



Audit and Governance Committee

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MEMBERS: Councillor Ungar (Chairman); Councillor Mattock (Deputy-Chairman); Councillors Belsey, Cooke, Harris, Heaps, Taylor and Tester

Agenda

- 1 Minutes of the meeting held on 13 March 2013 - 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 (please see note at end of agenda).**

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 item(s) of business

The Chairman to notify the Committee of any item(s) of urgent business to be added to the agenda.

6 Right to address the meeting / order of business

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. The order of business to be otherwise as indicated below unless there is some pressing reason for change

7 Update - Members' and Standards (Pages 1 - 16)

Report of Monitoring Officer – **Report 07.**

8 Welfare Reforms

The Committee will receive a presentation from the Senior Head of Community and the Revenues & Benefits Manager on the recent Welfare reforms.

9 Internal Audit Report to 31st March 2013 (Pages 17 - 46)

Report of Internal Audit Manager – **Report 09.**

10 Annual Governance Statement (Pages 47 - 66)

Report of Internal Audit Manager – **Report 10.**

11 Annual Accounts 2012/2013 (Pages 67 - 74)

Report of Financial Services Manager – **Report 11.**

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.

Local Democracy, 1 Grove Road, Eastbourne, BN21 4TW
 Tel: (01323) 415021/5023 Minicom: (01323) 415111, Fax: (01323) 410322
 E Mail: localdemocracy@eastbourne.gov.uk
 Website at www.eastbourne.gov.uk

For general Council enquiries, please telephone (01323) 410000 or E-mail: enquiries@eastbourne.gov.uk

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Agenda Item 7

Body:	AUDIT AND GOVERNANCE COMMITTEE
Date:	26 June 2013
Subject:	Members and Standards: an update
Report Of:	LAWYER TO THE COUNCIL AND MONITORING OFFICER
Ward(s)	All
Purpose	To assist the Audit and Governance Committee in fulfilling its obligations in relation to member standards.
Recommendations:	<p>That the Committee note the following:</p> <ul style="list-style-type: none">• The figures available regarding complaints received in about members• The information regarding advice given to members <p>It is also asked to agree to consider quarterly reports on a separate matter, namely this authority's recourse to the powers available to it under the Regulation of Investigatory Powers Act.</p>
Contact:	Victoria Simpson, Lawyer to the Council and Monitoring Officer, Telephone 01323 415018 or internally on extension 5018. E-mail address: victoria.simpson@eastbourne.gov.uk

1.0 Background

- 1.1 Members will recall the decision made at this Committee's first meeting to invite regular updates from the Monitoring Officer on Standards-related matters
- 1.2 This report aims to update the Committee on the standards and related issues which have arisen since its last meeting.

2.0 Complaints

- 2.1 Three formal complaints have been received in alleging breaches of the Code of Conduct for members: the first complaints to be received by this authority since the new regime began.
- 2.2 One of the complaints is at the time of writing being considered by the Monitoring Officer in consultation with one of the Independent Persons, who will decide whether to refer it for formal investigation or not. In another, a decision has been made, again by the Monitoring Officer, not to refer the complaint for investigation and the complainant has been notified accordingly.
- 2.3 In relation to the third complaint, a formal investigation has taken place and the matter has been referred to the Standards Panel for determination in

accordance with this authority's agreed procedure. Progress is anticipated between the publication of this report and the Committee and an oral update will be provided.

3.1 Advice to members and Dispensations

- 3.2 At the Committee's meeting in December 2012, the Monitoring Officer's proposal to provide occasional email updates and briefings to all members of the Council on matters relating to the Standards regime was approved.
- 3.3 While advice given between then and the March meeting of this Committee has been reported back, no briefings to all members have been circulated, although advice has been supplied to individual members as and when needed.
- 3.4 No dispensations have been applied for since the last report to this Committee.

4.1 An extension to the Committee's remit: the monitoring of covert surveillance conducted pursuant to the Regulation of Investigatory Powers Act

- 4.2 Members will have had sight of the Cabinet report of 20 March 2013, which provided an update regarding the law and also regarding this authority's recourse to its statutory powers to conduct covert surveillance protected by RIPA. A copy of that report to Cabinet is appended hereto as appendix 1.
- 4.3 While safeguards exist in the form of annual reports to Cabinet of this authority's usage of its powers under RIPA, best practice requires quarterly reporting to members and it is therefore proposed that this Committee receive that report as a standing item. This is notwithstanding the fact that – as members will recall – this authority's usage of its powers to conduct this type of surveillance has historically been low and that the last recourse to them was in 2010.
- 4.4 If this Committee is minded to agree the proposal in 4.3, then it may wish to note that there were no applications pursuant to the Regulation of Investigatory Powers Act between 1 March and 1 June 2013.
- 4.5 Future updates on this topic may properly form the subject of a separate report to the Committee, if this is desired.

5.0 Consultation

- 5.1 There has been no consultation.

6.0 Resource Implications

- 6.1 None.

7.0 Financial

- 7.1 None.

8.0 Staffing

8.1 None.

9.0 Conclusion

9.1 The requirement to monitor member conduct and to promote good standards in decision-making remains in place in the new Standards regime. This report updates the Committee and assists it in discharging its responsibility for overseeing the standards and ethics of Eastbourne Borough Council's members.

Victoria Simpson
LAWYER TO THE COUNCIL AND MONITORING OFFICER

Appendices

None.

Background Papers:

Previous reports and minutes of the Committee.

