



## Audit and Governance Committee

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

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## Agenda

- 1 Minutes of the meeting held on 9 March 2016 - 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 2014-2015.** (Pages 1 - 6)

Report of External Auditors BDO.

**8 Audit Materiality 2015-2016.** (Pages 7 - 20)

Report of External Auditors BDO.

**9 Planning Letter 2016-2017.** (Pages 21 - 26)

Report of External Auditors BDO.

**10 Internal Audit Report to 31st March 2016.** (Pages 27 - 50)

Report of Internal Audit Manager.

**11 Annual Governance Statement.** (Pages 51 - 80)

Report of Internal Audit Manager.

**12 Risk Management.** (Pages 81 - 90)

Report of Internal Audit Manager.

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

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

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

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

Members must declare the existence and nature of any interest.

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

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

## **Further Information**

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

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# EASTBOURNE BOROUGH COUNCIL

Page 1 GRANT CLAIMS AND RETURNS CERTIFICATION  
Year ended 31 March 2015

24 March 2016



# INTRODUCTION

## Purpose of the report

This report summarises the main issues arising from the certification of grant claims and returns for the financial year ended 31 March 2015.

### Audit Commission regime

We undertake grant claim and return certification as an agent of the Audit Commission, in accordance with the Certification Instructions (CI) issued by them after consultation with the relevant grant paying body. Our work is undertaken in accordance with the Statement of Responsibilities issued by the Audit Commission.

For 2014/15, this included only the Housing benefit subsidy claim.

After completion of the tests contained within the CI the grant claim or return 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. Sample sizes used in the work on the housing benefit subsidy return and the methodology for the certification of all grant claims are prescribed by the Audit Commission.

### Other certification work

We have also been asked to certify the Pooling of housing capital receipts return on behalf of the Council. This was previously undertaken under the Audit Commission regime but is no longer a mandated review.

### Fees

A summary of the fees charged for certification work for the year ended 31 March 2015 is shown to the right.

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

## Fees

CLAIM OR RETURN	2013/14 FINAL FEE £	2014/15 PLANNED FEE £	2014/15 FINAL FEE £
<b>Audit Commission regime</b>			
Housing benefit subsidy	11,062	11,062	<b>18,713*</b>
Pooling of housing capital receipts	1,530	-	-
<b>TOTAL AUDIT COMMISSION REGIME FEES</b>	<b>12,592</b>	<b>11,062</b>	<b>18,713</b>
<b>Other certification work</b>			
Pooling of housing capital receipts	-	1,500	<b>1,500</b>
<b>TOTAL CERTIFICATION FEES</b>	<b>12,592</b>	<b>12,562</b>	<b>20,213</b>

\* As noted on the following pages, there were a number of difficulties in completing the certification of the Housing benefit subsidy return this year primarily due to the change from the Northgate system to the Open Revenue system mid-year. We agreed an additional fee with management, which would result in an overall fee of £18,713.

## Key findings

Below are details of each grant claim and return subject to certification by us for the financial year to 31 March 2015. Where our work identified issues which resulted in either an amendment or a qualification (or both), further information is provided.

CLAIM OR RETURN	VALUE (£)	QUALIFIED?	AMENDED?	IMPACT OF AMENDMENTS (£)
Housing benefit subsidy	50,040,057	Yes	Yes	Claim reduced by £151,414 although see note below on qualification on potential additional loss
Pooling of housing capital receipts	1,693,210	No	No	-

### HOUSING BENEFIT SUBSIDY

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.

Page 3 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 the Audit Commission and the Department for Work and Pensions. We have no discretion over how this methodology is applied.

The draft subsidy return provided for audit recorded amounts claimed as subsidy of £50,191,471. The final submission was reduced by £151,414 to £50,040,057.

### FINDINGS AND IMPACT ON RETURN

During the year, the Council replaced the Northgate benefit system with the Open revenues benefit system. The Northgate system was used through to July 2014 and Open Revenues was used to March 2015 for 2014/15 housing benefit payments. All claimant information and history was transferred from Northgate into Open Revenues.

To assess the accuracy of the transfer, a subsidy report was generated in Open Revenues for the transferred data and compared to the closing subsidy report from Northgate. Unfortunately, the two reports did not reconcile and suggested that the transfer had introduced errors into Open Revenues in respect of benefit awarded from Northgate.

To ensure that only the correct amounts were claimed through subsidy, the claim form was prepared by combining benefit awarded by the Northgate system up to July 2014 and benefits generated in Open Revenues from that date.

However, through our testing, this appears to have introduced a significant number of errors in the subsidy claim particularly where benefits calculated in Open Revenues relied on the historic accuracy of data transferred from Northgate. This has required a significant amount of additional work and testing to attempt to isolate the quantum of errors. For the errors that we identified through the transferred data, the Council has made amendments to the subsidy form which reduced subsidy claimed by £151,414.

However, due to the number of errors and limitation placed on the assurance that can be taken from sample testing, we are unable to conclude that we have identified all potential errors created from the transferred data.

On completion of the additional testing, we concluded that the following entries in the subsidy return were incorrect and either required amendment or required extrapolation of the error over the relevant cell populations.

#### Non HRA rent rebates incorrect bedroom numbers used

Initial testing found two cases where the number of bedrooms used for the appropriate LHA rate were incorrect resulting in errors in the amount recorded as up to the threshold (100% recoverable through subsidy) and above the cap (not recovered through subsidy). All non-HRA cases were reviewed by the Council and found one further error.

These errors were corrected either in the 2015/16 benefit system or manually adjusted in the subsidy claimed.

**HRA rent rebates ineligible service charge deductions**

Initial testing found two cases where ineligible service charges had not been deducted from rents for part week rents in the first week of the year, resulting in overpayment of benefit. This is a known software issue and testing of 40 additional cases found 26 further errors.

These errors were extrapolated across the total value of entitlement and we reported that local authority overpayments were potentially understated by £1,644. Local authority overpayments do not attract subsidy, meaning that the Council has over claimed £1,644 of subsidy.

**Rent allowances misclassified overpayments**

Initial testing found one case where overpayments had been recorded as eligible but should have been included as local authority error and administrative delay. Testing of an additional 40 overpayment cases found two further misclassified overpayments.

These errors were extrapolated across the total value included as eligible overpayments and we reported that eligible overpayments were potentially overstated by £8,668. Eligible overpayment attract subsidy at 40% whereas local authority and administrative delay overpayments attract nil subsidy, meaning that the Council has over claimed £8,668 of subsidy.

**Rent allowances earnings calculations**

Due to errors found in testing of earnings calculations in recent years, we tested 40 rent allowance cases with claimant earnings. This found five cases where the claimant's earnings had been incorrectly assessed resulting in two cases with overpaid benefit, one with underpaid benefit and two that had no impact.

The overpayment errors were extrapolated across the total value of entitlement and we reported that local authority overpayments were potentially understated by £47,662. Local authority overpayments do not attract subsidy, meaning that the Council has over claimed £47,662 of subsidy.

**Modified schemes war widow pensions**

Due to errors in the prior year regarding modified schemes, we tested all 16 cases and found errors in seven cases. Six of the errors had been corrected in the 2015/16 benefit system and we reported that one error had not been corrected.

**Reconciliation to benefit paid**

DWP requires that the amount of benefit entitlement generated, on which subsidy is calculated, be reconciled to the amounts paid out to claimants. The software supplier provides various tools to complete this reconciliation, and exception reports highlighting discrepancies for each claimant, so that these can be investigated and resolved.

Where the amounts claimed exceed the amounts that can be shown to have been paid to claimants, the lower amounts must be included in the subsidy return.

## HOUSING BENEFIT SUBSIDY (CONTINUED)

## FINDINGS AND IMPACT ON RETURN

The Council did not complete the required reconciliation of amounts paid from Northgate prior to the transfer, and this has been reported to DWP in our qualification letter.

The Open Revenues reconciliation suggests that the Council has paid out £2,433 more than the amount included in the subsidy return for benefits generated, suggesting that the council has under claimed subsidy entitlement by this amount.

**Impact on subsidy from uncorrected errors arising from local authority error and administrative delays**

Where we have noted above the potential errors arising from local authority errors and administrative delay overpayments that have not been corrected in the subsidy form, DWP may be minded to correct these errors before determining the final subsidy payable.

Local authorities are given an allowance, based on a percentage of the total amount of benefit awarded, to recover local authority errors and administrative delay overpayments through the subsidy system. However, if a local authority exceeds the lower threshold, the amount that can be recovered is capped at 40% of the amount of these overpayments. If the upper threshold is exceeded, then no subsidy is available for these overpayments.

