audit has obtained partial assurance that there is a sound system of internal control covering NDR. Controls are in place and to an extent there is reasonable compliance.

For example, effective procedures are in place to ensure that authorised updates to the NDR database are made regularly. Each application for Charitable Relief examined during the audit was supported by an application requesting relief and the relief was calculated correctly. Income is processed through the ICON receipting system and the reconciliation between the receipting system and Academy is completed weekly. Refunds are authorised correctly, and automatic arrears and recovery processes are in place within the Academy system, with Liability Orders automatically produced when an account is in default and progression to bailiff action a standard approach for accounts in arrears.

However, there are gaps in the control processes which weaken the system, and there is a need to consider action to reduce the risk to the Council. The report contained four

recommendations.

Main points:

Empty Property Relief (EPR)

EPR is granted when a business notifies the Council that it has vacated its premises. The period of the relief varies, but the standard length of time is three months which is extended to six months in the case of certain industrial properties. After this period, the full amount of NDR is payable.

In the sample of business properties selected for review, the empty property relief was calculated correctly but there was limited evidence to support the decision to award the relief. None of the empty properties in the sample had been inspected and the log of inspections was not up to date. There were 216 empty properties recorded on Academy at 31 March 2017; of these 58 attract an exemption from business rates, and a further 66 are exempt because they have an RV below £2,600. It is not possible to confirm the status of the remaining properties recorded as empty, and there is the potential for empty property relief to be incorrectly claimed by businesses across the District.

Small Business Rate Relief (SBRR)

The audit confirmed that there is evidence to support the award of the Small Business Rate Relief (SBRR) claimed by the ten NDR accounts examined. SBRR was calculated correctly in each case, which was supported by an application form, and the rateable value was verified by checks to the Valuation Office (VO) listing. However, the standard checks to highlight potentially fraudulent SBRR claims would not be sufficient to identify all circumstances in which businesses understate the number of premises that are in operation.

Write-offs

Five write-offs exceed £10,000. These included three which had arisen as a result of bankruptcy/insolvency proceedings, and two had been due to delays in identifying the person responsible for NDR at the premises. It appears likely that a more effective inspection regime would have increased the chances of identifying the owner of two premises mentioned above, and would have made it more difficult for the business owners to deny liability.

The write-offs that exceeded £10,000 were not subject to the reporting and/or authorisation processes required by Financial Procedure Rules.

Audit Report: Interim Review - Regulation of Investigatory Powers Act (RIPA)

Date of final issue: 31 October 2017

Background:

The annual audit programme for 2017/18 includes an audit of compliance with the Regulation of Investigatory Powers Act (RIPA) 2000, as amended. In liaison with the RIPA Monitoring Officer, Internal Audit has carried out an interim review of particular aspects of the regulations, specifically the controls over the use of social media for investigative and

research purposes.

Access to social media sites on the internet may be required to gather information for an investigation, for research or other forms of case review or assessment. Typically, officers seek to obtain such information when following up unpaid Council Tax or business rates debts, assessing applications for Housing Benefit or social housing, seeking to confirm the identity of a resident or claimant, or trying to establish the whereabouts of a tenant. Social media sources are used when other official information is incomplete and/or does not provide the necessary verification.

The manner in which the internet is used for these purposes will determine whether it is directed surveillance, and whether it may be deemed unlawful if not authorised and conducted in accordance with RIPA. The consequences of carrying out directed surveillance involving on-line enquiries without having obtained the correct authorisations can be serious. If surveillance is deemed unlawful this may jeopardise any attempt to bring a prosecution or take enforcement action. Also, any enquiries that breach a person's right to privacy could result in action for damages against the Council.

Main points

The extent of the official use of social media sites varies across services, and teams within services. Some teams are frequent users of social media, more often when staff members use social media themselves privately – they regard social media as an entirely normal information source to be used in their Council work. These teams are well versed in the practical methods to access such information but appear to have no appreciation of the risks and legal pitfalls.

Staff and managers who do not use social media privately tend not to be aware of its use for official purposes. Where individuals do not use social media privately there is a lack of awareness of the way to access the sites. This can mean that potentially useful sources of information are overlooked, and managers are not aware of how to provide the necessary oversight.

The site most often accessed is Facebook, but material is also obtained from sites such as Twitter, comment forums, business websites, auction and shopping websites, and local newspapers. Where social media is used for official purposes, the frequency of use is described by officers as whatever is necessary to verify the details of claims/applications or chase up outstanding payments.

Detailed records of access to social media sources are kept in a few teams in order to comply with the Criminal Procedure and Investigations Act (CPIA) - either as normal professional practice in Counter Fraud teams or when the information obtained might be required as evidence. The more common position is that no records of social media access are maintained.

The RIPA Monitoring Officer has prepared draft guidance that includes detail on the RIPA legislation, the authorisation that may be required for surveillance involving social media sites, and related issues such as the Data Protection (DPA) 1998. Internal Audit strongly

supports the publication of such guidance. The draft guidance would benefit from updating to include clear references to the wide range of official uses for social media sites, together with simple practical information on how to access the sites and the controls that need to be applied in certain situations. The guidance would gain additional benefit from being supported by training that is targeted at the staff, team leaders and managers in the services that require access to social media sites in their day to day work.

The report contained one recommendation that detailed the specific issues that should be covered in the guidance and linked training.

APPENDIX A2

Table of abbreviations

AGS – Annual Governance Statement
BCP – Business Continuity Planning
BDO – BDO, the Council's external auditors. Formerly BDO Stoy Hayward
CIPFA – Chartered institute of Public Finance and Accounting
CMT – Corporate Management Team
CTRS – Council Tax Reduction Scheme
DCLG – Department for Communities and Local Government
DFGs – Disabled Facilities Grants
DWP – Department of Work and Pensions
EBC – Eastbourne Borough Council
ESFOG – East Sussex Fraud Officers Group
HACF – Head of Audit and Counter Fraud
HB – Housing Benefit
HRA – Housing Revenue Account. Refers to Council owned housing
ISO – International Organisation for Standardisation
IT – Information Technology
JTP – Joint Transformation Project
LATC – Local Authority Trading Company
LDC – Lewes District Council
NDR – Non Domestic Rates
NFI – National Fraud Initiative
PIs – Performance Indicators
PSIAS – Public Sector Internal Audit Standards
PSAA - Public Sector Audit Appointments
QAIP – Quality Assurance and Improvement Programme
RO – Returning Officer
RTB – Right to Buy
SFIS – Single Fraud Investigation Service
WGA – Whole of Government Accounts