Articles in the Local Government Lawyer

ACSeS bulletins

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Body:	Cabinet
Date:	20 March 2013
Subject:	Eastbourne Borough Council's use of its powers under the Regulation of Investigatory Powers Act 2000 ('RIPA') as amended by the Protection of Freedoms Act 2012 ('POFA') and associated legislation
Report Of:	Julian Osgathorpe, Deputy Chief Executive
Ward(s)	All
Purpose	<ul style="list-style-type: none"> (1) To inform members of a) the extent of the authority's recourse to surveillance activities regulated by RIPA and associated legislation during the 2012 calendar year and b) of the result of the three yearly review of the authority's RIPA arrangements (2) To inform members of the changes brought about by the Protection of Freedoms Act 2012 and related legislation. (3) To recommend that Cabinet adopt a revised policy with regard this authority's recourse to all types of covert surveillance.
Recommendation:	<ul style="list-style-type: none"> (1) That Members note the results of the comprehensive three yearly RIPA review, and of the authority's recourse to RIPA-regulated surveillance during the 2012 calendar year. (2) That Members note relevant recent legislative changes in this area and their impact on local authorities' potential recourse to surveillance. (3) That Members adopt a policy which governs this authority's recourse to covert surveillance of all types, stating that it will be deployed only as a last resort (4) That Members give authority to the Lawyer to the Council to a) incorporate such amendments to the policy of this authority which are necessary to ensure that it is up to date and accords with the law, and b) to continue to review the authority's procedures, policies and training on an annual basis in consultation with the SRO for RIPA and the Cabinet portfolio holder.
Contact:	Victoria Simpson, Lawyer to the Council, Telephone 01323 415018 or internally on extension 5018. E-mail address: victoria.simpson@eastbourne.gov.uk

1.0 Background

- 1.1 Members will be aware that RIPA supplies a statutory framework within which covert surveillance may be lawfully carried out by public authorities for the purposes of enforcement. To conduct covert surveillance regulated by RIPA, prior authorisation must first be given by a member of the Council's senior management team who has previously been certified as an Authorising Officer.
- 1.2 The types of surveillance covered by the RIPA regime include directed surveillance (essentially covert surveillance in places other than residential premises or private vehicles) as well as the use of a covert human intelligence source, or 'CHIS' (this includes public informants and people who make test purchases). It also regulates the interception of some types of communications data (the 'who', 'when' and 'where' of a communication, but not the 'what' i.e. the content of what was said or written). However while the interception of communications data is also covered by RIPA, it is subject to a separate inspection regime.
- 1.3 If used correctly and proportionately and with due regard to human rights, RIPA can be useful in the investigation of serious violations of the law in situations where other investigative options have failed. This authority's current RIPA policy includes rigorous safeguards which reflect the seriousness with which this authority takes its responsibilities in this regard.
- 1.4 The last report to this Cabinet, in April 2012, noted the progress of the Protection of Freedoms Bill through Parliament, which legislation incorporated a raft of measures designed to constrain local authorities' recourse to RIPA-regulated surveillance.

2.0 Overview of the Protection of Freedoms Act

- 2.1 The main legislative changes of relevance to local authorities are those which aim to reduce recourse by public authorities to surveillance activity regulated by RIPA. The first of those is the requirement that all surveillance requiring authorisation under RIPA – namely directed surveillance, use of a CHIS and also the interception of communications data - be approved not only internally, by an Authorising Officer who is an appropriately trained senior manager, but also by the justices at the Magistrates' Court. This requirement came into force on 1 November 2012 and was accompanied by non-statutory guidance issued by the Home Office which lays out a procedure and process for submission of applications and renewals to justices of the peace.
- 2.2 Sections 23A(3) and (4) of RIPA set out the tests for judicial approval of a local authority authorisation or notice to obtain communications data. Essentially, the tests require approval to be given if the relevant judicial authority is satisfied that at the time of the grant or renewal there were reasonable grounds for believing that the actions proposed were reasonable and proportionate and that these grounds still remain. "Relevant conditions" must moreover be satisfied in relation to the authorisation or notice, namely that i) the relevant person was designated as such under Chapter 2 of Part 1

of RIPA, ii) the grant or renewal of any authorisation or notice was not in breach of any restrictions imposed under section 25(3) of RIPA and iii) any other conditions provided for by an order made by the Secretary of State were satisfied. In effect, the justices consider all aspects of the authorisation and have the power to refuse the application, and if so minded, to quash it.

- 2.3 Another important change is the requirement that the "serious crime test" must be met in relation to any application for directed surveillance. This requires that the offence being investigated must either be punishable by a custodial sentence of six months or more or be concerned with the sale of alcohol or tobacco to a minor. The objective of this is to ensure that RIPA-regulated surveillance cannot be conducted in investigations of more minor offences such as littering, flyposting and dog fouling.
- 2.4 Other initiatives in PoFA include the requirement that surveillance camera systems – including closed circuit television, but also automatic number plate recognition systems – be subject to greater regulation. PoFA requires the Secretary of State to prepare a new Code of Practice which local authorities will be legally bound to have regard to. A draft Code is currently being consulted upon and while it is not dealt with in detail here, it is noted that it aims to lay out twelve guiding principles for operators to have regard to as opposed to aiming to prescribe a detailed approach.

3.0 Eastbourne Borough Council's recourse to RIPA: the 2012 Returns and the remit of the Office of the Surveillance Commissioner

In accordance with the relevant Codes of Practice, the Lawyer to the Council retains a central record of all RIPA applications and authorisations made by either this authority or by its investigative partners in respect of both authorised surveillance and the use of covert human intelligence sources. Those records are held securely, although the redacted data thereon is freely available to people making FOI requests.

- 3.1 The annual returns compiled for the period 1/1/2012 to 31/12/2012 include the following data:

RIPA applications for the use or conduct of a CHIS:

Nil applications made by EBC

Nil applications by partner organisations with which the authority is working on relevant matters

RIPA applications for authorised surveillance:

Nil applications made by EBC

Nil applications made by partner organisations with which the authority is working on relevant matters.

- 3.2 The 2012 returns show that Eastbourne Borough Council's historically low usage of RIPA continues to the present time. Members will recall that there were no applications by the authority for authorised surveillance during 2011 and only two during 2010, both of which concerned serious allegations of benefit fraud.
- 3.3 It should be noted that the authority's arrangements with regard/ use of

RIPA remains subject to inspection by the Office of the Surveillance Commissioner. The next inspection is due very shortly although at time of writing a date had not been agreed. The inspection involves interviews with key personnel and other enquiries being made with the objective of providing feedback to the Chief Executive along with a written report.

- 3.4 The OSC moreover reports annually to Parliament on his findings. In his most recent annual report, the Chief Surveillance Commissioner noted a number of tendencies in local authorities and other agencies empowered to use RIPA, not all of which were positive. He and his inspectors maintain a rigorous approach to inspections and to those organisations whose arrangements do not reflect the spirit as well as the letter of the law.