The subsidy form currently reports that the Council's total local authority errors and administrative delay overpayments are below the lower threshold. Should DWP make adjustments for amounts noted above, this would increase the local authority errors and administrative delay overpayments to above the lower threshold which would reduce subsidy by a further £145,000.

## POOLING OF HOUSING CAPITAL RECEIPTS

## FINDINGS AND IMPACT ON RETURN

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.

The return provided for audit recorded total receipts of £1,693,210 of which £250,124 was payable to DCLG.

The return was certified without amendment or qualification.

The Council has retained significant sums from receipts in recent years that are reserved for 1-4-1 replacement expenditure for social housing. The regulations require that these sums are used by certain milestone dates or must be repaid to DCLG. At 31 March 2015, the Council had reserved £6.6 million of receipts that need to be applied before 31 March 2018, with £1.2 million before 31 March 2016 and £3.5 million by 31 March 2017.

The Council should ensure that it has appropriate plans in place to use the reserved 1-4-1 funding before each milestone date expires.

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

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# EASTBOURNE BOROUGH COUNCIL

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AUDIT MATERIALITY

7 June 2016



Agenda Item 8

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# INTRODUCTION

## PURPOSE AND USE OF OUR REPORT

When we presented our 2015/16 planning report to the Audit and Governance Committee in March 2016, the Committee requested that we re-review the materiality level chosen for the audit and that a report be brought back to the next meeting to indicate the impact of a change in materiality level from the chosen £2 million to £1 million.

The purpose of this report is to explain the concept of materiality relevant to the audit of the financial statements of the Council, our justification for the chosen level and the potential impact on the audit of a reduction in the chosen level.

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

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

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# CONCEPT OF MATERIALITY

## CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
  - Narrative disclosure e.g. accounting policies, going concern
  - Instances when greater precision is required (e.g. senior management remuneration disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
- How audit firms apply the concept of materiality was the subject of a Thematic review by Audit Quality Thematic Review by the Financial Reporting Council in December 2013 and can be found at <https://www.frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Quality-Thematic-Review-Materiality.pdf>

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## INDUSTRY BENCHMARKS

- All audit firms apply benchmark materiality levels relative to certain financial reporting metrics that are driven by the needs of the users of the financial statements, such as profit before tax, gross or net asset, and total revenue or expenditure. The benchmark levels are further adjusted if the reporting entity is classified as a 'public interest entity' and the shares or debt are publicly listed on a regulated market such as the London Stock Market.
- In the public sector, as entities tend to be primarily 'spending' to provide public services rather than profit making or asset holding, audit firms tend to use gross expenditure as the appropriate financial reporting metric to apply materiality.
- The benchmark range may be set between 0.5% to 2% and audit firms apply a number of assessments against certain criteria to determine an appropriate point within the benchmark to set materiality.

# CONCEPT OF MATERIALITY

## Continued

### CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the authority, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- Criterion reviewed when determining an appropriate point within the range, and whether this would indicate a lower or higher point materiality, include:

#### Lower materiality

Close scrutiny of financial performance by Government departments  
Suppliers use financial results when extending credit terms  
Commercial entities provide loan facilities with covenants  
National media interest in financial performance  
Service users take an interest in financial performance  
Entity has set a deficit budget or has significant financial pressures  
Entity has limited financial headroom and available reserves

#### Higher materiality

Financial performance has limited influence on funding departments  
Limited credit risk  
Borrowing or loan facilities are readily available from Government / debt free  
Local media interest in financial performance  
Service users tend to be concerned with operational performance  
Entity set a balanced budget / MTFS savings plans are realistic / limited demand led pressures  
Entity has healthy levels of reserves and balances

- We determine materiality in order to:
  - Assist in establishing the scope of our audit engagement and audit tests
  - Calculate sample sizes
  - Assist in evaluating the effect of known and likely misstatements on the financial statements.

# CONCEPT OF MATERIALITY

## Continued

### REASSESSMENT OF MATERIALITY

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

### UNADJUSTED ERRORS

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

# MATERIALITY LEVEL FOR THE COUNCIL

PER PLANNING REPORT TO AUDIT AND GOVERNANCE COMMITTEE IN MARCH 2016	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Council	£2,000,000	£40,000

Our assessment of the appropriate point within the benchmark range for the Council suggests that we apply a higher point in the range as there are no factors that would tend the Council to the lower range and the financial position of the Council is reasonably healthy.

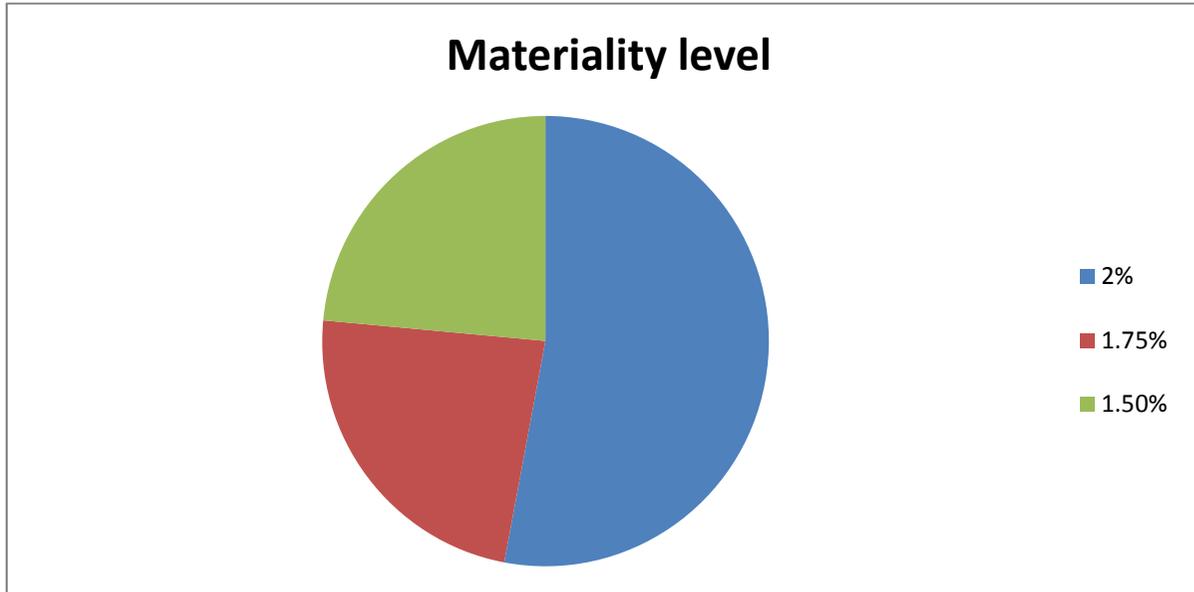
Planning materiality for the Council was therefore based on 2% of gross expenditure per the 2014/15 Comprehensive Income and Expenditure Statement (within the Statement of Accounts) as follows:

	£
Gross cost of services	90,172,000
Other operating expenditure	5,719,000
Financing and investment expenditure	5,120,000
Non-domestic rates expenditure	10,326,000
<b>TOTAL EXPENDITURE</b>	<b>111,337,000</b>
Materiality at 2%	2,226,740
<b>Planning materiality rounded down</b>	<b>2,000,000</b>

# BENCHMARKING MATERIALITY LEVELS

## MATERIALITY LEVELS ACROSS OUR PORTFOLIO OF LOCAL AUTHORITY AUDITS

The pie chart below indicates the materiality levels chosen for BDO's portfolio of local authority audits in 2015/16:



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This indicates that 53% of BDO's local authority audits are currently planned at materiality levels of 2%, with the remaining 47% split equally between 1.75% and 1.5%. The lower levels all relate to upper tier authorities that are subject to additional demand led pressures and more challenging financial targets in their medium terms financial plans.

# AUDIT STRATEGY

## FINANCIAL STATEMENT AREAS TESTED

The table below sets out the areas of the financial statements that will be excluded from audit based on the chosen materiality level (and associated performance materiality level) and taking into account qualitative materiality factors:

Financial statements area	Statement of Financial Position (£)	Comprehensive Income and Expenditure Statement (£)	Note disclosures (£)	Subject to audit with materiality of £2 million	Subject to audit with materiality of £1 million
Levy payable		193,000		x	x
Interest receivable		207,000		x	x
Gain on investment properties		559,000		x	x
Income on trading operations		1,364,000		x	✓
Expenditure on trading operations		1,386,000		x	✓
Long term investments	238,000			x	x
Inventories	145,000			x	x
Short term provisions	418,000			x	x
Revenue grants receipts in advance	602,000			x	x
Deferred capital receipts reserve	45,000			x	x
Accumulated absences account	42,000			x	x
Trust funds			21,000	x	x

All other areas of the financial statements would be subject to audit under both materiality levels.

