



## Audit and Governance Committee

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

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## Agenda

- 1 Minutes of the meeting held on 30 November 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 Annual Audit Letter 2015/16.** (Pages 1 - 14)

Report of External Auditors BDO.

**8 Planning Report 2016/17.** (Pages 15 - 38)

Report of External Auditors BDO.

**9 Internal Audit Report to 31st December 2016.** (Pages 39 - 58)

Report of Internal Audit Manager.

**10 Draft Internal Audit Plan for 2017/18.** (Pages 59 - 70)

Report of Internal Audit Manager.

**11 Risk Management.** (Pages 71 - 80)

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

## ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2016



# EXECUTIVE SUMMARY

## Purpose of the letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the financial year ended 31 March 2016. It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

## Responsibilities of auditors and the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's Code of Audit Practice (the Code), and to review and report on:

- The Council's financial statements
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to report where we have exercised our statutory powers under the Local Audit and Accountability Act 2014 in any matter and our grant claims and returns certification work.

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

## Audit conclusions

### FINANCIAL STATEMENTS

We issued an unqualified true and fair opinion on the financial statements on 30 September 2016.

We reported our detailed findings to the Audit and Governance Committee on 21 September. We reported on uncorrected misstatements which management and the Audit and Governance Committee concluded were immaterial.

### USE OF RESOURCES

We issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 30 September 2016.

While there is a recognised funding gap in the Medium Term Financial Strategy (MTFS), we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.

### EXERCISE OF STATUTORY POWERS

We have not exercised our statutory powers and have no matters to report.

### GRANT CLAIMS AND RETURNS CERTIFICATION

Our review of grant claims and returns for the year ended 31 March 2016 is in progress and the results will be reported upon completion of this work.

# FINANCIAL STATEMENTS

## OPINION

We issued an unqualified true and fair opinion on the financial statements on 30 September 2016.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

### Our assessment of risks of material misstatement

Our audit was scoped by obtaining an understanding of the Council and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

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REVENUE RECOGNITION	RESPONSE	FINDINGS
Risks of fraud in revenue recognition may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.	Our review of revenue recognition focused on testing completeness and existence of fees and charges across all service areas in the Comprehensive Income and Expenditure Statement.	No issues were identified.

# FINANCIAL STATEMENTS

## Continued

GROUP ACCOUNTS	RESPONSE	FINDINGS
<p>The Council has interests in the following entities:</p> <ul style="list-style-type: none"> <li>• Eastbourne Homes Limited (EHL), a wholly owned subsidiary for which the Council has historically prepared Group Accounts</li> <li>• Greencoat House Limited and its wholly owned subsidiary Welbeing, which are associates to the Council</li> <li>• CloudConnX Limited, an associate to the Council</li> <li>• Eastbourne Housing Investment Company Limited (EHIC), a wholly owned subsidiary incorporated during 2015/16.</li> </ul> <p>We identified a risk regarding the completeness of the Group Accounts in respect of the Council’s share of transactions in Greencoat House, Welbeing, and CloudConnX Limited and EHIC.</p> <p>We also identified a risk regarding the accuracy of the Group Accounts in respect of the conversion of the group entities’ accounts from Financial Reporting Standards (FRS) 102 to International Financial Reporting Standards (IFRS), as this was the first year of implementation of FRS 102 by the group entities.</p>	<p>We reviewed the financial statements and management accounts of Greencoat, Welbeing, CloudConnX and EHIC, to determine if they needed to be included in the Council’s Group Accounts.</p> <p>We reviewed the Council’s processes and controls for adjusting FRS 102 accounts to IFRS for all group entities.</p> <p>We reviewed the Group Accounts and checked that assets, liabilities, income and expenditure and relevant disclosures were correctly consolidated.</p>	<p>The Council’s share of post acquisition retained earnings in Greencoat House, Welbeing and CloudConnX were not cumulatively material in 2015/16 and therefore the Council continued to account for its investment in these entities at cost.</p> <p>The Council’s two wholly owned subsidiaries, EHL and EHIC, were correctly consolidated in the Group Accounts. Our testing did not identify any issues in respect of the conversion from FRS 102 to IFRS in the consolidation of companies in the Group Accounts.</p> <p>Management should continue to review the Council’s share of transactions in Greencoat House, Welbeing and CloudConnX and, if material, ensure that these companies are consolidated into the Group Accounts.</p>

# FINANCIAL STATEMENTS

## Continued

PROPERTY VALUATIONS	RESPONSE	FINDINGS
<p><u>Property, plant and equipment (excluding surplus assets)</u></p> <p>Land and buildings included in Property, Plant and Equipment (PPE) are valued based on market values for existing use or depreciated replacement cost (DRC).</p> <p>The Council engaged an external valuer to assess whether there had been a material change in the value of its council dwellings and other land and buildings at 31 March 2016.</p> <p>We identified a risk regarding the appropriateness of these valuations.</p> <p><u>Investment properties and surplus assets</u></p> <p>The Code of Practice on Local Authority Accounting 2015/16 ('the Code') introduced a change in the basis of valuation of investment properties and surplus assets under International Financial Reporting Standard (IFRS) 13, from market value as an investment property or existing use value as a surplus asset, to a 'highest and best use' valuation.</p> <p>The Council engaged an external valuer to value these assets at 31 March 2016.</p> <p>We identified a risk of the valuations failing to take into account the potential alternative uses of the properties.</p>	<p>We reviewed the instructions provided to the valuer and reviewed the valuer's skills and expertise in order to determine if we could rely on the management expert.</p> <p>We challenged the valuation methodology applied by the valuer and confirmed the appropriateness of the basis of valuation for assets valued in year.</p> <p>We compared the valuations to expected movements using available market information.</p>	<p>The revaluations resulted in a net increase in PPE of £11.458 million, the majority of which was attributable to indexation on council dwellings, and a net gain of £66,000 on investment properties, due to marginal increases in the market at the year end.</p> <p>We concluded that the basis of the valuations were appropriate and that the valuation movements were within expectations.</p>

# FINANCIAL STATEMENTS

## Continued

PENSION LIABILITY	RESPONSE	FINDINGS
<p>The pension liability comprises the Council’s share of the market value of assets held in the East Sussex Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation.</p>	<p>We reviewed the reasonableness of the assumptions applied by comparing them to the expected ranges provided by an independent consulting actuary.</p> <p>The key changes to the financial assumptions related to:</p> <ul style="list-style-type: none"> <li>• increase in the salary increase rate from 4% to 4.1%</li> <li>• increase in the discount rate from 3.1% to 3.4% (to place a current value on the future liabilities through the use of a market yield of corporate bonds).</li> </ul>	<p>At 31 March 2016 the net pension liability decreased by £5.915 million, mainly as a result of a change in discount rate applied to the liabilities.</p> <p>We were satisfied that the assumptions used were not unreasonable or outside of the expected ranges.</p>

# FINANCIAL STATEMENTS

## Continued

### Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

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.

The materiality for the financial statements as a whole was set at £2 million. This was determined with reference to a benchmark of gross expenditure (of which it represents two per cent) which we consider to be one of the principal considerations for the Council in assessing the financial performance.

We agreed with the Audit and Governance Committee that we would report all individual audit differences in excess of £40,000.

### Audit differences

Our audit found three audit differences not corrected in the final financial statements that impact on the reported surplus:

- £52,000 - Over accrual of information communication technology (ICT) support and maintenance expenditure
- £45,000 - Overstatement of the non domestic rate arrears impairment allowance
- £44,000 - Understatement of the non domestic rates appeals provision (the Council's share).

Correcting for these misstatements would have resulted in the Council reporting a £53,000 higher surplus for the year.

We considered that these misstatements did not have a material impact on our opinion on the financial statements.

The impact of prior year misstatements on current year performance would increase the reported underlying surplus for the current year by £132,000:

- £237,000 over accrual of non domestic rates levy payable corrected in 2015/16
- £105,000 under accrual of non domestic rates section 31 grants corrected in 2015/16.