4.0 This Authority's arrangements in relation to RIPA – the three yearly review

- 4.1 In 2009, Cabinet agreed that an annual audit of the authority's RIPA policies, procedures and training should take place. An external auditor comprehensively reviewed the authority's arrangements in early 2010: a process which gave rise to a series of best practice recommendations which were acted upon. While that same year the Surveillance Commissioner noted with approval a significant step change in the authority's arrangements, Cabinet nonetheless agreed that as an extra safeguard, an internal requirement to conduct a comprehensive periodic review at three yearly intervals should stand. As a result, a review of the authority's RIPA policy and procedures was conducted by the Lawyer to the Council in consultation with the Senior Responsible Officer in December 2012 / January 2013. This also considered training and related matters.
- 4.2 It was noted that while the Senior Responsible Officer ('the SRO') under RIPA continues to be the Deputy Chief Executive, the arrangement continues whereby he delegates some of his responsibilities - including retaining the central record of authorisations - to the Lawyer to the Council. He continues to receive regular briefings from that postholder and it is proposed that those arrangements continue.
- 4.3 The Authorising Officers for the purposes of the Act continue to be the authority's senior management team, as is consistent with legislative requirements. The officers currently in post have all received relevant training and have been certified to act as AOs. An update on changes in the law was supplied to them at a meeting of the core management team in November 2012, shortly after the Protection of Freedoms Act came into force, along with a briefing on the up to date position regarding the authority's usage of its powers under RIPA.
- 4.4 The enforcement officers within the authority also have a role to play not just as potential applicants but also as disseminators of best practice. At the last inspection by the OSC, the arrangements in place to share best practice between enforcement officers by means of a working group and an informal 'gatekeeper' system were noted with approval. During this review, it was considered that the role of the intranet in ensuring that all officers have access to dedicated resources, vetted by the SRO and the Lawyer to the Council, was an important plank of the new policy and procedures proposal.

At the last OSC inspection, the use of the intranet to provide a dedicated set of resources was considered effective and the importance of this in the context of agile working is ongoing.

- 4.5 In so far as training of officers is concerned, the review noted a need to specialist up to date training on the law. As a result, both Authorising Officer and applicant level officers will be receiving dedicated training on the law as it now stands from an external legal expert during Spring 2013.
- 4.6 The three yearly review also included detailed consideration of the policy and procedures document currently in force at this authority. In order to ensure that officers were aware of the changes wrought by PoFA and associated legislation, the authority's corporate policy and procedures document was amended by the Lawyer to the Council in accordance with delegated authority given by Cabinet and publish online and on the intranet. The changes made were however transitional only and it was noted that adding additional layers to an already lengthy and complex policy and procedures document over time was not likely to result in clarity. Other possible approaches to policy and procedures for this authority were therefore explored with the SRO and the Cabinet portfolio holder. This process gave rise to the policy document submitted with this report.

5.0 The revised RIPA policy

- 5.1 The RIPA regime has changed over time, not just in terms of the requirement of an additional process in the form of application to the Magistrates' Court, but also in terms of the extent of the limits now placed on recourse to RIPA regulated surveillance by local authorities. The message from central Government is clear: local authorities should have the protection of RIPA only in relation to surveillance which is adjudged to be proportionate in all of the circumstances and in the public interest, in the context of ECHR, which is (in the case of directed surveillance) part of an investigation of a serious criminal offence, where all other investigative options have failed and where the surveillance has been approved not just by an appropriately trained member of the senior management team but also by a justice of the peace.
- 5.2 This authority has demonstrated over time its desire to apply rigorous safeguards with regard RIPA-regulated surveillance. In all of the circumstances, it is proposed that the authority adopts a policy approach which states very clearly that this authority will not normally have recourse to covert surveillance but will use it only in situations of last resort, where all other options have failed and where it is adjudged necessary on the particular facts. The objective is not to fetter the authority's discretion to exercise its powers as appropriate and to be clear that each situation will be judged on its own merits, while providing clarity regarding this authority's approach. The draft policy reflects this objective.
- 5.3 In practical terms, this authority's arrangements must equip officers to understand and navigate a complex legislative framework with a clear awareness of the specific limitations imposed by the legislation and a mindfulness of the human rights concerns which doing so important. While the regulatory framework offered by RIPA is subject to external scrutiny, it is

however vital that human rights considerations are reflected in all contexts, including an important related area: covert surveillance which is not regulated by RIPA.

- 5.4 The Chief Surveillance Commissioner himself noted in his 2010/11 report that while Part II of RIPA made authorised surveillance lawful, it did not make unauthorised surveillance unlawful. It is conceivable that from time to time a situation may arise wherein non-RIPA regulated directed surveillance is a potential option in the investigation of a crime which has not yet occurred and/or does not meet the six month test. To ensure a consistent approach which is in the spirit of the law, it is therefore proposed that the tests which RIPA insists on should be applied across the board, in all types of directed surveillance. This Report thus recommends a policy approach which requires internal authorisation (by the authority's Authorising Officers, using forms which apply broadly the same criteria as those which require completion in RIPA-regulated surveillance) for all covert surveillance, whether regulated by RIPA or not. This will ensure that all covert surveillance activity is subjected to the same, appropriately rigorous, safeguards.
- 5.5 Moreover, to ensure that the policy and procedures of this authority can be readily updated as new forms and guidance are made available by the Home Office and others and as modifications are made to the law, it is suggested that the full detail of the authority's processes should sit outside the Council's policy on covert surveillance. This should ensure that the revised policy is considerably more streamlined than that which it replaces, as it requires officers to go outside it for a range of resources including the appropriate forms and up-to-date guidance on the relevant Home Office website.
- 5.6 The intention is that instead of looking to a lengthy and quickly outdated policy and procedures document, officers will bring the clearly stated aims of the policy to other more detailed resources which have been approved by the Senior Responsible Officer and the Lawyer to the Council and which are available to officers only via a dedicated resource on the intranet. This approach will equip officers engaging with this complex area with a range of resources which are regularly reviewed and updated, including copyrighted resources purchased by experts in the field and not available for wider publication by this authority.
- 5.7 In light of this, the draft policy appended hereto aims mainly to spell out the Council's approach to the usage of covert surveillance. It functions primarily as an up to date statement of the Council's fundamental position with regard covert surveillance and in particular the requirement that all officers apply an approach which is proportionate as well as lawful to all to any potential covert surveillance activity, which is considered only as a last resort.