This indicates that a reduction in materiality from £2 million to £1 million for the Council will result in income and expenditure on trading operations being brought into the scope of the audit.

# AUDIT STRATEGY

## Continued

### SUBSTANTIVE AUDIT SAMPLES

The table below sets out the number of transactions that will be chosen for sample testing in each of the key areas of the financial statements based on the chosen materiality level (and associated performance materiality level) and taking into account the different sampling techniques applied (some of which are unaffected by the materiality level):

Financial statements area	Statement of Financial Position (£)	Comprehensive Income and Expenditure Statement (£)	Other statements and disclosures (£)	Sample sizes with materiality of £2 million	Sample sizes with materiality of £1 million
Non-current assets (Property, plant and equipment; Intangibles; Investment properties; Heritage Assets)	245,013,000			139	198
Debtors (long term and current)	13,769,000			9	15
Creditors (long term and current)	11,023,000			12	21
Income (from services, other operating, financing and investment)		118,454,000		71	117
Expenditure (from services, other operating, financing and investment)		111,337,000		93	156
Collection Fund income			88,209,000	43	86
Collection Fund expenditure			86,425,000		
Housing revenue Account - income			15,908,000	14	28
<b>TOTAL</b>				<b>381</b>	<b>621</b>

This indicates that a reduction in materiality from £2 million to £1 million for the Council will result in an increase of 60% in the number of sample items tested.

# AUDIT STRATEGY

## Continued

### OTHER TESTING NOT AFFECTED BY MATERIALITY SIZE

In addition to sample testing, our audit approach includes the following audit approaches that are generally unaffected by the chosen materiality level:

- Tests of control (including reliance on Internal Audit's work)
- Proof in totals, using independently verifiable inputs to calculate expected values \*
- Other analytical review procedures \*
- Substantive testing of 100% of balances and disclosures.

\* although we may have to undertake additional review in these areas as the tolerable variance will be reduced if lower materiality is applied

### IMPACT ON REPORTING

In 2014/15 our audit identified:

- One presentational misstatement to the value of £4.391 million, where the write down of replaced components on refurbishment of council dwellings was classified as an impairment loss rather than a loss on derecognition of property, plant and equipment. Management amended the financial statements for this issue, which had no impact on the surplus on provision of services or the general fund balance.
- Four unadjusted audit differences which when combined with brought forward misstatements from 2013/14 would increase the surplus on the provision of services in the Comprehensive Income and Expenditure Statement by £276,000.
- Further unadjusted audit differences in the accounts of Eastbourne Homes Limited, as identified by their auditors, which impacted on the Group Accounts. When combined with the unadjusted audit differences on the Council's accounts, these would increase the surplus on the provision of services in the Group accounts by £199,000.

The level of misstatements identified in our audits in the three years prior to 2014/15 was not significantly different from the above.

A reduction in the materiality level from £2 million to £1 million in the 2015/16 audit would not impact on our reporting, or our audit opinion, were similar issues to be identified in the current year's audit.

However, it is possible that additional lower value errors would be reported as a reduction in materiality from £2 million to £1 million would reduce our triviality level from £40,000 to £20,000.

# AUDIT FEES

## IMPACT ON AUDIT FEES

We have estimated that a reduction in materiality from £2 million to £1 million will result in an increase in audit fees as follows:

	£
Code Audit fee per planning report	67,781
Increase due to testing of income and expenditure on trading operations	1,000
Increase due to additional sample testing	12,500
Increase due to additional reporting for lower triviality level	1,000
Revised audit fee	82,281

This indicates that a reduction in materiality from £2 million to £1 million for the Council will result in an increase in audit fees of 21%.

# CONCLUSION

## OVERALL SUMMARY

We believe that our chosen materiality level of £2 million for our audit of the 2015/16 financial statements is appropriate as it takes account of all relevant factors, based on our knowledge of the entity and the sector.

A reduction in our materiality level from £2 million to £1 million would result in additional substantive sample testing, with a corresponding estimated increase in audit fees of £14,500. We do not currently consider this necessary to support our 'true and fair' opinion on the financial statements, however we welcome further discussion at the Audit and Governance Committee.

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

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# EASTBOURNE BOROUGH COUNCIL

Planning Letter 2016/17

14 April 2016

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# PROPOSED FEES

## Scope of the audit

We are required to report to you our proposed fees and programme of work for the 2016/17 financial year.

### Code audit fee

The Code audit fee is based on the work required under the Code of Audit Practice issued by the National Audit Office and covers the audit of the financial statements and value for money conclusion.

Public Sector Audit Appointments Limited (PSAA) is responsible for setting the scale fees for local authorities and consulted on the proposed work programme and scale of fees in October 2015. There are no planned changes to the overall work programme for 2016/17 and the scale audit fees have been set at the same level as 2015/16. PSAA has the power to determine the fee above or below the scale fee where there has been a change that requires substantially more or less work than envisaged by the scale fee.

### Certification of housing benefits subsidy claim

PSAA makes arrangements for certification of housing benefit subsidy claims. An indicative fee is set based on the latest actual certification fees available but this is reset annually and the 2016/17 indicative fee is not yet published.

### Audit related services

Audit related services are those non-audit services that are largely carried out by members of the engagement team where the work involved is closely related to the work performed in the audit and the threats to auditor independence are clearly insignificant and, as a consequence, safeguards need not be applied. In recent years, a number of grants and returns were included in the certification scale fee that are no longer mandated for review by PSAA, but still require certification by the auditor.

### Other non-audit services

Other non-audit services are those services not closely related to the work performed in the audit that could be provided by a number of firms. Auditors are prevented from undertaking such work if it would present a threat to independence for which no adequate safeguards are available. Independence concerns may arise due to the nature of the work or from the value of fees derived.

## Fees

AUDIT AREA	PROPOSED FEE 2016/17 (£)	SCALE FEE 2016/17 (£)	PROPOSED FEE 2015/16 (£)
Code audit fee	67,781	67,781	67,781
Certification fee for housing benefits subsidy claim	8,297	TBC	8,297
Audit related services			
- Pooled Housing Receipts return	1,500	n/a	1,500
Other non-audit services			
- BDO tax subscription service	-	n/a	2,500
Total fees	77,578		80,078

### Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit or where our assessment of risk and complexity are significantly different from those reflected in the proposed fee, we will first discuss this with the Director of Corporate Services. Where this requires a variation to the scale fee we will seek approval from PSAA. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Standards Committee.

At this stage, nothing has come to our attention that would require us to seek approval to amend the scale fee.

### Billing arrangements

We will raise invoices for the Code audit fee on a quarterly basis, at £16,945.25 per quarter, from June 2016. Following our firm's standard terms of business, full payment will be due within 14 days of receipt of invoice. Fee invoices for other services will be raised as the work is completed.

# AUDIT ARRANGEMENTS

## Planned outputs

We plan to issue the following reports and opinions over the course of the 2016/17 audit:

REPORT	DATE
Audit planning report	March 2017
Report on any significant deficiencies in internal controls, if required, based on the results of our interim audit visit	June 2017
Final report to those charged with governance	September 2017
Independent auditor's report including: <ul style="list-style-type: none"><li>• Opinion on the financial statements</li><li>• Value for money conclusion</li><li>• Certificate</li></ul>	September 2017
Summary of findings from the audit in the annual audit letter	October 2017
Grant claims and returns certification report	January 2018

## Audit team

The key members of the audit team will be:

### Engagement Lead - Janine Combrinck

Email: [janine.combrinck@bdo.co.uk](mailto:janine.combrinck@bdo.co.uk)

Tel: 020 7893 2631

Janine will be responsible for the overall delivery of the audit including the quality of outputs and liaison with senior management.

### Project Manager - Kerry Barnes

Email: [kerry.l.barnes@bdo.co.uk](mailto:kerry.l.barnes@bdo.co.uk)

Tel: 020 7893 3837

Kerry will manage and co-ordinate each aspect of the audit and will be the key contact with the finance team.

### Senior - Tawanda Mutenga

Email: [tawanda.mutenga@bdo.co.uk](mailto:tawanda.mutenga@bdo.co.uk)

Tel: 01473 320711

Tawanda will lead the delivery of the financial statements audit.