These amounts remain misstatements with regard to reporting in year financial performance, but are not misstatements at the year end.

### Other matters we report on

#### Annual Governance Statement

We were satisfied that the Annual Governance Statement was not misleading or inconsistent with other information we were aware of from our audit.

#### Narrative reporting

Local authorities are required to include a Narrative Report in the Statement of Accounts to offer interested parties an effective guide to the most significant matters reported in the accounts. The Narrative Report should be fair, balanced and understandable for the users of the financial statements.

We were satisfied that the information given in the Narrative Report for the year ended 31 March 2016 was consistent with the financial statements.

# FINANCIAL STATEMENTS

## Continued

### Internal controls

We did not find any significant deficiencies in internal controls during the course of our audit. A number of other areas for improvement were identified which we discussed with management.

### Whole of Government Accounts

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding certain non current assets); liabilities (excluding pension liabilities); income or expenditure.

The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure. We submitted this on 30 September 2016, in advance of the national deadline.



# USE OF RESOURCES

## CONCLUSION

We issued an unqualified conclusion on the arrangements for securing economy, efficiency and effectiveness in its use of resources on 30 September 2016.

### Scope of the audit of use of resources

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources based on the following reporting criterion:

- In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

### Our assessment of significant risks

Our audit was scoped by our knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on the financial statements, reports from the Council including internal audit, information disclosed or available to support the Annual Governance Statement and Narrative Report, and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

MEDIUM TERM FINANCIAL STRATEGY	RESPONSE	FINDINGS
<p>The Medium Term Financial Strategy (MTFS) approved by Cabinet in July 2015, covering the four year period from 2016/17 to 2019/20, identified a base funding gap of £2.4 million over the period. This equates to an average level of required savings of £600,000 per annum. The MTFS was updated again in July 2016 and indicated an average level of required savings of £930,000 per annum over the period.</p> <p>We identified a risk that achieving the required level of savings going forward would require further difficult decisions around service provision and alternative service delivery models.</p>	<p>We reviewed the reasonableness of the assumptions in the MTFS, including the level of Government grant reductions expected, cost pressures and savings requirement.</p> <p>The MTFS contains assumptions about the future funding of the Council, national and local economic factors, the level of pay and non-pay inflation and a range of savings targets. Over the medium term, the Council expects the net budget requirement to reduce from £15.7 million in 2016/17 to £13.3 million in 2019/20 and its revenue support grant (which amounts to £2.7 million in 2015/16) will cease in 2019/20.</p> <p>The Council plans to balance its finances over the medium term by delivering savings of £3.8 million alongside projected growth in income from council tax. There are a number of key development and transformation projects in place under the Council's Sustainable Service Delivery Strategy to deliver savings from its Future Model, shared transformation costs, procurement, service efficiencies and increased income generation.</p>	<p>We were satisfied that the MTFS reflects known savings and cost pressures and that the key underlying assumptions regarding central government funding and income from taxation are not unreasonable.</p> <p>The Council understands the risks involved across its financial planning assumptions and that these will continue to require careful management. While there is a recognised funding gap in the MTFS, we were satisfied that the Council has appropriate arrangements to remain financially sustainable over the period of the MTFS.</p>

# USE OF RESOURCES

## Continued

TRANSFORMATION PROGRAMMES	RESPONSE	FINDINGS
<p>The Council has a number of major transformation and development programmes in place to either help facilitate these savings or create additional revenue streams in the medium term. These programmes include:</p> <ul style="list-style-type: none"> <li>• Joint transformation programme with Lewes District Council to provide joint services</li> <li>• A £44 million project for the enhancement of the current Devonshire Park Complex.</li> </ul> <p>We identified a risk of the MTFS failing to adequately take account of the investment costs and savings associated with these projects.</p>	<p><u>Joint transformation programme (JTP)</u></p> <p>We reviewed the arrangements in place for the Council to make informed decisions in relation to the programme. We also reviewed the JTP business case, including sensitivity analysis of future outcomes.</p> <p>The business case projects total savings of £2.8 million for the two councils, with an equivalent reduction of 79 full time equivalent posts across both councils. The Council’s share of these planned savings is £1.2 million over the four year MTFS period.</p> <p>Total combined investment required specifically to deliver the JTP is £5.6 million, of which the Council’s share is approximately £2.4 million. These costs will be largely met from the Council’s earmarked reserves for strategic change and capital programme, which total £2.5 million at 31 March 2016.</p> <p><u>Devonshire Park Complex</u></p> <p>Costs totalling £2.2 million were incurred in 2015/16 on ‘Devonshire Park Review Stage 1-4a’ in preparation for the procurement in 2016/17. The Council’s five year capital programme indicates that the investment is to be funded by a combination of capital receipts and borrowing.</p> <p>The Council has worked with external consultants to review the best future governance options for the project . A decision was made by Cabinet in September 2016 to adopt a wholly owned but organisationally discrete local authority managed operation, subject to necessary work on the detail of the governance structure being undertaken and proving satisfactory.</p>	<p>We were satisfied that the strategic objectives of the programme are in line with the Council’s corporate vision. Adequate arrangements were in place to support decision making for the business case and appropriate governance processes have been established to oversee delivery of the project.</p> <p>The projected savings and investment from the programme have been adequately considered and factored into planning assumptions.</p> <p>The Devonshire Park complex project is still in its early stages. However given the scale of the project, it is important that robust governance and risk management arrangements are maintained as the project develops.</p>

# EXERCISE OF STATUTORY POWERS

**REPORT BY EXCEPTION**

We have no matters to report by exception.

## Use of statutory powers

We have not exercised our statutory powers and have no matters to report.

## Audit certificate

We issued the audit certificate to close the audit for the year ended 31 March 2016 on 30 September 2016.

# GRANT CLAIMS AND CERTIFICATION

## CERTIFICATION WORK

Our review of grant claims and returns for 2015/16 is in progress and the results will be reported upon completion of this work.

### Housing benefit subsidy claim

Public Sector Audit Appointments Ltd has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

During 2014/15, the Council replaced the Northgate benefit system with the Open revenues benefit system. Our testing found that this 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 required a significant amount of additional work and testing to attempt to isolate the quantum of errors. For the errors that we identified in the transferred data, the Council made amendments which reduced subsidy claimed by £151,414.

We also identified a number of other issues relating to the system reconciliation of payments made, incorrect bedroom numbers used, ineligible service charge deductions, misclassified overpayments and incorrect earnings calculations. The estimated net subsidy impact of these errors, if amended, would be to reduce subsidy by £200,541.

The Council is working to address these issues in the current year.

Our work on the 2015/16 housing benefits subsidy claim is currently in progress and is expected to be completed ahead of the submission deadline of 30 November 2016.

### Other claims and returns

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

These assurance reviews are undertaken outside of our appointment by the Audit Commission or Public Sector Audit Appointments Ltd, and are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

The Council has requested that we undertake a 'reasonable assurance' review, based on the instructions and guidance provided by the Department of Communities and Local Government (DCLG) for the 2015/16 pooling of housing capital receipts (deadline 30 November 2016). This work is in progress.

# APPENDIX

## Reports

We have issued the following reports since our previous Annual Audit Letter.

REPORT	DATE
Grant claims and certification work 2014/15	24 March 2016
Audit Plan 2015/16	17 February 2016
Draft audit completion report 2015/16	16 September 2016
Final audit completion report 2015/16	30 September 2016
Annual Audit Letter 2015/16	31 October 2016

## Fees

We reported our original fee proposals in our Audit Plan. We have not had to amend our planned audit fees for 2015/16.