6.0 Consultation

- 6.1 Consultation has taken place with the Senior Responsible Officer for RIPA and with the Cabinet portfolio officer.

7.0 Resource Implications

None

7.1 **Financial**
None

7.2 **Staffing**
None

8.0 Other Implications: Environmental, Human Rights, Community Safety, Youth, Anti-poverty.

8.1 The Human Rights implications of this Report have been clearly highlighted above.

9.0 Conclusion

9.1 Since RIPA was introduced in 2000, it has been incumbent on local authorities to ensure that they deploy the protection it offers only proportionally and in situations where doing so is adjudged to be strictly necessary according to rigorous criteria.

9.2 This authority's policy and procedures have been regularly reviewed and updated and our usage of the powers available to us continues to be modest. That fact does not however solve this authority of the ongoing need to review and update its arrangements in the context of a changing legal landscape.

9.3 The three-yearly review of this authority's arrangements, carried out with knowledge of the recent legislative changes, has resulted in a streamlined draft policy document being put before Cabinet. Adherence to this revised policy alongside recourse to the law and to statutory guidance as well as to other resources which sit outside it but which have been appropriately vetted, will ensure that this authority continues to act in accordance with the law.

**JULIAN OSGATHORPE
DEPUTY CHIEF EXECUTIVE**

Background Papers:

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

The Regulatory and Investigatory Powers Act 2000

The Protection of Freedoms Act 2012

Reports to Cabinet on RIPA from 2008 to 2012

Guidance issued by the Home Office and the Office of Surveillance Commissioners

Annual Reports of the Office of Surveillance Commissioners

Other resources and guidance protected by copyright

To inspect or obtain copies of background papers please refer to the contact officer listed above.

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Eastbourne Borough Council: Covert Surveillance Policy

Introduction

1. By enforcing the laws designed to protect individuals, businesses and the environment, and to safeguard public resources, Eastbourne Borough Council ('the Council') seeks to ensure a fair and safe community for all.
2. Most organisations and individuals appreciate the importance of abiding by the law and the Council's best endeavours are directed at helping those people meet their legal obligations without unnecessary expense and bureaucracy.
3. The Council has certain statutory responsibilities and enforcement action may be necessary to protect the areas for which the authority is responsible and/or the public purse.
4. The Regulation of Investigatory Powers Act ('RIPA') and related legislation provides a regulatory framework for certain types of covert surveillance carried out by local authorities. While enforcement action may on occasion be served by undertaking covert surveillance to gather evidence of illegal activity, the Council is aware of the human rights concerns which require it to exercise its powers only where in accordance with the law, in situations where covert surveillance is a necessary and proportionate response of last resort.
5. The law requires that public authorities should only have recourse to the powers available to them in respect of covert surveillance where stringent criteria have been met. Covert surveillance is a last resort to be deployed only where its use is proportionate on the particular facts and where other investigative options are considered insufficient in the particular situation.
6. **With this in mind, the Council has adopted a policy of not normally conducting covert surveillance but of doing so only as a last resort, where all other investigative options have been deemed insufficient. While each situation will be considered on its own merits and all relevant factors will be taken into account, covert surveillance will be considered only where deemed to be a proportionate response of last resort.**

Policy and procedure

7. All covert surveillance - whether using the powers given to local authority under RIPA or not - shall be undertaken in accordance with this document and with regard to up to date and relevant law.

8. The Council shall ensure that covert surveillance is only undertaken where it complies fully with all applicable laws, including the following statutes and associated legislation:
- Human Rights Act 1998
 - Regulation of Investigatory Powers Act 2000
 - Protection of Freedoms Act 2012
 - Data Protection Act 1998
9. The Council shall in addition have regard to relevant official guidance and Codes of Practice, particularly those issued by the Home Office, the Office of the Surveillance Commissioners (OSC), the Security Camera Commissioner and the Information Commissioner. When making application for RIPA authorised surveillance, officers of the Council will use the most up to date forms issued by the Home Office and available on their website.
10. Council officers will also have recourse to other guidance and resources which have been approved by the Senior Responsible Officer in consultation with the Lawyer to the Council. While said materials may be protected by copyright, they will be made available internally to all enforcement officers on the Council's intranet. Enforcement officers are required to contact the Lawyer to the Council or the Senior Responsible Officer for RIPA with any questions or requests for guidance on this topic.
11. The following guiding principles shall form the basis of any covert surveillance activity undertaken by the Council:
- Covert surveillance shall only be undertaken where it is deemed absolutely necessary to achieve the desired aims.
 - Covert surveillance shall only be undertaken where it is proportionate to do so and in a manner that it is proportionate.
 - Adequate regard shall be had to individuals' rights and freedoms, including those who are not the target of the covert surveillance.
 - All authorisations to carry out covert surveillance shall be granted by appropriately trained and designated Authorising Officers ('AOs').
 - Covert surveillance regulated by RIPA shall only be undertaken after obtaining judicial approval in accordance with the requirements of the law.

Training and Review

12. All Council officers undertaking or authorising covert surveillance shall be appropriately trained to ensure that they understand their legal obligations and the framework in which their decisions are made.
13. This policy shall be reviewed annually by the Senior Responsible Officer, in consultation with the Lawyer to the Council, in the light of

the latest legal developments and changes to official guidance and codes of practice.

14. The operation of this policy shall be overseen by the Council's Audit and Governance Committee, which shall receive regular Reports on this policy and its implementation.

Conclusion

15. While the effective enforcement of criminal and regulatory legislation is vital, the Council will only conduct covert surveillance as a last resort, where stringent criteria have been met.
16. Adherence to this policy will ensure that where situations arise wherein the Council does elect to invoke the protection afforded by RIPA, it will do so proportionately and in such a way as to involve minimal intrusion into others' lives. This will ensure that any legal challenge to the Council's covert surveillance activities is avoided.
17. Any questions relating to this policy, and any queries regarding the procedure, forms, guidance materials and/or law to be deployed in following it, should be addressed to the officers named below:

Julian Osgathorpe, Deputy Chief Executive

Victoria Simpson, Lawyer to the Council and Monitoring Officer

Dated ..

Note: Eastbourne Borough Council acknowledges with thanks the input of Ibrahim Hasan, Solicitor and Director of Act Now Training Ltd., in the development of this policy.