## Client satisfaction

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact Janine in the first instance. Alternatively, you may wish to contact our Managing Partner, Simon Michaels. Any complaint will be investigated carefully and promptly. If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").

In addition, the PSAA complaints handling procedure is detailed on their website <http://www.psaa.co.uk/about-us/contact-us/complaints/>.

## Arrangements from 2017/18

The Department for Communities and Local Government has confirmed that the current contracts negotiated by the Audit Commission in April 2014 will be extended for one year. As a result, the Council will be required to make a local appointment for external audit services from 2018/19.

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

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# Agenda Item 10

<b>Body:</b>	AUDIT AND GOVERNANCE COMMITTEE
<b>Date:</b>	22 JUNE 2016
<b>Subject:</b>	Internal Audit Report to 31 <sup>ST</sup> March 2016
<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 2015 to 31<sup>st</sup> March 2016.</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 2015/16 was agreed by the Audit and Governance Committee in March 2015.

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

- 2.1 A list of all the audit reports issued in final from 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016 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.*

Benefits (Annual 2014/15)	Performing Well
Council Tax (Annual 2014/15)	Performing Well
Housing Rents (Annual 2014/15)	Performing Excellently
NNDR (Annual 2014/15)	Performing Excellently

IT (Annual 2014/15)	Performing Inadequately
Conferences and Group Travel	Performing Adequately
Internet Controls	Performing Adequately
Electoral Computer System	Performing Excellently
Planning System	Performing Adequately
Leasing and Licensing	Performing Adequately
Telephones	Performing Well
Personal Loans	Performing Well
Licences (Entertainment and Taxi)	Performing Inadequately
Waste Contract	Performing Excellently
Software Compliance	Performing Adequately
CHRIS	Performing Well
Contact Centre	Performing Adequately
Seafront Services	Performing Well
Procurement	Performing Inadequately
Business Continuity Planning	Performing Inadequately
Cafi Bank Reconciliation	Performing Excellently
Benefits (Annual 2015/16)	Performing Well
Cash and Banking (Annual 2015/16)	Performing Excellently
Council Tax (Annual 2015/16)	Performing Well
Main Accounting (Annual 2015/16)	Performing Well
NNDR (Annual 2015/16)	Performing Excellently
Payroll (Annual 2015/16)	Performing Excellently
Treasury Management (Annual 2015/16)	Performing Excellently
IT (Annual 2015/16)	Performing Adequately
Theatres Reconciliation (Annual 2015/16)	Performing Adequately

#### Levels of Assurance - Key

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

2.2 One report (Business Continuity Planning) was issued in this quarter with an assurance level of Performing Inadequately.

2.3 Four 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 in 2014/15 and then the work again at the end of the year for the work completed in 2015/16. .

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

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

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

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

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

All other reviews which were either not completed or not begun in the year have been carried forward into the plan for 2016/17.

- 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 Appendix C was reviewed by CMT and comments from Heads of Service have been included in the final column.

### **3.0 Corporate Fraud**

- 3.1 During the final quarter of the year a review was undertaken of applicants on Band B of the Housing List. Some cases were raised with the relevant department but feedback on removals/moving to other bands etc. is currently awaited.
- 3.2 The Housing Partners software usage was recommenced following some initial issues with data compatibility. It has also been confirmed that the software will be used by Eastbourne Homes and Housing teams in the Council. Appropriate training has been provided.
- 3.3 Having carried out some work reviewing Right To Buy cases, the team now reviews all applications in order to check eligibility etc. This is because the Corporate Fraud team have access to more data that can be checked than the team dealing with Right To Buy cases.
- 3.4 A case management system is now in place that was purchased with funds from the East Sussex Counter Fraud Hub. Work is ongoing in configuring the system for use by Eastbourne and Lewes.
- 3.5 As at the year end, 2,135 cases from the National Fraud Initiative data matches had been reviewed resulting in 289 errors being identified in Council Tax Reduction or Benefits cases. The value of these was £123,645 in overpayments which will be pursued for repayment. There are 77 other cases under review, the majority of these having been passed to the DWP.
- 3.6 In the financial year the team has undertaken and closed 186 investigations. The team currently have 41 cases open in addition to the ongoing work on the National Fraud Initiative and Right To Buy work. The investigations and cases referred to cover a range of areas including tenancy, Council Tax Reduction and housing applications.
- 3.7 Appendix D shows the work of the Corporate Fraud team across the year. For the past financial year the team cost the Council just 14% of the savings it identified.

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

- 4.1 Owing to the sickness of the Corporate Fraud Manager, collation of data on the work of the Hub for the quarter has been delayed. The details of the full year work will be included in the next quarterly report.

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

- 5.1. The 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. As this was issued too late for consideration in last year's Annual Governance Statement it is being included in this year's for the first time.
- 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>
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.
<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 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.

- 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 2017
Carry out a fraud risk assessment.	Internal Audit Manager	April 2017

## **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 with just one area of concern was raised by the Internal Audit Manager
- 6.3 CMT were asked to consider potential governance issues to be reported in the Annual Governance Statement. The issue of a continuing lack of business continuity plans across the authority was raised by the Internal Audit Manager as a general risk for the authority.

## **7.0 Self Assessment**

- 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. Progress will continue on addressing the issues required to ensure better compliance and this will be reported to the committee.
- 7.4 The standards require an external review to be carried out at least every five years. This was discussed at the Sussex Audit Group and it was decided to carry out peer reviews of all the member authorities. Eastbourne is currently undergoing such a review and the results will be reported to the next committee after the final report is received.
- 7.5 The Council's Internal Audit Service is operated in accordance with the Public Sector Internal Audit Standards (PSIAS) which came into effect from 1 April 2013.
- 7.6 The Internal Audit team has maintained its independence throughout 2015/16 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 17

			Planned days	Actual days	Reason for Variance
<b>ANNUAL REVIEWS</b>	Benefits	Governance	15	22.7	5.3 days 14/15 work - work undertaken by new member of staff
	Cash and Bank	Governance	10	5	
	Council Tax	Governance	10	21.8	3.2 days 14/15 work - work undertaken by new member of staff
	Creditors	Governance	15	16.8	
	Debtors	Governance	15	13.5	
	Housing Rents	Governance	15	5	
	Main Accounting	Governance	10	10.2	
	NNDR	Governance	10	21.1	3 days 14/15 work - work undertaken by new member of staff
	Payroll	Governance	10	9.8	
	Treasury Management	Governance	10	2	
	IT	Governance	4	6.3	
	Theatres Reconciliation	Governance	5	5.2	
Claims work		80	116.8	14/15 work being completed and 15/16 work begun - also extra testing required for 15/16	
		<b>209</b>	<b>256.2</b>		

Contingency		25	16.2	
NFI		20	0	
Special Investigations/advice		40	12.2	
Follow ups re audits carried out in previous year		30	13.2	
Consultancy		20	0	
		<b>135</b>	<b>41.6</b>	

<b>CARRY FORWARDS FROM 14/15 PLAN</b>	Waste contract	Contract	10	<b>6.8</b>	Completed
	Software Compliance	IT	5	<b>11.4</b>	Completed - carried out by new member of staff
	Internet Controls	IT	10	<b>5.9</b>	Completed
	Change Controls	IT	5	<b>0.3</b>	Carried forward
	CHRIS	IT	5	<b>4.6</b>	Completed
	Electoral Computer System	IT	5	<b>3.6</b>	Completed
	Customer Contact	Review	10	<b>12.3</b>	Completed - extra piece of work requested.
	Planning System	IT	10	<b>17</b>	Completed - carried out by new member of staff
	Leasing and Licensing	Review	10	<b>16.3</b>	Completed - carried out by new member of staff
	Right to Buy	Review	10	<b>4.7</b>	Ongoing
		<b>80</b>	<b>82.9</b>		

<b>REQUESTS</b>	IT Systems Resilience and Redundancy	Review	10	0	
	Building Control	Review	10	0.7	
			<b>20</b>	<b>0.7</b>	

			Planned days	Actual days	Reason for Variance
<b>HIGH RISK</b>	Open Revenues	Review	10	9.4	Ongoing
			<b>10</b>	<b>9.4</b>	
<b>MEDIUM RISK REVIEWS</b>	Engineering	Review/Contract	10	0.4	Postponed to 16/17
	Telephones	Review	10	17.6	Completed - carried out by new member of staff
	Personal Loans	Review	10	10.8	Completed
	Seafront Services	Review	15	8.4	Completed
	Asset Management	Review	10	0.3	Postponed to 17/18
	Licences (Entertainment and Taxis)	Review	10	18.8	Completed - carried out by new member of staff
	Procurement	Review	20	21.4	Completed
	Business Continuity Planning	Review	10	4.4	Completed
	Cafi Bank Rec	IT	10	6	Completed
Performance Management	Review	10	1.8	Postponed to 16/17	
			<b>115</b>	<b>89.9</b>	
<b>LOW RISK</b>	IT Contract	Contract	5	2.2	Carried forward
			<b>5</b>	<b>2.2</b>	
<b>PLAN TOTAL</b>			<b>574</b>	<b>482.9</b>	