AUDIT AREA	FEES
Code audit	67,781
Certification of housing benefits subsidy	8,297
<b>Fee for audit services</b>	<b>76,078</b>
Audit related services:	
- Pooling of housing capital receipts	1,500
<b>Fee for audit related services</b>	<b>1,500</b>
Non audit related services:	
- BDO tax subscription services	2,500
<b>Total fees</b>	<b>80,078</b>

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

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# EASTBOURNE BOROUGH COUNCIL

Page 15 PLANNING REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE  
Audit for the year ending 31 March 2017

Date of issue: 27 February 2017



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# INTRODUCTION

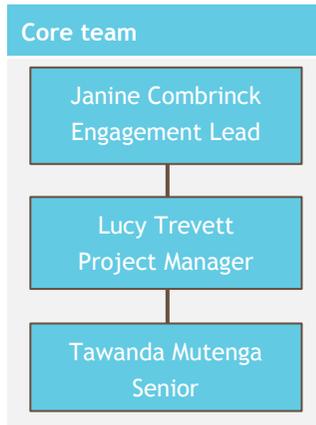
## PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements of the Council and consolidated entities (together the 'Group') and use of resources of the Council for the year ending 31 March 2017. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit and Governance Committee.

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.

# YOUR BDO TEAM



Name	Contact details	Key responsibilities
<b>Janine Combrinck</b> Engagement Lead	Tel: 020 7893 2631 Janine.Combrinck@bdo.co.uk	Oversee the audit and sign the audit report
<b>Lucy Trevett</b> Project Manager	Tel: 020 7034 5878 Lucy.Trevett@bdo.co.uk	Management of the audit
<b>Tawanda Mutenga</b> Senior	Tel: 01473 320711 Tawanda.Mutenga@bdo.co.uk	Day to day supervision of the on-site audit

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

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

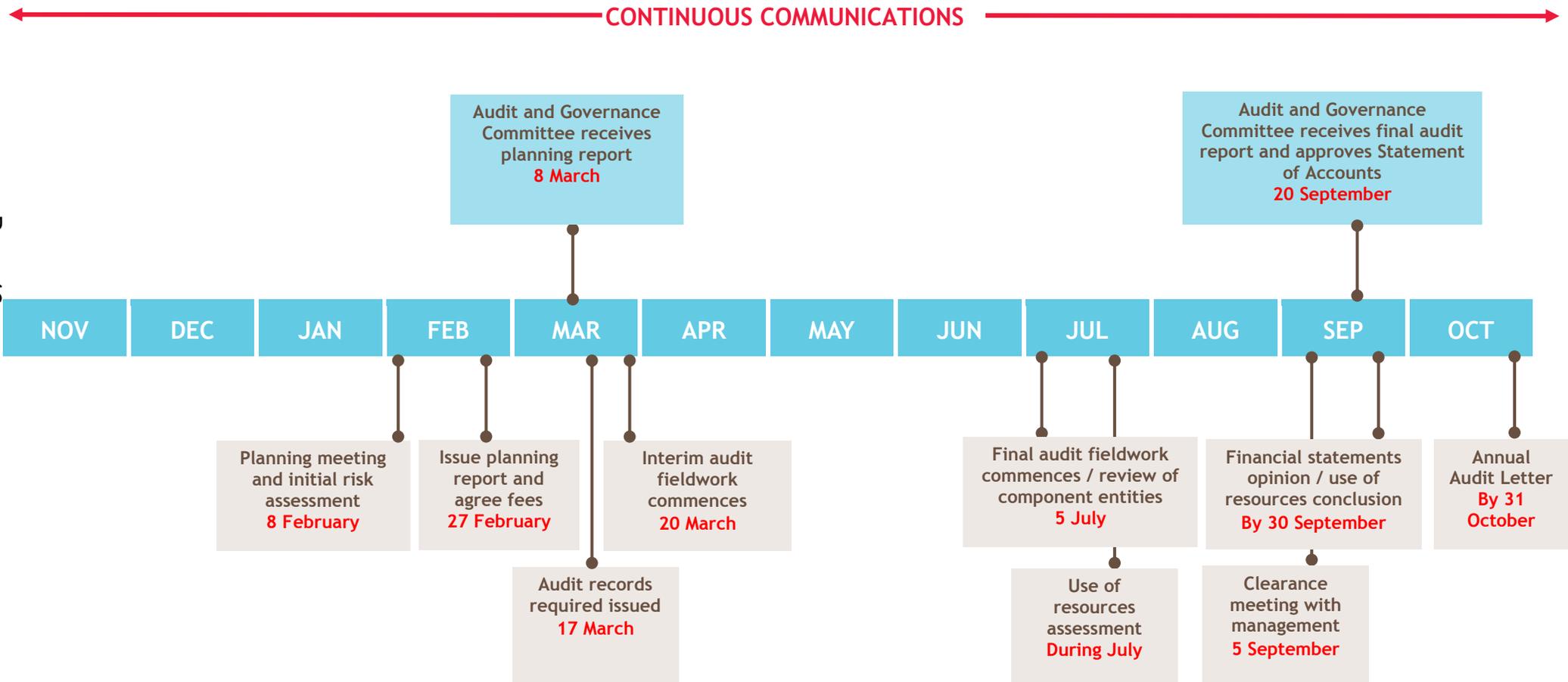
- the financial statements are free from material misstatement, whether due to fraud or error
- the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Janine is responsible for the overall quality of the engagement.

# ENGAGEMENT TIMETABLE

## TIMETABLE

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



# AUDIT SCOPE AND OBJECTIVES

## SCOPE AND OBJECTIVES

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

To form an opinion on whether:

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

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## ADDITIONAL POWERS AND DUTIES

**6** To consider the issue of a report in the public interest.  
To consider making a written recommendation to the Council.

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

# MATERIALITY

## GROUP AND COMPONENT MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Group	£2,100,000	£42,000
Significant components:		
• Council	£2,100,000	£42,000
Non-significant components:		
• Eastbourne Homes Limited	n/a	n/a
• Eastbourne Housing Investment Company Limited	n/a	n/a

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

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

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

# OVERALL AUDIT STRATEGY

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

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

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

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

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

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

### Approach to components of the Group financial statements

Our approach is designed to ensure we obtain the requisite level of assurance across the whole Group.

We are aware that there is some uncertainty whether local authority controlled companies are able to take advantage of the size and threshold exemptions for audit or whether the requirement for audit remains in place where the Council itself is preparing consolidated accounts. It is our understanding that local authority controlled companies are not able to take advantage of the audit exemption.

Total coverage is expected to be as shown opposite.

SCOPE	EXPENDITURE COVERAGE 2015/16	NET ASSETS 31/3/16
Full scope procedures	£108m	£180m
Desktop review	£1m	<£1m
<b>Total</b>	<b>£109m</b>	<b>£180m</b>

We do not expect any significant changes in 2016/17.

# OVERALL AUDIT STRATEGY

## Group matters

COMPONENT NAME	% GROUP EXPENDITURE	% GROUP NET ASSETS / LIABILITIES	COMPONENT AUDITOR	OVERVIEW OF WORK TO BE PERFORMED
<b>Full scope procedures:</b>				
Eastbourne Borough Council	>99%	>99%	BDO UK	Code audit of the financial statement prepared under CIPFA Code of Practice on Local Authority Accounting
<b>Full scope procedures:</b>				
Eastbourne Homes Limited	<1%	<(1)%	RSM	<p>Analytical review of financial statements prepared by the component entity assessed against expectations and prior year amounts.</p> <p>Specific review of calculation of pension fund net liability prepared by the actuary and agreement of management fee income against the Council's expenditure.</p>
Eastbourne Housing Investment Company Limited	<1%	<(1)%	RSM	<p>We will review the ISA 260 completion reports by the component auditor and consider the impact on our group audit.</p> <p>We will consider the accounting implications of conversion from FRS102 to IFRS based accounts under CIPFA's Code of Practice on Local Authority Accounting.</p>