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Agenda Item 9

Body:	AUDIT AND GOVERNANCE COMMITTEE
Date:	26 JUNE 2013
Subject:	Internal Audit Report to 31 st March 2013
Report Of:	Internal Audit Manager
Ward(s)	All
Purpose	<p>To provide a summary of the activities of Internal Audit for the period 1st April 2012 to 31st March 2013.</p> <p>To document the Internal Audit Manager's opinion of the internal control environment as required for the Annual Governance Statement</p>
Recommendation(s):	<p>To consider and comment on the work of the Internal Audit section and the reporting of frauds over £10k</p> <p>That the Committee note the information in the report on the adequacy of the internal control systems and compliance with the Code of Practice for Internal Audit in Local Government and take these into account when considering the accompanying report on the Annual Governance Statement.</p>
Contact:	Jackie Humphrey, Internal Audit Manager, Telephone 01323 415925 or internally on extension 5925. E-mail address jackie.humphrey@eastbourne.gov.uk

1.0 Introduction

- 1.1 The work of Internal Audit is reported on a quarterly basis to demonstrate work carried out compared to the annual plan and to report on the findings of audit reports issued since the previous meeting of the committee.
- 1.2 The annual audit plan for 2012/13 was agreed by the Audit Committee in March 2012.

2.0 Review of work in the financial year 2012/13.

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

NNDR (Annual 2011/12)	Performing Excellently
Cash and Bank (Annual 2011/12)	Performing Well
Payroll (Annual 2011/12)	Performing Excellently
Creditors (Annual 2011/12)	Performing Well
Council Tax (Annual 2011/12)	Performing Excellently
Benefits (Annual 2011/12)	Performing Excellently
Housing Rents (Annual 2011/12)	Performing Well
Claims work for PKF 2011/12	Performing Well
Housing	Performing Well

Health and Safety	Performing Well
Covalent	Performing Well
Northgate	Performing Excellently
Postal Services	Performing Excellently
Devolved Budgets	Performing Well
Theatres	Performing Well
Officers' Expenses	Performing Adequately
Use of Council Vehicles	Performing Inadequately
Asset Management Plan	Performing Well
Civil Contingencies	Performing Well
Café Debtors	Performing Excellently
Elections and Electoral Register	Performing Excellently
APP	Performing Excellently
IT Policies and Procedures	Performing Excellently
Food Safety and Hygiene	Performing Adequately
Improvement Grants (DFGs)	Performing Well
Towner (Collection)	Performing Adequately
NNDR (Annual 2012/13)	Performing Excellently
Cash and Bank (Annual 2012/13)	Performing Excellently
Financial Ledger (Annual 2012/13)	Performing Excellently

Levels of Assurance - Key

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

2.2 Appendix A shows the work carried out against the annual plan to the end of March 2013.

2.3 The following comments explain the main points to be noted from the table:

Follow ups from previous year	– continuing to carry out follow ups where recommendations haven't been addressed.
Theatres	– Extra time was taken in reworking reconciliations following issues raised by PKF.
Follow ups from previous year	– continuing to carry out follow ups where recommendations haven't been addressed.

2.4. Appendix B is the list of all reports issued in final during the year which were given an assurance level below "Performing Excellently", with any issues highlighted in the reviews which informed the assurance level given. Particular attention should be paid to the review for Use of Council Vehicles which has an Inadequate level of assurance.

- 2.5 Use of Council Vehicles was given an assurance level of Performing Inadequately because the draft policy had some important omissions around use, recording journeys, security of keys and carrying out checks on driving licences. Without these in the policy and with the policy being only in draft it means that the controls around this system are weak. However, although given the "inadequate" assurance level, it has been agreed by CMT that this not be included in the Annual Governance Statement since the overall risk to the Council is not high.
- 2.6 Appendix C shows the outstanding high and medium priority recommendations from audits and the reasons why they have not been implemented, along with the month when the next follow up is due.
- 2.7 Where the column "priority" in Appendix C shows "High" the outstanding recommendations, and client comments from the report, have been listed at Appendix D. It should be noted that the recommendations listed were outstanding at the time of the last follow up review. If they have been addressed since this time this will not be noted or reported until the next follow up review is carried out.
- 2.8 Appendix D has been taken to CMT and their comments have been requested on the outstanding recommendations and these have been added in the final column of the table. There is only one review on this list now and progress is being made on the recommendations with a follow up review due in June.

3.0 Frauds over £10k

- 3.1 It is a requirement that frauds over £10k are reported to our external auditors. Usually such frauds are only found by the Benefit Fraud section.
- 3.2 The Benefit Fraud section now report these frauds to Internal Audit on a quarterly basis and these are passed on to the external auditors.
- 3.3 The list of benefit frauds over £10k for the financial year 2012-13 is therefore included here for information.

Overpayments over £10,000 between 01/04/12 and 31/03/13						
Suspected Fraud	Proven Fraud	Source of Info	DWP Involvement	Completed	Progress & Outcome	Over payment
UND Capital	Und Capital	DWP - FPA	With DWP Interest	11-Apr-12	Prosecution	24,184.68
UND Capital	Und Capital	DWP	With DWP Interest	08-May-12	Proven - WIB & OP claimed	29,904.61
Working	Claimant Working	DWP - FPA		19-Jun-12	Prosecution	45,737.59
UND Capital	Und Capital	DWP - FPA	With DWP Interest	11-Jul-12	Proven - WIB & OP claimed	25,696.51
UND Income	Undeclared Income	Benefits	No DWP Interest	22-Aug-12	Prosecution	14,192.89

Living Together As Husband and Wife	Living Together	NFI	DWP Interest but not JW	31-Oct-12	Prosecution	54656.92
Not Living There	No Longer At Property	HBMS	No DWP Interest	04-Dec-12	Prosecution	16182.80

All these Overpayments are being pursued for repayment despite formal or informal action being taken.

- 3.4 No frauds were reported in the final quarter of the year.
- 3.5 As part of the work carried out to inform the Annual Governance Statement, Heads of Service are now directly asked if they are aware of Frauds over £10k other than benefit frauds. None were reported.
- 3.6 At the last meeting several questions were raised which were responded to by the Benefit Fraud Manager. The questions and answers have been included at appendix E.