**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.

<b>AUDIT REVIEW</b>	<b>ASSURANCE LEVEL</b>	<b>ISSUES NOTED</b>	<b>Level at follow up</b>
Conferences and Group Travel	Adequate	<ul style="list-style-type: none"> <li>• The contract template needs to be reviewed</li> <li>• Retention of documentation needs to be improved</li> <li>• Official names and addresses of businesses were not routinely requested or retained.</li> <li>• The payment terms written into the contracts do not reflect those followed in practice.</li> </ul>	Adequate
IT (Annual 14/15)	Inadequate	<ul style="list-style-type: none"> <li>• Some gaps noted in an earlier IT Health check had not been addressed</li> <li>• There is no current Disaster Recovery Plan</li> <li>• There is no current Business Continuity Plan.</li> </ul>	N/A
Licences	Inadequate	<ul style="list-style-type: none"> <li>• No taxi licensing policy is in place.</li> <li>• In some cases the Police had not been informed of suspended premises licences.</li> <li>• In some cases there was no record of the consent form from the Designated Premises Supervisor.</li> <li>• In some cases there was no record of criminal record disclosure checks.</li> <li>• Debt recovery was found to be inconsistent.</li> <li>• A process is not in place to ensure that taxi vehicles over 7 years old have biannual checks.</li> <li>• Some vehicle suitability checks on file were found to have not been correctly completed.</li> </ul>	Adequate
Leasing and Licensing	Adequate	<ul style="list-style-type: none"> <li>• One instance where a licensee had been told to stop using a piece of land which was not followed up.</li> <li>• Rent reviews deferred with no reason noted.</li> <li>• Leaseholders insurance details out of date with no process in place for chasing information.</li> </ul>	Excellent

**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.

<b>AUDIT REVIEW</b>	<b>ASSURANCE LEVEL</b>	<b>ISSUES NOTED</b>	<b>Level at follow up</b>
Internet Controls	Adequate	<ul style="list-style-type: none"> <li>• The list of those with access to systems shows staff known to have left the Council, duplicated entries and 984 entries of unknown names or other identification.</li> <li>• Issues around leavers from agencies or Towner not being notified to IT.</li> <li>• Use of personal drives is not made clear in the IT Acceptable Use Policy.</li> </ul>	Follow up ongoing
Planning System	Adequate	<ul style="list-style-type: none"> <li>• Possible Data Protection issues around data held on the website.</li> <li>• Issues with the current payment process which means applications may not be fully completed. Requires Civica upgrade.</li> </ul>	Follow up ongoing (in draft appears all addressed)
Software Compliance	Adequate	<ul style="list-style-type: none"> <li>• No structured process for obtaining and retaining licence statements.</li> <li>• No evidence retained of audits carried out by external agencies.</li> <li>• No central register retained to log: software held, no. of licences, no. of users.</li> <li>• No of reviews of no. of users actually accessing the software.</li> </ul>	Follow up ongoing
Contact Centre	Adequate	<ul style="list-style-type: none"> <li>• Apparent time lags in loading scripts.</li> <li>• Some confusion over evacuation procedures.</li> <li>• Documents being photocopied and then scanned.</li> <li>• A need to remind staff of data security issues.</li> <li>• Lack of Business Continuity Planning.</li> </ul>	Follow up ongoing

**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.

<b>AUDIT REVIEW</b>	<b>ASSURANCE LEVEL</b>	<b>ISSUES NOTED</b>	<b>Level at follow up</b>
Procurement	Inadequate	<ul style="list-style-type: none"> <li>• 22 suppliers with large (£75k+) annual expenditure but no contract in place.</li> <li>• 43 suppliers with a medium (£25 to £74,999) annual expenditure but no contract in place.</li> <li>• Unclear if all payments to main IT supplier are within the scope of the contract. (This was later checked by the Senior Head of Projects, Performance and Technology and payments were found to be correct and within contracts).</li> <li>• No comprehensive and up to date contracts database is in place.</li> </ul>	Follow up ongoing
Business Continuity Planning	Inadequate	<ul style="list-style-type: none"> <li>• Lack of departmental or service business recovery plans in place.</li> </ul>	
IT (Annual 2015/16)	Adequately	<ul style="list-style-type: none"> <li>• Testing of disaster recovery plans had not been undertaken.</li> </ul>	N/A
Theatres Reconciliation (Annual 2015/16)	Adequately	<ul style="list-style-type: none"> <li>• Details of new shows are not always signed to show they have been checked before the information is put onto Databox.</li> </ul>	N/A

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	QUARTER ONE				QUARTER TWO				QUARTER THREE				QUARTER FOUR				YEAR TOTAL			
	Cases	Income	Savings	Cost of Corp Fraud	Cases	Income	Savings	Cost of Corp Fraud	Cases	Income	Savings	Cost of Corp Fraud	Cases	Income	Savings	Cost of Corp Fraud	Cases	Income	Savings	Cost of Corp Fraud
<b>NATIONAL FRAUD INITIATIVE</b>																				
Number of cases open	180				182				346				78				786			
Number of cleared cases	1376				273				27				169				1845			
Number of errors identified	64				6				0				218				288			
Number of frauds identified	0				0				0								0			
Overpayments identified			35,688.61				6,160.06				12,217.49				67,742.77				121,808.93	
<b>HOUSING BENEFIT MATCHING SERVICE</b>																				
Number of open matches	41				0				0				20				61			
Number of closed matches	204				123				160				184				671			
Overpayments identified			12,905.57				34,914.29				43,479.41				30,207.40				121,506.67	
Weekly incorrect benefit identified			39,713.28				96,759.36				97,864.64				69,396.88				303,734.16	
<b>OTHER INVESTIGATIONS</b>																				
Number of open investigations	19				52				60				41				172			
Number of closed investigations	57				44				46				39				186			
Overpayments identified			29,426.44				4,013.61				37,831.59				1,610.45				72,882.09	
Weekly incorrect benefit identified			39,888.64				29,216.96				24,633.92				17,238.72				110,978.24	
Removal of SPD saving			603.78				569.14				1,731.19				547.55				3,451.66	
Increase in Council Tax liability			1,372.37				1,745.33				0				23,567.72				26,685.42	
Recovery of Council property							18,000.00				0								18,000.00	
Income from court costs		60.00								20				40				120.00		
Income from Adpen collection		3,364.03				2041.95				1394.75				1,499.11				8,299.84		
<b>TOTALS</b>	<b>1941</b>	<b>£3,424.03</b>	<b>£159,598.69</b>	<b>£24,452.08</b>	<b>680</b>	<b>£2,041.95</b>	<b>£191,378.75</b>	<b>£24,273.19</b>	<b>639</b>	<b>£1,414.75</b>	<b>£217,758.24</b>	<b>£31,883.90</b>	<b>749</b>	<b>£1,539.11</b>	<b>£210,311.49</b>	<b>£28,485.73</b>	<b>4009</b>	<b>£8,419.84</b>	<b>£779,047.17</b>	<b>£109,094.90</b>

14.00

cost of fraud as percentage of savings.

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# Agenda Item 11

<b>Body:</b>	AUDIT AND GOVERNANCE COMMITTEE
<b>Date:</b>	22 JUNE 2016
<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 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

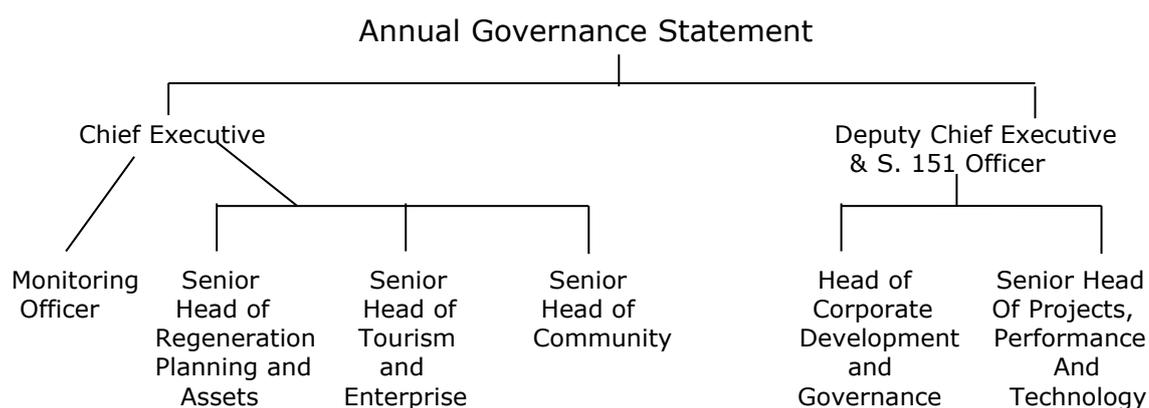
1.2 The Council has a legal requirement to produce an Annual Governance Statement each year. The statement accompanies the Statutory Statement of Accounts once adopted.