# OVERALL AUDIT STRATEGY

## Continued

### Risks and planned audit responses

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

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

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

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

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

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

### Internal audit

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

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

# KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk ■ Other Issue

## AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>We will review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</p> <p>We will obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual.</p>	Not applicable.
Revenue recognition	<p>Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the completeness, accuracy and existence of income.</p> <p>We consider there to be a significant risk in relation to the existence and completeness of fees and charges recorded in the Comprehensive Income and Expenditure Statement (CIES).</p>	<p>We will test an increased sample of fees and charges income to underlying documentation and confirm that income has been recorded in the correct period, and that all income that should have been recorded has been recorded.</p>	Not applicable.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Changes in the presentation of the financial statements</p>	<p>The Code of Practice on Local Authority Accounting requires a change to the presentation of some areas of the financial statements. This includes:</p> <ul style="list-style-type: none"> <li>• Change to the format of the Comprehensive Income and Expenditure Statement (CIES) based on the Council's directorate structure and reporting to members</li> <li>• Change to the format of the Movement in Reserves Statement (MIRS)</li> <li>• New Expenditure and Funding Analysis (EFA) note</li> <li>• Change to the Segmental Reporting note</li> <li>• New Expenditure and Income analysis note.</li> </ul> <p>These changes will require a restatement of comparative figures.</p> <p>There is a risk that these presentational changes are not correctly applied in the financial statements.</p>	<p>We will review the draft financial statements and check these against the CiPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements.</p>	<p>Not applicable.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Valuation of non-current assets</p>	<p>Local authorities are required to ensure that the carrying value of non-current assets is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.</p> <p>The Council appointed an external valuer to carry out a full revaluation as at 1 April 2016, and a further desktop review will be performed as at 31 March 2017.</p> <p>Due to the significant value of the Council's non-current assets, and the high degree of estimation uncertainty where valuations are based on assumptions, there is a risk over the valuation of non-current assets.</p>	<p>We will review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert.</p> <p>We will confirm that the basis of valuation for assets is appropriate. We will confirm that an instant build modern equivalent asset basis has been used for assets valued at depreciated replacement costs and that investment properties and surplus assets have been valued based on 'highest and best use.'</p> <p>We will review valuation movements against indices of price movements for similar classes of assets and follow up valuation movements that appear unusual against indices, or any assets which may have had material movements through the year.</p>	<p>We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Council.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Recharges between the Council and Lewes District Council</p>	<p>The Council is currently in the process of undergoing a major Joint Transformation Programme (JTP) with Lewes District Council to merge frontline services and back office functions.</p> <p>In February 2017, the vast majority of Lewes District Council employees were transferred onto the Council's payroll and there are recharging arrangements in place for each of the five service areas (Corporate Management Team, Legal Services, Information Technology, Human Resources and Asset Management).</p> <p>There is a risk over the completeness and accuracy of the payroll information transferred from the Lewes payroll system (Midland Trent) onto the Eastbourne payroll system (Chris21).</p> <p>On a monthly basis the Council will calculate, based on these arrangements, the amount to be recharged via invoice back to Lewes District Council. There is a risk over the completeness and accuracy of these recharges.</p> <p>As the risks and rewards of these arrangements are shared by both Councils, the transactions should be accounted for on a net basis within each Council's financial statements. There is a risk that these transactions may not be correctly presented in the Council's financial statements, thereby overstating income and expenditure.</p> <p>Manual adjustments will be required by the Council in calculating the senior officers' remuneration disclosures. There is a risk over the completeness and accuracy of these disclosures.</p>	<p>We will review the work performed by internal audit to test the migration of data from the Lewes to Eastbourne payroll systems, and associated reconciliations. We will carry out further testing as necessary to obtain assurance over the completeness and accuracy of the employee data transferred.</p> <p>We will review the reasonableness and accuracy of the recharge arrangements in place between the Councils and the manual adjustments made to record shared employee and other costs on a net accounting basis.</p> <p>We will review the senior officer's remuneration note to ensure that the disclosures for senior managers and employees earning over £50,000 are complete and accurate and that the Council's share of the costs are in line with the relevant recharge arrangement.</p>	<p>Not applicable.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Group Accounts	<p>The Council holds 49% of the voting rights and 21% of the non-voting rights in Welbeing and 25% of the shares in CloudConnx. These are considered to be associates, as the Council has significant influence but not control over these organisations. Historically the Council has not included these organisations in its Group Accounts as their transactions have not been material. Welbeing has now completed its fourth year of operation and it is possible that accumulated retained profits have increased to a material level. This would require the transactions in both Welbeing and CloudConnx, if cumulatively material, to be included in the Council's Group Accounts, using equity accounting.</p> <p>There is a risk that income, expenditure, assets and liabilities in the Group Accounts will not be complete if the Council does not account for its share of material transactions in Welbeing and CloudConnx.</p>	<p>We will review the financial statements and management accounts of Welbeing and CloudConnx, to determine if they need to be included in the Council's Group Accounts on the grounds of materiality.</p> <p>We will review the Group Accounts and check that assets, liabilities, income and expenditure and relevant disclosures have been consolidated into the Council's Group Accounts where necessary.</p>	Not applicable.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Pension liability assumptions	<p>The net pension liability comprises the Council's share of the market value of assets held in the East Sussex County Council's Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We will agree the disclosures to the information provided by the pension fund actuary.</p> <p>We will review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p> <p>We will obtain assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.</p> <p>We will check whether any significant changes in membership data has been communicated to the actuary.</p>	<p>We will agree the disclosures to the report received from the actuary.</p> <p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>
Fraud and Error	<p>We are required to discuss with you the possibility of material misstatement, due to fraud or error, and to reassess this throughout the audit.</p> <p>We are informed by management that there have not been any cases of material fraud or error, to their knowledge.</p>	<p>We will continue to consider throughout the audit process and discuss with management.</p>	<p>Not applicable.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 31</p> <p>Sustainable finances</p>	<p>The update to the Medium Term Financial Strategy (MTFS) to 2019/20 has forecast further reductions in Government core grant funding, falling New Homes Bonus funding from 2017/18 and annual inflationary and pay award pressures. Budget gaps have been identified in 2016/17 (£0.6 million), 2017/18 (£1.1 million), 2018/19 (£1.0 million) and 2019/20 (£1.0 million), resulting in an average level of required savings of £940,000 per annum over the four year period.</p> <p>The Council currently has a number of major development / transformation programmes in place to either help facilitate these savings or create additional revenue streams in the medium term, to close the budget gaps.</p> <p>These programmes include:</p> <ul style="list-style-type: none"> <li>• Joint transformation programme with Lewes District Council to provide joint services</li> <li>• Major project for the enhancement of the current Devonshire Park Complex</li> <li>• Residential and commercial leasing by Eastbourne Housing Investment Company Limited</li> <li>• Procurement for the redevelopment of the Sovereign Centre</li> <li>• Procurement for the redevelopment of the Wish Tower restaurant</li> <li>• Procurement for a joint venture energy scheme.</li> </ul> <p>There is a risk that the MTFS does not adequately take account of the investment costs and savings associated with these projects, and that the Council does not have appropriate arrangements to monitor progress in delivering benefits from these projects against the MTFS.</p>	<p>We will review the assumptions used in the MTFS for investment costs and savings associated with major development / transformation programmes.</p> <p>We will review the Council's arrangements for monitoring the progress of these programmes against the budgeted savings targets.</p>	<p>Not applicable</p>

# INDEPENDENCE

## INDEPENDENCE

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

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ending 31 March 2017.

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

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

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

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

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# FEES

## FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2017 are:

	2016/17 £	2015/16 £
Audit fee	67,781	67,781
Certification fee (Housing benefits subsidy claim)	8,297	8,297
<b>Total audit and certification fees:</b>	<b>76,078</b>	<b>76,078</b>
Fees for audit related services (Pooled capital receipts return)	1,500	1,500
Fees for non-audit services *	-	2,500
<b>TOTAL FEES</b>	<b>77,578</b>	<b>80,078</b>

### Our fee is based on the following assumptions

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

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

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

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

\* BDO tax subscription service which ended in 2015/16.

Audit fee invoices are being raised in quarterly instalment of £16,945.25 during 2016/17.