4.0 Annual Governance Statement

- 4.1 The work referred to in this report has been used as the basis for the opinion of the overall effectiveness and adequacy of the internal control environment along with other ad hoc work undertaken by the auditors. It is the opinion of the Internal Audit Manager Internal that controls across the authority were generally found to be sound.
- 4.2 CMT were asked to consider potential governance issues to be reported in the Annual Governance Statement. Several areas were put forward for consideration and discussed by CMT. The results are reported in the Annual Governance Statement report.

5.0 Self Assessment

- 5.1 A self assessment of the work of the audit function against the CIPFA Code of Practice for Internal Audit is required to be carried out annually. The Code of Practice covers all areas of the internal audit function from the scope and independence of Internal Audit to reporting, performance and effectiveness. The self assessment (see appendix F) shows a compliance rating of 99.73%. The self assessment is also reviewed by the external auditors.
- 5.2 As of April 2013 there are new standards for the Internal Audit service, the Public Sector Internal Audit Standards. The end of year report next June will report on compliance with the new standards.

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, staff are engaged in risk matters on an ongoing basis.

8.0 Other Implications

8.1 None

9.0 Summary of Options

9.1 None

10.0 Recommendation

10.1 That the Committee note the information in the report on the adequacy of the internal control systems and compliance with the Code of Practice for Internal Audit in Local Government and take these into account when considering the accompanying report on the Annual Governance Statement.

Jackie Humphrey
Internal Audit Manager

Background Papers:

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

None

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APPENDIX A

WORK AGAINST PLAN TO 31st MARCH 2013

		Type of audit	Planned	Actual	Reason for Variance
			days	days	
CORE ANNUAL PKF	Benefits	Governance	10	15.9	In Draft - 1.2 days were 11/12 work
	Cash and Bank	Governance	25	3.9	Completed
	Council Tax	Governance	10	12.6	Completed
	Creditors	Governance	15	21.7	In Draft
	Debtors	Governance	15	20.1	In Draft
	Housing Rents	Governance	15	7.4	Ongoing - 5.1 days 11/12 work
	Main Accounting	Governance	10	3.2	Completed
	NNDR	Governance	10	14.7	Completed - 1.8 days 11/12 work completed this year
	Payroll	Governance	10	18.5	In Draft - 6.1 days 11/12 work completed this year
	Treasury Management	Governance	10	6.2	In Draft
	IT	Governance	4	1.8	Ongoing - 1.1 days 11/12 work
	Theatres Reconciliations	Governance		2.6	Draft
	Claims work		75	111.3	Completed - extra testing required by PKF

Contingency		21	22.3	Unplanned work carried out
NFI		20	7.2	
Special Investigations/advice		40	25	
Follow ups re audits carried out in previous year		30	43.6	Continuing to follow up if recommendations not addressed.

MEDIUM from previous	Asset Management Plan (review action on Cipfa recs)	Review	25	1.3	Completed
	Housing Strategy/Investment Programme	Review	15	1.3	Work on working programme - requested to be consultancy work next year
	Postal Services	Review	10	11.3	Completed
	Business Continuity Planning	Review	15	2	Have been asked to defer until next year
	Theatres	Review	15	25	Completed - 5 days work undertaken by IAM re reconciliations for PKF
	Project Management Controls	Review	15	19.5	Draft
	Covalent	Review	10	9.6	Completed
	Devolved Budgets	Review	5	6	Completed
	Northgate	Computer	10	8	Completed
	Cafi - Purchasing	Computer	4	0.3	Work on working programme - to be completed in 13/14
	Officers Expenses	Review	20	21.1	Completed
	Elections and Electoral Registration	Review	10	8.1	Completed
	Civil Contingency	Review	15	7.6	Completed
	APP	Computer	10	7.5	Completed
	Information Governance	Review	15	13	Draft
	IT Policies and Procedures	Review	5	5.8	Completed
	Food Safety and Hygiene	Review	10	21.6	Completed - understanding filing on APP and W2 etc
	Improvement Grants (DFGs)	Review	10	19.8	Completed - Retraining on APP needed.
	Cafi - Debtors	Computer	4	3.7	Completed
	Cafi - Creditors	Computer	4	2	Work on working programme - to be completed in 13/14

			Planned days	Actual days	Reason for Variance
CONSULTANCY	Corporate Equality	Consultancy	10	0.5	Attendance at training for Equality and Fairness Steering Group
	Planning System	Consultancy	10		
	Corporate Complaints	Consultancy	10	0.2	Attendance at meeting
	Towner - transition to trust	Consultancy	10	1.2	Attendance at meetings

APPENDIX B

AUDIT REVIEW	ASSURANCE LEVEL	ISSUES NOTED
Cash and Bank	Performing Well	<ul style="list-style-type: none"> • In one subsidiary account there was a lack of paperwork to back up authorisation for cheques issued. • One instance of bank charges taken out of an account exceeding that invoiced had not been noted.
Creditors	Performing Well	<ul style="list-style-type: none"> • Authorised signatory list required updating. • Purchase orders not being raised at time of ordering goods/services. • Creditors' invoices being addressed to depts. rather than to central payments team thus causing delays. • No specific checks being carried out to identify possible duplicate creditors.
Housing Rents	Performing Well	<ul style="list-style-type: none"> • Orchard showed gaps in communication over arrears for which no explanations were noted. • A discrepancy between two reports which have to be matched was missed when it was checked. (Benefit system to Orchard).
Housing and C. Tax Benefits	Performing Well	<ul style="list-style-type: none"> • In some cases C. Tax Benefits had been applied without taking Single Person Discount into account.
Housing	Performing Well	<ul style="list-style-type: none"> • Procedures do not require staff to declare if they have any connection with an applicant. • Housing procedures document in need of updating.
Health and Safety	Performing Well	<ul style="list-style-type: none"> • Lack of awareness training for new staff. • Lack of Health and Safety courses on Ollie. • Accident report forms not always completed. • Workplace inspections were not always being carried out.
Covalent	Performing Well	<ul style="list-style-type: none"> • Lack of supporting evidence for PIs uploaded onto Covalent. • Covalent is not currently used for Financial Monitoring. • Need to explore linking corporate priorities to individual targets.