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 Heads of Service/Senior Heads of Service 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 This year another section has been added to the Annual Governance Statement. This covers the requirement in Cipfa's "Managing the Risk of Fraud and Corruption" that a statement on the adequacy of an authority's counter fraud arrangements be included in the Annual Governance Statement.

#### **4.0 The 2015/16 Review**

- 4.1 The 2015/16 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 Completed Managers' Assurance Statements were returned from all Heads of Service and from Eastbourne Homes Limited. Four Managers' Assurance Statements mentioned minor concerns around capacity and capability of staff.

- 4.3 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.

- 4.4 Work carried out by the Internal Audit team during the year raised the issue of an ongoing lack of Business Continuity Plans. This was discussed by the Corporate Management Team on 31<sup>st</sup> May. It was acknowledged that these need to be in place and that there is a degree of business risk in not having them. However, this is not considered a significant governance issue and is being addressed as a project across Eastbourne and Lewes councils.

- 4.5 One section has been added to the Annual Governance Statement this year. This is the section on Managing the Risk of Fraud and Corruption. 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. As this was issued too late for consideration in last year's Annual Governance Statement it is being included in this year's for the first time.
- 4.6 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>
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.
<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 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.

The Cipfa Counter Fraud Assessment Tool goes into more detail on the five principles and to meet these some actions are necessary.

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 2017
Carry out a fraud risk assessment.	Internal Audit Manager	April 2017

## 5.0 Recommendation

5.1 The committee approves the Annual Governance Statement

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

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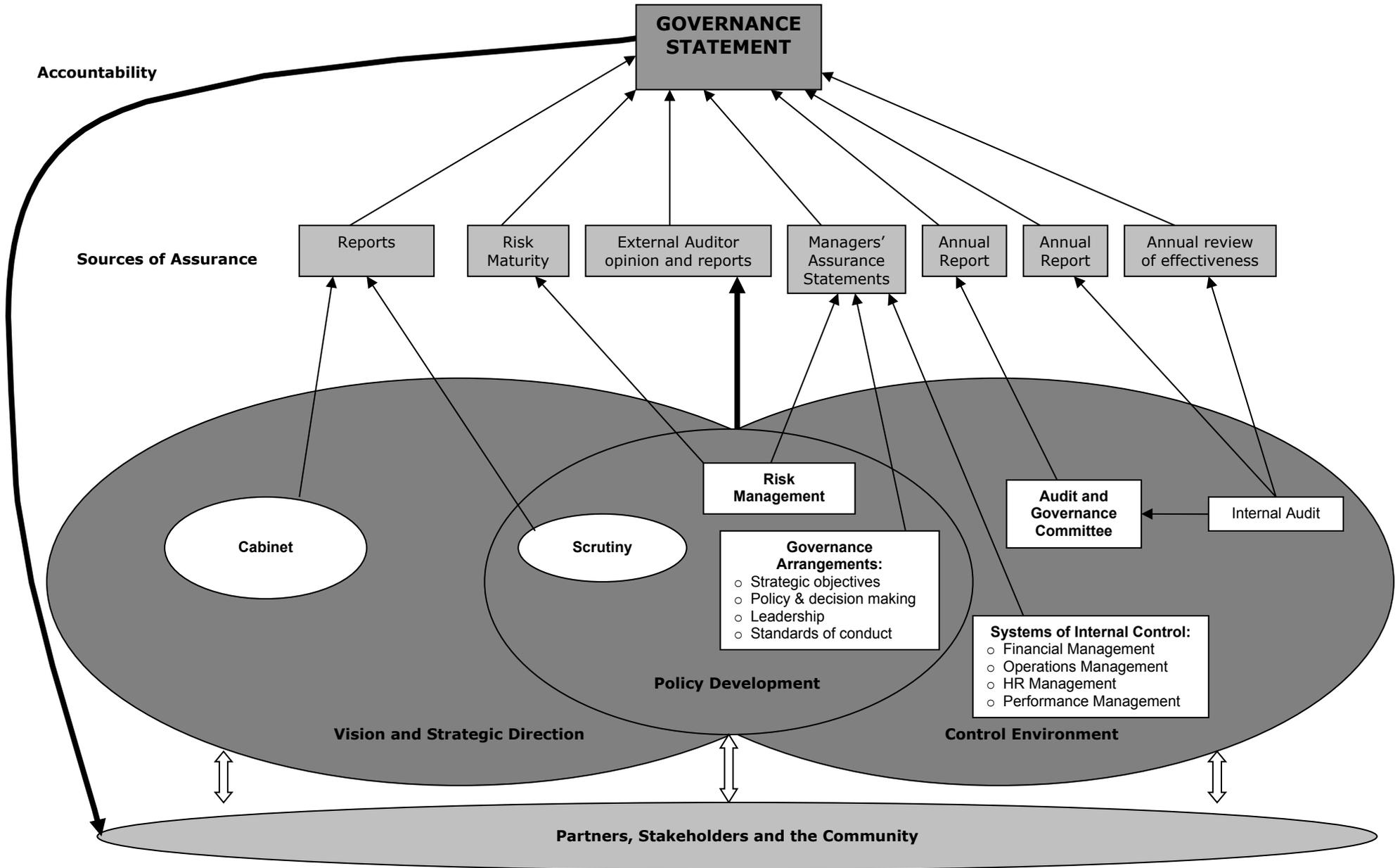
### **Background Papers:**

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

<b>Deadline</b>	<b>Responsibility</b>	<b>Action</b>
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	Internal Audit Annual report 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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# MANAGERS' ASSURANCE STATEMENT

**DEPT:**

Ref	Governance Responsibility	No Concerns	Minor Concerns	Some Concerns	Substantial Concerns	Major Concerns	Explanation of concerns  Action Plan
1.	<p><b>Services are planned and managed to implement the priorities of Eastbourne Borough Council.</b></p> <p>Demonstrated through:</p> <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>						
2.	<p><b>There are good working relationships with Members and officers responsibilities are clearly defined.</b></p> <p>Demonstrated through:</p> <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>						

# MANAGERS' ASSURANCE STATEMENT

**DEPT:**

Ref	Governance Responsibility	No Concerns	Minor Concerns	Some Concerns	Substantial Concerns	Major Concerns	Explanation of concerns  Action Plan
3.	<p><b>The values of good governance are demonstrated and high standards of conduct and behaviour.</b></p> <p>Demonstrated through:</p> <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 management of staff and regular appraisals</li> <li>• The Council's values are understood and promoted</li> </ul>						
4.	<p><b>Management decision making and advice to Members are well founded and involve consideration of professional advice and identified risks.</b></p> <p>Demonstrated through:</p> <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</li> </ul>						

# MANAGERS' ASSURANCE STATEMENT

**DEPT:**

Ref	Governance Responsibility	No Concerns	Minor Concerns	Some Concerns	Substantial Concerns	Major Concerns	Explanation of concerns  Action Plan
	areas <ul style="list-style-type: none"> <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.	<p><b>The capacity and capability of officers has been developed to ensure effective performance.</b></p> <p>Demonstrated through:</p> <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.	<p><b>Robust public accountability is ensured by engaging with local people and stakeholders</b></p> <p>Demonstrated through:</p> <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>						

## MANAGERS' ASSURANCE STATEMENT

**DEPT:**

Ref	Governance Responsibility	No Concerns	Minor Concerns	Some Concerns	Substantial Concerns	Major Concerns	Explanation of concerns  Action Plan
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>  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</b>						

# MANAGERS' ASSURANCE STATEMENT

DEPT:

Ref	Governance Responsibility	No Concerns	Minor Concerns	Some Concerns	Substantial Concerns	Major Concerns	Explanation of concerns Action Plan
	carried out?						