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

# APPENDIX I: MATERIALITY

## CONCEPT AND DEFINITION

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

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## CALCULATION AND DETERMINATION

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

# APPENDIX I: MATERIALITY

## Continued

### REASSESSMENT OF MATERIALITY

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

### UNADJUSTED ERRORS

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

## APPENDIX II: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
Janine Combrinck - Engagement lead	2 <sup>nd</sup> year as engagement lead and 2 years as project manager	31 March 2021
Lucy Trevett - Project manager	1 <sup>st</sup> year as project manager	31 March 2027

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 9

<b>Body:</b>	AUDIT AND GOVERNANCE COMMITTEE
<b>Date:</b>	8th March 2017
<b>Subject:</b>	Internal Audit Report to 31 <sup>st</sup> December 2016
<b>Report Of:</b>	Internal Audit Manager
<b>Ward(s)</b>	All
<b>Purpose</b>	To provide a summary of the activities of Internal Audit for the third quarter of the financial year 2016/17.
<b>Recommendation(s):</b>	That the information in this report be noted and members identify any further information requirement and timescales.
<b>Contact:</b>	Jackie Humphrey, Internal Audit Manager, Telephone 01323 415925 or internally on extension 5925. E-mail address jackie.humphrey@eastbourne.gov.uk

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## 1.0 Introduction

- 1.1 The work of Internal Audit is reported on a quarterly basis to demonstrate work carried out compared to the annual plan and to report on the findings of audit reports issued since the previous meeting of the committee.
- 1.2 The annual audit plan for 2016/17 was agreed by the Audit and Governance Committee in March 2016.

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

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

Open Revenues	Performing Well
Debtors (Annual 2015/16)	Performing Excellently
Planning (process)	Performing Well
Housing Rents (Annual 2015/16)	Performing Well
Creditors (Annual 2015/16)	Performing Adequately
Rent and Deposit Loans	Performing Well
Homelessness	Performing Adequately
Access to Information	Performing Well
Economic Development	Performing Excellently
Right To Buy	Performing Well
Capital Programme	Performing Excellently
Car Loans and Leasing	Performing Well
Internet/Intranet/Telephone payments	Performing Adequately
Council Tax (Annual 2016/17)	Performing Excellently

NNDR (Annual 2016/17)	Performing Excellently
Performance Management	Performing Well

### Levels of Assurance - Key

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

2.2 No reports have been issued in this quarter with an assurance level of inadequate.

2.3 Appendix A shows the work carried out against the annual plan to the end of December 2016. The following comments explain the main points to be noted from the table:

#### Previously reported:

- Following the external auditor’s qualification of the 2014/15 Housing Benefit final subsidy claim the DWP required further work to be undertaken in light of errors found due to the data migration between Northgate and Open Revenues.
- Right To Buy – there was a change in the Auditor carrying out this review. Therefore extra time was spent on the new Auditor familiarising themselves with the subject and the work that had already been carried out.
- Rent and Deposit Loans and Homelessness – research carried out by the Auditor into legislation in order to ensure a correct understanding.
- Leisure Trust – time was put aside to provide input into this review. However it has been carried out solely by the Head of Audit at Lewes.
- Box Office Computer System – this has been postponed until 17/18 as a new system is being purchased.

#### Further points:

- Some annual reviews commenced a little earlier this year. This was in response to a request by the Manager, Customer First (Account Management) that we avoid their busiest time in the lead up to the end of the financial year.
- IT reviews were delayed because the Head of ICT is very busy with numerous projects across the two authorities. Efforts are being made to complete these before the year end though the completion of the annual audits must take priority.

- 2.4 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. NB. These are the assurance levels that were given at the time the final report was issued and do not reflect recommendations that have been addressed.
- 2.5 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.
- 2.6 Appendix C was reviewed by CMT. A follow up of Events will be carried out in May to allow new procedures to become embedded.

A follow up of Licences was carried out in November. This revealed one outstanding recommendation had been addressed and work was progressing on addressing the final two outstanding recommendations. A further follow up will be carried out in March.

### **3.0 Corporate Fraud**

- 3.1 Work has been undertaken on a review of cases where Council Tax Reduction is claimed but no other benefits. This involved almost 3,500 cases. In particular, those cases that had not been reviewed or updated for two years were given closer review. These were viewed to see if anything required updating or whether any obvious errors were included. This work involved desk based review and visiting customers. A total of 301 cases were given closer scrutiny. Although this project is not yet complete so far Weekly Incorrect Benefits of £20,232 and overpayments of £39,782 have been identified.
- 3.2 The team are currently working on a Tenancy Occupation review. This was instigated as it became apparent that the data held on Orchard was out of date. Letters were sent out in December to every tenant to ask them to confirm who was in their household as well as other details. 3460 letters were sent out. As the completed forms are returned they are being scanned by the post room and are then reviewed against the entries on Orchard by the Corporate Fraud team. So far 990 forms have been fully processed of which 410 required information on Orchard to be amended.
- 3.3 NFI datasets have been submitted for matching and the resulting reports have been received. Work will now begin on checking the data.
- 3.4 All Right To Buy applications are still being reviewed by Corporate Fraud to ensure that all information is correct and to check on the financing of the sale to check that money laundering is not taking place. Work is also being undertaken with the Lewes fraud team to compare processes and arrive at a shared best practice. So far a total of 16 applications have been withdrawn because of this work saving the Council a total of £1,208,524 in discounts which would have been allowed.
- 3.5 A table showing the work of the team and the savings made can be found at

Appendix D.

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

- 4.1 The following are points taken from the Hub's internal report to their Board.
- 4.2 Both East Sussex County Council/Brighton and Hove City Council and Lewes District Council/Eastbourne Borough Council are involved in merging services. For East Sussex/Brighton this is a merger with Surrey County Council through the Orbis project. Currently the impact of this on the Hub is unknown but it is likely to result in the consolidation of Hub partners into fewer but larger counter fraud services.
- 4.3 Hub partners remain independent, with their own activity plans and counter fraud priorities that reflect the profiles of their respective authorities. It is felt that this has affected the Hub's ability to act in a co-ordinated way at times.
- 4.4 At the next meeting of the Hub, fraud risks and an activity plan for 17/18 will be considered with a view to identifying possible joint projects on areas of shared concern.
- 4.5 The Hub is keen to share best practice and has already done so by adopting the practice of Epping Forest District Council on Right to Buy fraud. Other areas of best practice are being sought.
- 4.7 The projected savings for the Hub in 16/17 and the actual for the three quarters of the year are shown on Appendix E.

#### **5.0 Joint Working Update**

- 5.1 The Internal Audit Manager at Eastbourne and the Head of Audit and Procurement at Lewes have been working on a structure for delivering services at both authorities that allows for resilience and sharing knowledge. A proposed structure, updated job descriptions and person specs are just being completed and will be handed over to HR for the next stage in the process.

#### **6.0 Consultation**

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

#### **7.0 Resource Implications**

- 7.1 Financial – Delivered within the approved budget for Internal Audit
- 7.2 Staffing – None directly as a result of this report.