APPENDIX B

AUDIT REVIEW	ASSURANCE LEVEL	ISSUES NOTED
Devolved Budgets	Performing Well	This scheme is run very well. However there is a lack of checks around estimated costs compared to payments requested and on works being completed. These checks are missing because the scheme was set up with a view to keeping bureaucracy to a minimum. These risks were considered and accepted by Members when the scheme was set up. However, because these risks are inherent in the system it is not felt that a higher assurance level can be given.
Theatres	Performing Well	<ul style="list-style-type: none">• Reconciliations not being carried out and variances investigated on a monthly basis.• Cash collection agency not keeping the Council informed of staff changes.• "No sales" rung through tills are not noted with reasons.
Officers Expenses	Performing Adequately	<ul style="list-style-type: none">• Expenses authorised by officers without the correct level of authorisation to do so.• Items purchased which should have been bought from suppliers using purchase orders.• Expenses coded to incorrect general ledger codes.• Mileage claims for trips made outside the borough boundary which should have been claimed as second class rail fare.• Inadequate details of journeys given on mileage claims.• Copies of insurance certificates showing business cover are not being provided to Payroll.

APPENDIX B

AUDIT REVIEW	ASSURANCE LEVEL	ISSUES NOTED
Use of Council Vehicles	Performing Inadequately	<ul style="list-style-type: none"> • Use of Private and Leased Vehicles Policy is in draft and has been awaiting finalisation for some time. • The draft policy needs to be revisited to include updates about the use of log books for recording mileage and reason for journey, security of keys, annual checks of driving licences as well as citing two appendices in the body of the policy. • It was not made clear whether council vehicles could be used for personal reasons in any circumstances. (Following a decision by CMT this should now be clearly stated in the policy).
Asset Management Plan	Performing Well	<p>Work is currently ongoing on actioning recommendations from the CIPFA report. Progress is being monitored on Covalent and reported to Scrutiny.</p> <p>The assurance level has been given as “Well” because there is still a lot of work to be carried out to address all the recommendations.</p>
Civil Contingencies	Performing Well	<ul style="list-style-type: none"> • Emergency plan needs to be reviewed and updated where applicable as there are several references which are out of date. • In discussions with officers it was clear that there was not the level of awareness of the plan as would be expected.
Food Safety and Hygiene	Performing Adequately	<ul style="list-style-type: none"> • Out of date policies and procedures. • Delays in carrying out inspections. • Not retaining internal monitoring evidence.

APPENDIX B

AUDIT REVIEW	ASSURANCE LEVEL	ISSUES NOTED
Disabled Facility Grants	Performing Well	<ul style="list-style-type: none">• Not ensuring that applicants sign all parts of forms.• Clarification needed on forms re who is applying and signing (e.g. applicant or relative)• APP not updated with full details.
Towner Collection	Performing Adequately	Most issues identified were around the recording of works on the database. As it stands no assurance can be given that the database accurately records what works are owned or on loan not their current location.

Appendix C

MONITORING OF RECOMMENDATIONS AS AT END MARCH 2013

AUDIT	NUMBER OF RECS		FOLLOW UP DUE	OUTSTANDING RECS		CURRENT POSITION	NOTES RE FOLLOW UP/RECS OUTSTANDING	PRIORITY
	HIGH	MEDIUM		HIGH	MEDIUM			
Daily Cash Recs at Venues	0	6	Jun-13	0	6	Not Yet Due	Procedures sent out in February	High
Redoubt	7	7	-	0	0		All addressed.	
Housing	1	3	May-13	0	2	Not Yet Due	Action progressing	Low
Health and Safety	0	4	Jan-13	-	-	Overdue	<i>Will be reviewed after annual audits completed</i>	
Postal Services	0	1	-	0	0		All addressed.	
Covalent	0	3	-	0	0		All addressed.	
Use of Council Vehicles	4	5	Jul-13	4	5	Not Yet Due	Work currently progressing on updating policy	Medium
Officers Expenses	1	4	Feb-13	-	-	Not Yet Due	<i>Will be reviewed after annual audits completed</i>	
Theatres	2	2		0	0		All addressed.	
Civil Contingencies	0	7	Mar-13	-	-	Ongoing	<i>Awaiting responses</i>	
Improvement Grants	0	4	Apl-13	-	-	Not Yet Due		
Food Safety and Hygiene	1	3	May-13	-	-	Not Yet Due		
Asset Management	-	-	May-13	-	-	Not Yet Due	No recs were made but progress will be followed up	
APP	0	1	Jun-13	-	-	Not Yet Due		
Townier (collection)	2	9	Sep-13	-	-	Not Yet Due		

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Appendix D

OUTSTANDING HIGH RISK

DAILY CASH RECONCILIATIONS AT VENUES – next follow up in June

RECOMMENDATION	RISK / PRIORITY	RESPONSIBLE MANAGER	CLIENT COMMENTS	Situation at Last Follow Up	Manager comments after CMT (not yet verified by Audit)
The relevant manager must regularly review shorts and overs of any amount and consider the possibility of fraud.	Medium Three Months	Financial Services Manager	Agreed Procedures will be written	Owing to time constraints the procedures have not been written. It is hoped these will be completed in April.	Procedures have been written and sent out to managers. (February)
Shorts/overs must be reviewed as part of budget monitoring and any concerns raised by Finance with Internal Audit.	Medium Three Months	Financial Services Manager	Agreed The Technical Accounting team will take this on as a monthly exercise.	Discussions with the Finance Assistant revealed that shorts and overs are still not routinely reviewed as part of budget monitoring.	See above
Managers must record details of investigations and findings.	Medium Three Months	Financial Services Manager	Agreed Procedures will be written	Owing to time constraints the procedures have not been written. It is hoped these will be completed in April.	See above
Managers must ensure that they keep a record of discrepancies in order that any patterns can be observed and investigated.	Medium Three Months	Financial Services Manager	Agreed Procedures will be written	Owing to time constraints the procedures have not been written. It is hoped these will be completed in April.	See above
A minimum amount (for both shorts and overs) should be set over/below which Finance/Internal Audit and informed.	Medium Three Months	Financial Services Manager	Agreed Procedures will be written	Owing to time constraints the procedures have not been written. It is hoped these will be completed in April.	See above
Procedures for the checking and reporting of shorts/overs should be written and disseminated.	Medium Three Months	Financial Services Manager	Agreed Procedures will be written	Owing to time constraints the procedures have not been written. It is hoped these will be completed in April.	See above