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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 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.

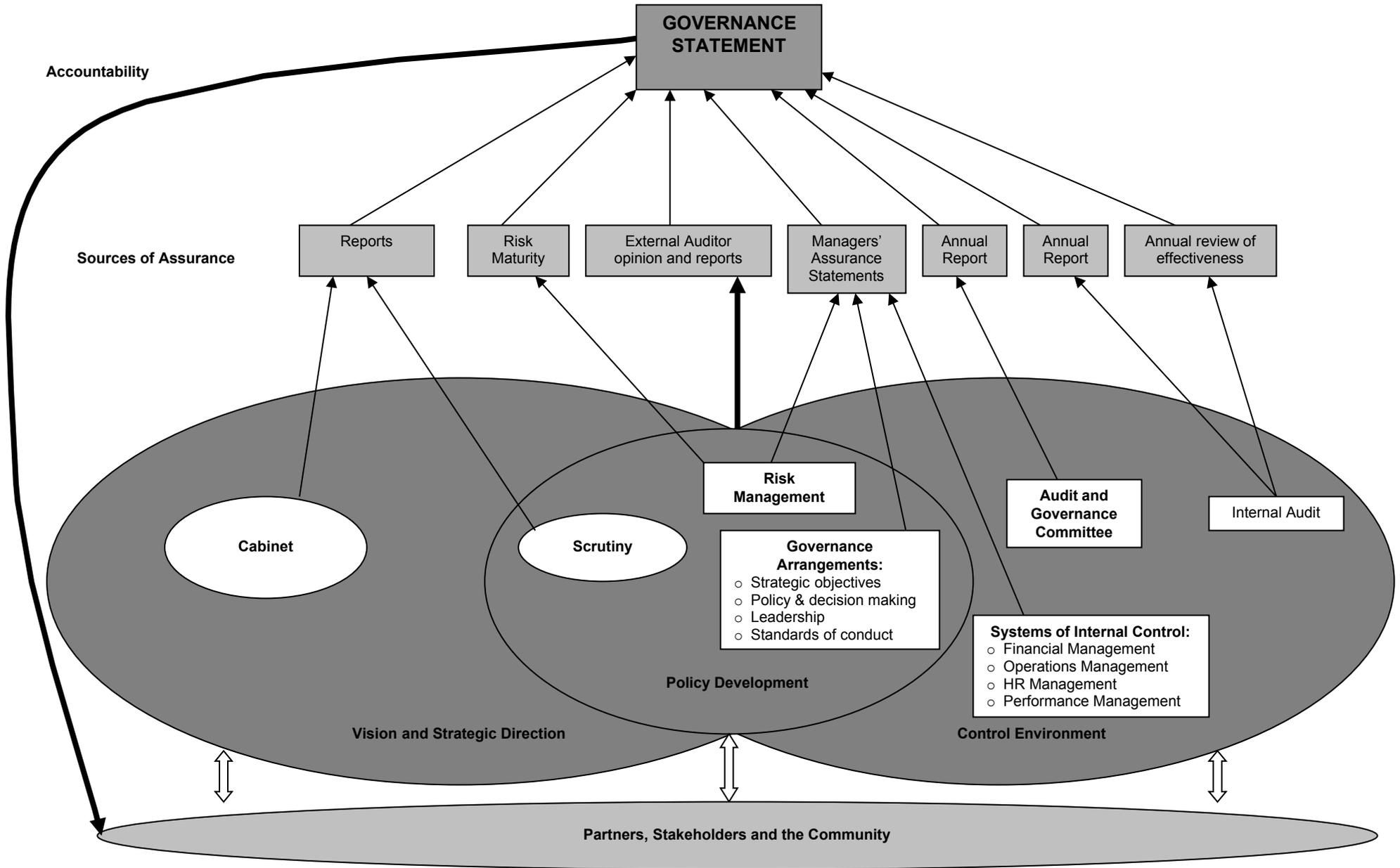
## **The purpose of the governance framework**

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.

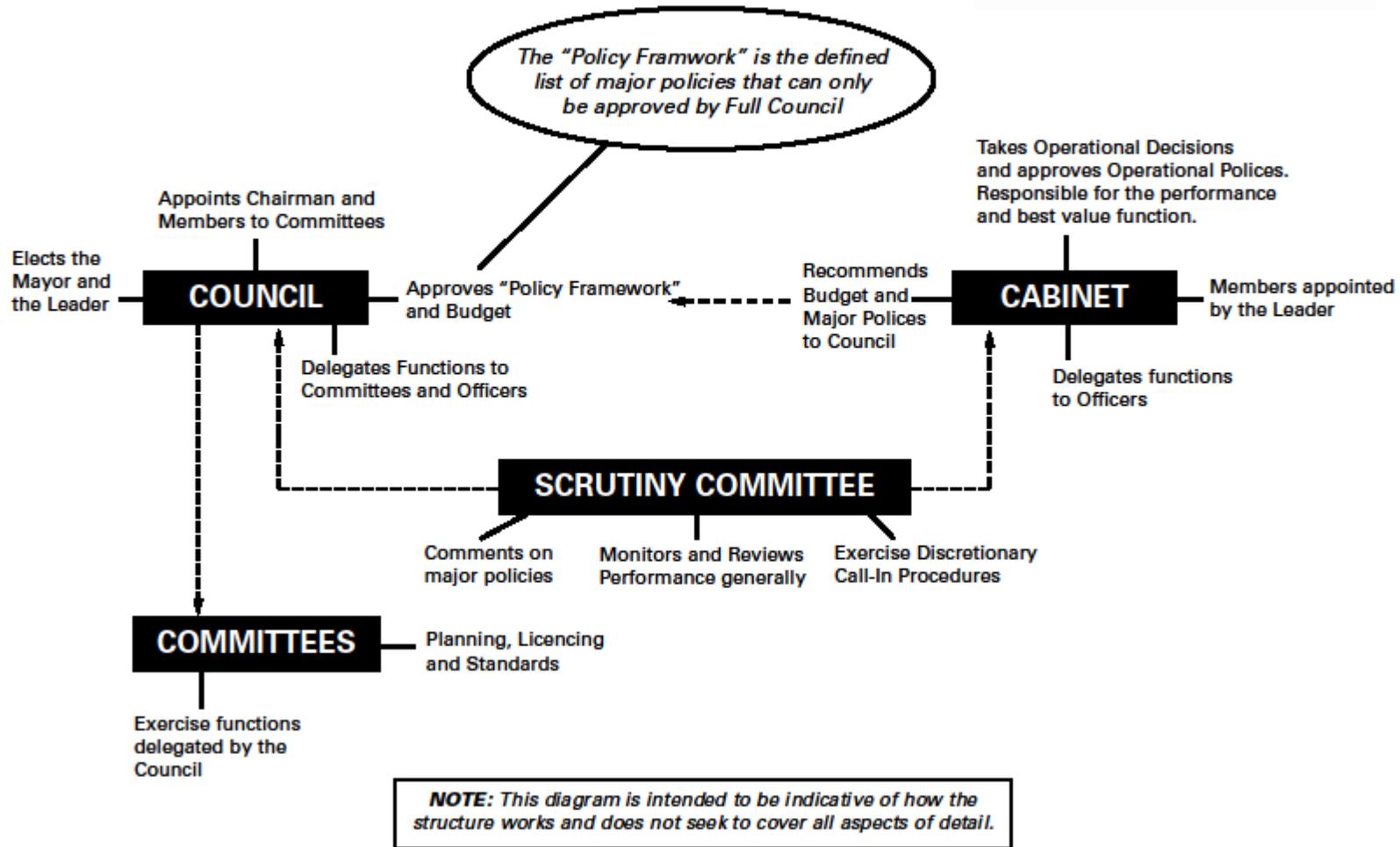
All aspects of the decision making framework, including schemes of delegation, are contained in detail in the Council's constitution and summarised in the articles of the constitution. The content of this document is specifically ratified each year by the annual meeting of the Council. Any proposed changes 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 now 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 Senior Head of Corporate Development and 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 section generally conforms with the Public Sector Internal Audit Standards (PSIAS) and 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.

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 2017
Carry out a fraud risk assessment.	Internal Audit Manager	April 2017

### **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 considers 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 Heads of Service, the monitoring officer and Eastbourne Homes Ltd. Once completed their contents are used to inform the governance statement.