#### **8.0 Other Implications**

- 8.1 None

#### **9.0 Summary of Options**

9.1 None

**10.0 Recommendation**

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

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

**Background Papers:**

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

*None*

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			Planned days	Actual days	Reason for Variance
<b>ANNUAL REVIEWS</b>	Benefits	Governance	15	11.6	In draft
	Cash and Bank	Governance	10	4.9	Ongoing
	Council Tax	Governance	10	10.1	Completed
	Creditors	Governance	15	3.5	2.6 of which 15/16 work
	Debtors	Governance	15	0.7	15/16 work
	Housing Rents	Governance	15	8.8	In draft
	Main Accounting	Governance	10	0.1	15/16 work
	NNDR	Governance	10	10.3	Completed
	Payroll	Governance	10	0.6	Ongoing
	Treasury Management	Governance	10		
	IT	Governance	4		
	Theatres Reconciliation	Governance	5	0.4	Ongoing
	Claims work		100	117.4	15/16 extra work requested
			<b>229</b>	<b>168.4</b>	

<b>Page 45</b>	Contingency		40		
	Special Investigations/advice		40	15.9	
	Follow ups re audits carried out in previous year		30	37.8	
				<b>110</b>	<b>53.7</b>

<b>CARRY FORWARD DS FROM 15/16 PLAN</b>	Right to Buy	Operational	10	<b>15.7</b>	Completed - changed auditor
	IT Contract	IT	10	<b>5.6</b>	<i>On hold</i>
	Change Controls	IT	5	<b>5.1</b>	<i>On hold</i>
	Performance Management	Operational	10	<b>10.5</b>	Completed
			<b>35</b>	<b>36.9</b>	

<b>REQUESTS</b>	Prevent and Detect	Joint Lewes	5		
	Leisure Trust	Joint Lewes	5	0.1	Carried out by Lewes Head of Audit
				<b>10</b>	<b>0.1</b>

<b>HIGH RISK</b>	Buildings H & S (asbestos, legionella, gas)	Operational	10	9	Ongoing
	VAT	Operational	10	1.6	
				<b>20</b>	<b>9</b>

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			Planned days	Actual days	Reason for Variance
<b>MEDIUM RISK REVIEWS</b>	Private Housing Grants	Operational	10		
	Rent and Deposit Loans	Operational	10	15.3	Completed - researching legislation
	Planning Process	Operational	10	11.2	Completed
	Engineering	Operational	10	0.1	
	Homelessness/Temporary Accommodation	Operational	10	17.8	Completed - researching legislation
	Box Office Computer System	IT	10	1.5	Postponed to 17/18 as getting a new computer system
	Access to Information	Operational	15	15.7	Completed
	Security of Data Movement	IT	5	4.5	Ongoing
	Economic Development	Operational	8	8.2	Completed
Capital Programme	Operational	10	10.7	Completed	
			<b>98</b>	<b>85</b>	
<b>LOW RISK</b>	Car Loans and Leasing	Operational	10	10.7	Completed
	Internet/Intranet/Phone payments and PCIDSS	IT/Operational	10	10.8	Completed
			<b>20</b>	<b>10.7</b>	
<b>PLAN TOTAL</b>			<b>522</b>	<b>363.8</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.

**Quarter 3**

<b>AUDIT REVIEW</b>	<b>ASSURANCE LEVEL</b>	<b>ISSUES NOTED</b>	<b>Level at follow up</b>
Internet, intranet, telephone payments and PCIDSS	Adequate	<ul style="list-style-type: none"> <li>• PCIDSS self-assessment had not been completed.</li> <li>• Card payments taken over the phone without a third party handling card details.</li> </ul>	Due February

**Previously reported**

<b>AUDIT REVIEW</b>	<b>ASSURANCE LEVEL</b>	<b>ISSUES NOTED</b>	<b>Level at follow up</b>
Creditors (Annual 15-16)	Adequate	<ul style="list-style-type: none"> <li>• Payments over £25k were not always checked promptly by a senior officer</li> <li>• Purchase order and Goods Received Notes not being raised in a timely manner.</li> </ul>	Annual audits not subject to follow ups
Homelessness/Temporary Accommodation	Adequate	<ul style="list-style-type: none"> <li>• Homelessness Strategy has not been reviewed since being published in 2008</li> <li>• Incorrect data was input into a return on Homelessness</li> </ul>	Due November

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

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	QUARTER ONE				QUARTER TWO				QUARTER THREE				QUARTER FOUR				YEAR TOTAL			
	Cases	Income	Savings	Cost of Corp Fraud	Cases	Income	Savings	Cost of Corp Fraud	Cases	Income	Savings	Cost of Corp Fraud	Cases	Income	Savings	Cost of Corp Fraud	Cases	Income	Savings	Cost of Corp Fraud
<b>NATIONAL FRAUD INITIATIVE</b>																				
Number of cases open	55																55			
Number of cleared cases	13																13			
Number of errors identified	10																10			
Number of frauds identified	0																			
Overpayments identified			8,636.68																8636.68	
<b>HOUSING BENEFIT MATCHING SERVICE</b>																				
Number of open matches	0				15				7								22			
Number of closed matches	118				152				77								347			
Overpayments identified			12,651.85				21,354.80				7,643.25								41,649.90	
Weekly incorrect benefit identified			26,790.72				44,465.92				19,925.12								91,181.76	
<b>OTHER INVESTIGATIONS</b>																				
Number of open investigations	37								39								76			
Number of closed investigations	46				70				66								182			
Overpayments identified			21,504.88				9,314.01				29,033.13								59,852.02	
Weekly incorrect benefit identified			15,473.60				16,878.72				40,306.24								72,658.56	
Removal of SPD saving			961.17																961.17	
Increase in Council Tax liability			2,002.03				2,668.22				3,453.81								8,124.06	
Recovery of Council property							18,000.00												18,000.00	
Income from court costs																			0.00	
Income from Adpen collection																			0.00	
Right To Buy interventions							759,000.00				449,524.00								1,208,524.00	
<b>TOTALS</b>	<b>279</b>	<b>£0.00</b>	<b>£88,020.93</b>	<b>£30,857.02</b>	<b>237</b>	<b>£0.00</b>	<b>£112,681.67</b>	<b>£28,575.83</b>	<b>189</b>	<b>£0.00</b>	<b>£100,361.55</b>	<b>£32,936.98</b>	<b>0</b>	<b>£0.00</b>	<b>£0.00</b>	<b>£0.00</b>	<b>705</b>	<b>£0.00</b>	<b>£1,509,588.15</b>	<b>£92,369.83</b>

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	To end Sept		
	Forecasted performance 16/17 (£,000)	Actual performance First two quarters of year (£,000)	Variance (£,000)
Reduction in procurement	500	0	-500
Social housing tenancy fraud	500	244.9	-255.1
Right to Buy fraud	75	2036	1961
CTRS fraud	50	50.9	0.9
CT discount fraud	100	6.1	-93.9
NNDR fraud	50	6.1	-43.9
Grant fraud	5	0	-5
Blue Badge fraud	10	82.5	72.5
Direct Payments	0	0	0
	<b>1,290</b>	<b>2,426.5</b>	<b>1,136.5</b>
<b>Other work not forecast</b>			
Housing Benefit	0	198	198
Employment fraud	0	1.5	1.5
Rental recovery	0	10	10
	<b>0</b>	<b>209.5</b>	<b>209.5</b>
<b>TOTAL</b>	<b>1,290.0</b>	<b>2,636.0</b>	<b>1,346.0</b>

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<b>Body:</b>	AUDIT AND GOVERNANCE COMMITTEE
<b>Date:</b>	08 MARCH 2017
<b>Subject:</b>	Draft internal audit plan for 2017/18
<b>Report Of:</b>	Internal Audit Manager
<b>Ward(s)</b>	All
<b>Purpose</b>	To propose an internal audit plan for 2017/18
<b>Recommendation(s):</b>	To consider and adopt the proposed plan.
<b>Contact:</b>	Jackie Humphrey, Internal Audit Manager, Telephone 01323 415925 or internally on extension 5925. E-mail address jackie.humphrey@eastbourne.gov.uk

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## **1.0 Introduction**

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

## **2.0 The Audit Universe**

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

## **3.0 Production of the draft audit plan for 2017/18**

- 3.1 The internal audit plan for each year begins by calculating the number of audit days available.
- 3.2 There are twelve "managed" audits which have to be undertaken every year in order to satisfy the external auditors. These are:-

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

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

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

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

#### **4.0 Draft audit plan for 2017/18**

- 4.1 The draft audit plan for the new year has to be produced before the end of the previous audit year. A judgement therefore has to be made as to whether any outstanding reviews are likely to be completed. As the focus of the audit work at this time of year turns to completion of the annual audits, all the outstanding reviews have been carried forward to the new year plan.
- 4.2 As a new piece of software was being introduced for the Theatres box office it was agreed that this piece of work would be postponed until 17/18.
- 4.3 The risk assessment was used to consider which audits should be included in the plan for the new financial year. There are three high risk reviews listed in the risk assessment. One is being completed in 16/17 and the other is a carry forward into 17/18. The other high risk audit is also included in the 17/18 draft plan.
- 4.4 The remainder of the plan is made up of medium and low risk areas which have not been audited since 2012.
- 4.5 This year the draft plan reviews were discussed with the Head of Audit and Procurement at Lewes. Some areas of joint work were identified and some audits in the Eastbourne draft plan have been extended in time to enable the reviews to cover Lewes as well as Eastbourne.