Six Managers' Assurance Statements mentioned minor concerns around capacity and capability. The Council is continuing with a programme of change called "Future Model" which is redesigning the Council's services to be more focussed around the needs of customers as well as realising efficiency savings. The Council is involved in shared service agreements principally with Lewes District Council. This programme was designed to preserve and enhance the way the Council provides front line services whilst dealing with funding reductions. The work has been ongoing for a number of years and it is acknowledged that changes had to be made to keep the authority sustainable in a challenging environment. There are also significant asset projects underway such as the development of Devonshire Park. Together this means that there is a significant volume and variety of change which brings a cumulative risk. The Council is aware of this and receives regular updates on its Sustainable Service Deliver Strategy (SSDS)

and ongoing performance monitoring and reporting. Project boards and an overall cross party "DRIVE" board oversee the change programme. The Council has set aside financial resources to deal with short term needs via its strategic change fund and deploys additional resources on a project by project basis.

### **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 Committee and Board. Ad hoc reviews are carried out on EHL systems by the internal auditors of the council. At the end of year the Audit 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 2015/16**

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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<b>Body:</b>	AUDIT AND GOVERNANCE COMMITTEE
<b>Date:</b>	22 <sup>nd</sup> June 2016
<b>Subject:</b>	Risk Management
<b>Report Of:</b>	Internal Audit Manager
<b>Ward(s)</b>	All
<b>Purpose</b>	To provide a report on the updating of the Strategic Risk Register and changes made to it.
<b>Recommendation(s):</b>	To consider and agree the amended Strategic Risk Register.
<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 terms of reference for the Audit and Governance Committee include the following: Review the effectiveness of the Council's arrangements for identifying and managing risks, internal control environment and corporate governance arrangements.
- 1.2 It has been agreed that the Strategic Risk Register need only be reported to Committee when there are any changes made.

## **2.0 Quarterly review of Strategic Risk Register**

- 2.1 The Strategic Risk Register was taken to Corporate Management Team on 31<sup>st</sup> May 2016 for the regular quarterly review.
- 2.2 All the risks were considered in terms of whether there were any new ones which should be added or whether any of the current risk scores needed to be changed.
- 2.3 It was agreed that the original risk score for risk SR\_005 (Not being able to sustain a culture that supports organisational objectives and future development) should be amended to reflect the current changes. Cabinet has agreed the Joint Transformation programme and now the movement is toward mobilisation and changes in the two authorities. This will be monitored and reviewed but it was felt that as a temporary measure the original score should be altered to show a likelihood score of 4 rather than 3.
- 2.4 The updated Strategic Risk Register is appended to this report.

### **3.0 Consultation**

3.1 Corporate Management Team.

### **4.0 Resource Implications**

4.1 Financial – Delivered within the approved budget for Internal Audit

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

### **5.0 Other Implications**

5.1 None

### **6.0 Recommendations**

6.1 To consider and agree the amended Strategic Risk Register.

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

#### **Background Papers:**

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

*None*

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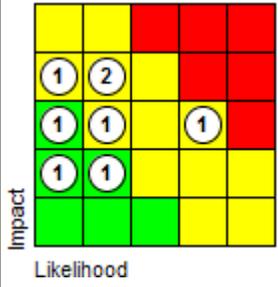
# **STRATEGIC RISK REGISTER**

## **JUNE 2016**



<b>Code &amp; Title</b>	SR_000 Strategic Risk Register
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**Current Risk Matrix**



**LIKELIHOODIMPACT**  
 1 - Unlikely 1 - Minor  
 2 - Possible 2 - Moderate  
 3 - Likely 3 - Significant  
 4 - Highly Likely 4 - Major  
 5 - Almost Certain 5 - Critical

The numbers relate to the amount of risks currently positioned in each box.

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
SR_001	No political and partnership continuity/consensus with regard to organisational objectives	Sudden changes of political objectives at either national or local level renders the organisation, its current corporate plan and Medium Term Financial Strategy unfit for purpose.	3	4	12	1. Create inclusive governance structures which rely on sound evidence for decision making. 2. Annual review of corporate plan and Medium Term Financial Strategy 3. Creating an organisational architecture through the DRIVE Programme that can respond to changes in the environment.	CMT	1	2	2	Green	02-Aug-2016
SR_002	Changes to the economic environment makes the Council economically less sustainable	1. Economic development of the town suffers. 2. Council objectives cannot be met.	4	4	16	1. Robust Medium Term Financial Strategy reviewed annually and monitored quarterly. Refreshed in line with macro economic environment triennially. 2. Creating an organisational architecture through the DRIVE Programme that can respond to changes in the environment.	CMT	4	3	12	Amber	02-Aug-2016
SR_003	Unforeseen socio-economic and/or demographic shifts creating	1. Unsustainable demand on services. 2. Service failure.	2	4	8	1. Grounding significant corporate decisions based on up to date, robust, evidence base. (e.g. Census; Local Futures Toolkit/data	CMT	2	3	6	Amber	01-Aug-2016

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
	significant changes of demands and expectations.	3. Council structure unsustainable and not fit for purpose. 4. Heightened likelihood of fraud.				modelling; East Sussex in Figures data modelling).  2. Ensuring community and interest group engagement in policy development (e.g. Neighbourhood Management Schemes; Corporate Consultation Programme)						
SR_004	The employment market provides unsustainable employment base for the needs of the organisation	Employment market unable to fulfil recruitment and retention requirements of the Council resulting in a decline in performance standards and an increase in service costs.	4	4	16	1. DRIVE change programme to increase non-financial attractiveness of EBC to current and future staff.  2. Appropriate reward and recognition policies reviewed on a regular basis.  3. Review of organisation delivery models to better manage the blend of direct labour provision. Pursuit of mutually beneficial shared service arrangements.	CMT	2	2	4	Green	01-Aug-2016
SR_005	Not being able to sustain a culture that supports organisational objectives and future development.	1. Decline in performance. 2. Higher turnover of staff. 3. Decline in morale.	4	4	16	1. Deliver a fit for purpose organisational culture through Joint Transformation programme.  2. Continue to develop our performance management	CMT	2	4	8	Amber	01-Aug-2016

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		<p>4. Increase in absenteeism.</p> <p>5. Service failure</p> <p>6. Increased possibility of fraud.</p>				<p>capability to ensure early intervention where service and/or cultural issues arise.</p> <p>3. Continue to develop communications through ongoing interactions with staff.</p>						
SR_006	Council prevented from delivering services for a prolonged period of time.	<p>1. Denial of access to property</p> <p>2. Denial of access to technology/information</p> <p>3. Denial of access to people</p>	3	5	15	<p>1. Regularly reviewed and tested Business Continuity Plans.</p> <p>2. Regularly reviewed and tested Disaster Recovery Plan.</p> <p>3. DRIVE change programme has created a more flexible, less locationally dependent service architecture.</p> <p>4. Adoption of best practice IT and Asset Management policies and procedures.</p>	CMT	2	4	8	Amber	01-Aug-2016
SR_007	Council materially impacted by the medium to long term effects of an event under the Civil	<p>1. Service profile of the Council changes materially as a result of the impact of the event.</p> <p>2. Cost profile of the</p>	3	5	15	<p>1. Ongoing and robust risk profiling of local area (demographic and geographic).</p> <p>2. Review budget and reserves in light of risk</p>	CMT	1	3	3	Green	01-Aug-2016

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
	Contingencies Act	Council changes materially as a result of the impact of the event.				profile. 3. Working in partnership with other public bodies.						
SR_008	Failure to meet regulatory or legal requirements	<p>1. Credibility of the Council is negatively impacted.</p> <p>2. Deterioration of financial position as a result of regulatory activity/penalties.</p> <p>3. Deterioration of service performance as a result of regulatory activity/penalties.</p> <p>4. Increased probability of prosecutions and compensation claims as a result of inadequate management of Health and Safety duties.</p> <p>5. Possibility of fraud and bribery.</p> <p>6. Ensure compliance with legislation such as</p>	3	4	12	<p>1. Developing, maintaining and monitoring robust governance framework for the Council.</p> <p>2. Building relationships with regulatory bodies.</p> <p>3. Develop our Performance Management capability to ensure early intervention where service and/or cultural issues arise.</p> <p>4. Take forward the recommendations of the CIPFA Asset Management report to ensure we meet regulatory/legal requirements regarding the management of property.</p> <p>5. Ensure there is full understanding the impact of new legislation (e.g. Localism Act).</p> <p>6. All managers are required</p>	CMT	1	4	4	Amber	01-Aug-2016

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		Data Protection and Safeguarding.  7. Entering into contracts etc. without having adequate finance in place.				to abide by the Council's procurement rules.						

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