4.6 The draft plan, as agreed with the Lewes team, can be found at Appendix C.

4.7 The following is pointed out in the draft plan:

- IT Controls and Change Controls – these are both carry forwards from the 16/17 plan. As IT now covers both authorities the number of days allocated has been slightly increased and the work will cover both Eastbourne and Lewes.
- Contract Management and Monitoring – this has been increased to a 20 day review with a further 5 days being included in the Lewes plan. This will give a total of 25 days to cover a sample of contracts across both authorities.
- Joint audits – these are the shared work agreed with Lewes. RIPA will be led by Lewes with their listing eight days and Eastbourne just two. Safeguarding will be led by Eastbourne with us listing 10 days and Lewes just two. Finally the Head of Audit and Procurement at Lewes intends to carry out work on Joint Ventures with Lewes listing 20 days and Eastbourne just two.

## **5.0 Consultation**

5.1 The Corporate Management Team.

## **6.0 Resource Implications**

6.1 Financial – Delivered within the approved budget for Internal Audit

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

## **7.0 Other Implications**

7.1 None

## **8.0 Summary of Options**

9.1 None

## **9.0 Recommendation**

9.1 To consider and adopt the proposed plan.

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

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**Background Papers:**

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

*None*

APPENDIX A

AUDIT RESOURCE FOR THE 2017/18 AUDIT PLAN					
	Totals	Internal Audit Manager	Revenues & Benefits Auditor	Internal Auditor	Internal Auditor
FTE POSTS	3.60	1.00	1.00	1.00	0.60
Lewes		0.8			
DAYS AVAILABLE	884	208	260	260	156
<b>PLANNED AUDITS</b>					
Annual Governance Audits	129				
Grant Claims / National Fraud Initiative	100				
Audit Advice / Special Investigations	40				
Follow ups	30				
High Risk Audits	20				
Carry forwards	51				
Medium Risk Audits	44				
Low Risks	50				
Joint audits	17				
Requests	10				
Contingency	30				
<b>Total Chargeable Days</b>	<b>521</b>				
<b>NON-CHARGEABLE TIME</b>					
Supervision and management	50	50			
Seminars and training	33	11	6	6	10
Team meetings	5	5			
Performance appraisals	0				
Strategic, Annual and Business Planning	5	5			
Annual Leave	98	27	27	27	17
Public Holidays	36	9	9	9	9
Concessionary Leave	7	2	2	2	1
Sickness	18	5	5	5	3
Monthly / Quarterly reports on Audit	10	10			
Maternity / Paternity leave	0				
Vacancies	0				
Admin / Reading / Elections	61	20	16	15	10
External Audit Liaison	15	10	5		
<b>Total Non-Chargeable Days</b>	<b>338</b>	<b>154</b>	<b>70</b>	<b>64</b>	<b>50</b>
RISK MANAGEMENT	20				
PEER REVIEWS	5				
<b>TOTAL EBC RESOURCE REQUIREMENT</b>	<b>884</b>				
<b>TOTAL EBC AVAILABLE DAYS</b>	<b>884</b>				
EHL INTERNAL AUDITING DAYS	36				

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Appendix B - Risk Assessment

Service Name	Audit Type	Transactions Score	Weighting x 3	Internal Control Score	Weighting x 3	System Changes Score	Weighting x 2	Risk Level	Planned Time	Last audited / followed up
Buildings (security/fire/asbestos/gas/legionella)	Review	5	5	4	38	8	NYA	Ongoing 16/17		
VAT	Review	5	5	2	34	8	NYA			
Contract Managing and Monitoring	Review	5	5	2	34	9	Mar-11			
Private Housing Grants	Review	4	5	2	31	8	NYA	In 16/17 will c/f if not completed		
Engineering	Review	3	4	2	25	10	NYA	In 16/17 will c/f if not completed		
Box Office Computer System	Computer	5	3	3	30	5	Jul-09	postponed to 17/18		
Security of Data Movement	Computer	4	1	3	21	5	Nov-10	In 16/17 will c/f if not completed		
W360	Computer	5	2	4	29	15	Sep 12			
Asset Management	Review	5	3	4	32	15	Nov-12	17/18		
Cafi - Debtors	Computer	5	1	4	26	10	Nov-12			
Cafi - General Ledger	Computer	5	1	3	24	4	Nov-12			
Theatres (Box office/FOH/ Marketing)	Review	5	3	2	28	20	Feb-13			
Caf - Purchasing	Computer	5	1	4	26	25	Jul-13			
Housing (inc EHL contract)	Review	5	2	3	27	15	Oct-13			
Cafi - Creditors	Computer	5	1	4	26	15	Oct-13			
Health & Safety	Review	5	1	3	24	20	Oct-13			
Devolved Budgets	Review	3	2	4	23	10	Oct-13			
Land Charges & Searches	Review	4	2	4	26	5	Dec-13			
Community Grants	Review	4	1	3	21	10	Jan-14			
Tenancy Management	Review	4	5	2	31	10	Feb-14			
Information Governance inc records management	Review	3	5	3	30	15	Feb-14			
Leaseholder Management and Recharges	Review	4	2	2	22	10	Feb-14			
Civil Contingency	Review	3	2	3	21	15	Mar-14			
Redoubt	Review	5	2	2	25	20	May 14			
Daily Cash Reconciliations at venues	Review	4	2	2	22	10	Jun-14			
Project Management Control	Review/Comp	3	3	3	24	15	Jul-14			
Human Resources (Pers/recruit/training)	Review	5	2	3	27	15	Sep 14			
Catering	Review	4	3	4	29	10	Jan-15			
Sports and Community Centres	Review	5	2	2	25	10	Mar-15			
Petty Cash	Review	3	3	2	22	10	Mar-15			
GIS System & LLPG	Computer	3	3	3	24	5	Apl 15			
Public Services Network	Computer	3	2	3	21	10	Apl 15			
Conferences & Group Travel	Review	3	3	2	22	10	May-15			

**Appendix B - Risk Assessment**

Open Spaces	Review	4	3	2	25	10	Jun-15			
Licenses - Entertainment & Taxi	Review	3	4	2	25	10	Jul-15			
Planning System	Computer	3	3	3	24	10	Jul-15			
Leasing & Licensing	Review	5	3	2	28	15	Aug-15			
Internet Controls	Computer	3	3	3	24	10	Aug-15			
Car Parking inc. Parking Permits	Review	3	2	3	21	10	Aug-15			
Telephones	Review	4	2	3	24	10	Sep-15			
Waste Contract	Review	4	1	4	23	10	Oct-15			
CHRIS Computer System	Computer	3	2	3	21	5	Oct-15			
Events & Attractions	Review	5	4	2	31	15	Nov-15			
Seafront Services	Review	2	4	2	22	10	Nov-15			
Procurement (Purchasing and contracts)	Review	5	3	2	28	10	Nov 15			
Software Compliance	Computer	3	3	2	22	5	Nov-15			
Business Continuity Planning (Incl IT)	Review	3	5	3	30	15	Jan-16			
Cafi - Bank Reconciliations	Computer	5	1	4	26	10	Jan-16			
Open Revenues	Computer	5	3	4	32	10	May-16			
Planning	Review	3	4	3	27	10	May-16			
Homelessness/Temp Accommodations	Review	4	3	3	27	10	Jul-16			
Rent and Deposit Loans	Review	3	3	3	24	8	Aug-16			
Access to Information	Review	3	2	3	21	15	Aug-16			
Right To Buy	Review	5	3	4	32	8	Oct-16			
Internet/intranet/telephone payments/PCIDSS	Computer	5	4	1	29	10	Nov-16			
Capital Programme	Review	5	1	2	22	15	Nov-16			
HEDP	Review	3	5	3	30	10	Dec-16			
Performance Management	Review	3	2	3	21	15	Dec 16			
IT Contract	Computer	3	1	1	14	10	Jul-08	In 16/17 will c/f to 17/18 if not completed		
Change Controls	Computer	3	1	2	16	5	Nov-09	In 16/17 will c/f to 17/18 if not completed		
Insurances	Review	3	1	2	16	10	Feb-12			
Corporate Strategy/Priorities/Plan	Review	3	1	3	18	10	Jun-12			
Development Control & S106	Review	4	1	2	19	20	Nov-12			
Partnerships	Review	4	1	2	19	15	Nov-12			
Elections and Electoral Register	Review	3	1	4	20	10	Dec-12			
Postal Services	Review	3	1	4	20	10	Mar-13			
APP	Computer	3	1	3	18	10	Mar-13			
Covalent	Computer	3	1	2	16	5	Mar-13			
Cemeteries & Crematorium	Review	5	1	1	20	10	Jun-13			
Imp. Grants (DFG's) & HMO Licencing	Review	3	1	1	14	10	Aug-13			
Safeguarding	Review	2	1	2	13	10	Mar-14			



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DRAFT AUDIT PLAN 2017/18		
ANNUAL GOVERNANCE AUDITS	Audit type	Planned days
Benefits	Financial	15
Cash and Banking	Financial	10
Council Tax	Financial	10
Creditors	Financial	15
Debtors	Financial	15
Housing Rents	Financial	15
Main Accounting	Financial	10
NDR	Financial	10
Payroll	Financial	10
Treasury Management	Financial	5
ICT	IT	4
Theatres	Financial	5
<b>TOTAL</b>		<b>124</b>
<b>GRANT CLAIMS / NFI</b>		<b>100</b>
<b>AUDIT ADVICE / SPECIAL INVESTIGATIONS</b>		<b>40</b>
<b>FOLLOW UPS</b>		<b>30</b>
<b>CONTINGENCY</b>		<b>38</b>
<b>CARRY FORWARDS FROM 16/17 PLAN</b>		
IT Contract	IT	10
Change Controls	IT	10
VAT	Operational	8
Private Housing Grants	Operational	8
Engineering	Operational	10
Box Office Computer System	Operational	5
<b>TOTAL</b>		<b>51</b>
<b>HIGH RISK AUDITS</b>		
Contract Managing and Monitoring	Operational	20
<b>TOTAL</b>		<b>20</b>
<b>REQUESTS</b>		
Corporate Complaints	Operational	10
<b>TOTAL</b>		<b>10</b>
<b>MEDIUM RISK AUDITS</b>		
W360	IT/Operational	15
Asset Management	Operational	15
Café Debtors	Operational	10
Café GL	Operational	4
<b>TOTAL</b>		<b>44</b>
<b>LOW RISK AUDITS</b>		
Insurances	Operational	10
Corporate Strategy/Priorities	Operational	10
Development Control and CIL	Operational	15
Partnerships	Operational	15
<b>TOTAL</b>		<b>50</b>
<b>JOINT AUDITS</b>		
RIPA	Operational	2
Safeguarding	Operational	10
Joint ventures	Operational	2
<b>TOTAL</b>		<b>14</b>
<b>CHARGEABLE TIME</b>		<b>521</b>
<b>NON-CHARGEABLE TIME</b>		<b>363</b>
<b>OVERALL TOTAL</b>		<b>884</b>

Will also cover Lewes

Will also cover Lewes

Will also cover Lewes - Lewes noting 5 days

Lewes 8 days

Lewes 2 days

Lewes 20 days

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<b>Body:</b>	AUDIT AND GOVERNANCE COMMITTEE
<b>Date:</b>	8 <sup>th</sup> March 2017
<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 7<sup>th</sup> February 2017 to consider whether any changes were required.
- 2.2. In discussion it was agreed that an extra control should be added to SR\_008 – Failure to meet regulatory or legal requirements that would reflect risks around the Joint Transformation Programme (JTP). It was felt that a note was required to ensure that adequate provisions are in place, when JTP changes are made, to check the activity relating to legal responsibilities has been considered.
- 2.3. Therefore a new control has been added at 7. under SR\_008 (see page 7 of attached risk register) which reads "JTP Board considers activity mapping, ensuring that it covers regulatory/legal and main financial matters".
- 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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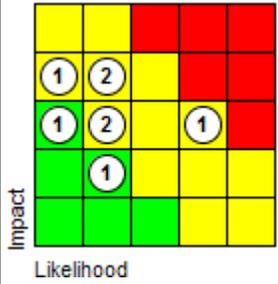
# **STRATEGIC RISK REGISTER**

## **FEBRUARY 2017**



<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.	4	4	16	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 Joint Transformation Programme that can respond to changes in the environment.	CMT	2	3	6	Amber	02-May-2017
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 Joint Transformation Programme that can respond to changes in the environment.	CMT	4	3	12	Amber	02-May-2017
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-May-2017

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. Joint Transformation 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-May-2017
SR_005	Not being able to sustain a culture that supports organisational objectives and future	1. Decline in performance. 2. Higher turnover of staff.	4	4	16	1. Deliver a fit for purpose organisational culture through Joint Transformation programme. 2. Continue to develop our	CMT	2	4	8	Amber	01-May-2017

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
	development.	3. Decline in morale. 4. Increase in absenteeism. 5. Service failure 6. Increased possibility of fraud.				performance management capability to ensure early intervention where service and/or cultural issues arise.  3. Continue to develop communications through ongoing interactions with staff.						
SR_006	Council prevented from delivering services for a prolonged period of time.	1. Denial of access to property 2. Denial of access to technology/information 3. Denial of access to people	3	5	15	1. Regularly reviewed and tested Business Continuity Plans. 2. Regularly reviewed and tested Disaster Recovery Plan. 3. Joint Transformation programme has created a more flexible, less locationally dependent service architecture. 4. Adoption of best practice IT and Asset Management policies and procedures.	CMT	2	4	8	Amber	01-May-2017
SR_007	Council materially impacted by the medium to long term effects of	1. Service profile of the Council changes materially as a result of the impact of the event.	3	5	15	1. Ongoing and robust risk profiling of local area (demographic and geographic).	CMT	1	3	3	Green	01-May-2017

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
	an event under the Civil Contingencies Act	2. Cost profile of the Council changes materially as a result of the impact of the event.				2. Review budget and reserves in light of risk profile.  3. Working in partnership with other public bodies.						
SR_008	Failure to meet regulatory or legal requirements	1. Credibility of the Council is negatively impacted.  2. Deterioration of financial position as a result of regulatory activity/penalties.  3. Deterioration of service performance as a result of regulatory activity/penalties.  4. Increased probability of prosecutions and compensation claims as a result of inadequate management of Health and Safety duties.  5. Possibility of fraud and bribery.	3	4	12	1. Developing, maintaining and monitoring robust governance framework for the Council.  2. Building relationships with regulatory bodies.  3. Develop our Performance Management capability to ensure early intervention where service and/or cultural issues arise.  4. Take forward the recommendations of the CIPFA Asset Management report to ensure we meet regulatory/legal requirements regarding the management of property.  5. Ensure there is full understanding the impact of new legislation (e.g. Localism Act).	CMT	1	4	4	Amber	01-May-2017

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		<p>6. Ensure compliance with legislation such as Data Protection and Safeguarding.</p> <p>7. Entering into contracts etc. without having adequate finance in place.</p>				<p>6. All managers are required to abide by the Council's procurement rules.</p> <p>7. JTP Board considers activity mapping, ensuring that it covers regulatory/legal and main financial matters.</p>						

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