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APPENDIX E

1. Have these sorts of frauds increased over the past few years?

During 2011/12

Fraud Type	Percentage of proven cases
Working & Claiming	24%
Living Together	19%
Undeclared Capital	11%
No longer living there	8%

During 2010/11

Fraud Type	Percentage of proven cases
Working & Claiming	23%
Living Together	13%
Undeclared Capital	5%
No longer living there	9%

2. **DWP involvement – how much of this is DWP informing us of frauds or us telling DWP and them then getting involved?**

When possible we look to join work with the DWP to ensure a joined up approach to an investigation. The cases which have been highlighted in the report contain 3 which were initially dealt with by DWP and once they realised there was a Local Authority interest we were invited to joint work. 1 case was passed to us by DWP (Toxteth) to investigate as they identified there had been a period we paid the customer benefit when he wasn't in their area. This was not joint working, as they had already dealt with their period in question.

3. **In my report I add a caveat the amounts of overpayment listed are not necessarily the amounts that we recover. I was asked how much does get recovered annually.**

It is not within my remit to monitor the recovery of overpayments of benefit whether customer error or fraudulent. However, I do monitor the recovery of the Administrative Penalties and ensure these are being collected.

Since this monitoring has been undertaken we have increased the amount of Adpens collected as can be seen below:-

2007/08	2008/09	2009/10	2010/11	2011/12
£4,844.80	£3,812.57	£4,897.61	£7,553.33	£9,546.18

APPENDIX E

4. When a fraud has been proved do we get any custodial sentences?

No. It is unusual for us to get custodial sentences, despite some of the amounts of money which have been de-frauded.

We will not do press releases for cases where the sentencing is so poor it will not act as a deterrent, but quite the opposite. We have had a number of these this year.

I would be more than happy to attend a future meeting to provide a greater understanding of the work undertaken by the fraud team. Also if you would like to ask any questions in the meantime, please do not hesitate to contact me.

I will be able to provide figures relating to this year's investigations by the end of April 2013.

Appendix F

CIPFA CODE OF PRACTICE FOR INTERNAL AUDIT IN LOCAL GOVERNMENT IN THE UNITED KINGDOM 2006

CHECKLIST – EASTBOURNE BOROUGH COUNCIL COMPLIANCE WITH THE CODE FOR 2012-13

Y = Yes = 2, P = Partial = 1, N = No = 0.

REF	ADHERENCE TO THE STANDARD	Y	P	N	EVIDENCE	SCORE
1	Scope of Internal Audit					
1.1	Terms of Reference					
1.1.1	Do terms of Reference:					
	(a) establish the responsibilities and objectives of Internal Audit?	Y			Contained in the Audit Charter.	2
	(b) establish the organisational independence of Internal Audit?	Y			No auditor has "non audit" duties.	2
	(c) establish the accountability, reporting lines and relationships between the Head of Internal Audit and:					
	(i) those charged with governance?	Y			See Audit Charter	2
	(ii) those parties to whom the Head of Internal Audit may report?	Y			See Audit Charter	2
	(d) recognise that Internal Audit's remit extends to the entire control environment of the organisation?	Y			See Audit Charter	2
	(e) identify Internal Audit's contribution to the review of the effectiveness of the control environment?	Y			See Audit Charter	2
	(f) require and enable the Head of Internal Audit to deliver an annual audit opinion?	Y			See Audit Charter	2
	(g) define the role of Internal Audit in any fraud-related or consultancy work (see also 1.3.2.)?	Y			See Anti-Fraud and Anti-Corruption Strategy and Audit Charter	2
	(h) explain how Internal Audit's resource requirements will be assessed?	Y			See Audit Charter	2
	(i) establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?	Y			See Audit Charter	2
1.1.2	Does the Head of Internal Audit advise the organisation on the content and the need for subsequent review of the terms of reference?	Y			Reviewed annually by the Internal Audit Manager	2
1.1.3	Have the terms of reference been formally approved by the organisation?	Y				2
1.1.4	Are terms of reference regularly reviewed?	Y				2
1.2	Scope of Work					
1.2.1	Are the organisation's assurance, risk management arrangements and monitoring mechanisms taken into account when determining Internal Audit's work and where effort should be concentrated?	Y			The plan was based on a risk assessment carried out by the IAM Risk Management has now been handed to the Internal Audit Manager.	2
1.2.2	Where services are provided in partnership, has the Head of Internal Audit identified:					
	(a) how assurance will be sought?	Y				2
	(b) agreed access rights where appropriate?	Y				2

Appendix F

REF	ADHERENCE TO THE STANDARD		Y	P	N	EVIDENCE	SCORE
1.3	Other Work						
1.3.1	Where Internal Audit undertakes consultancy and/or fraud and corruption work, does it have the:						
	(a)	skills, and	Y			Auditors have some skills and experience but if necessary outside advice would be obtained.	2
	(b)	resources	Y			Consultancy work is taken on only within the budgeted time allowed in the plan.	2
	to do this?						
1.3.2	Do the terms of reference define Internal Audit's role in:						
	(a)	fraud and corruption?	Y			Also contained within Anti-Fraud & Corruption policy.	2
	(b)	consultancy work?	Y			See Audit Charter	2
1.4	Fraud and Corruption						
1.4.1	Has the Head of Internal Audit made arrangements, within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?		Y			See Anti Fraud and Corruption Policy	2
2	Independence						
2.1	Principles of Independence						
2.1.1	Is Internal Audit:						
	(a)	independent of the activities it audits?	Y			None of the audit staff are responsible for carrying out any other work.	2
	(b)	free from any non-audit (operational) duties?	Y			See (a)	2
2.1.2	Where internal audit staff have been consulted during system, policy or procedure development, are they precluded from reviewing and making comments during routine or future audits?		Y			Staff would not be allowed to audit an area they had worked in during the previous 12 months.	2
2.2	Organisational Independence						
2.2.1	Does the status of Internal Audit allow it to demonstrate independence?		Y			Reports directly to the Section 151 officer and the Audit Committee	2
2.2.2	Does the Head of Internal Audit have direct access to:						
	(a)	officers?	Y			Unrestricted.	2
	(b)	members?	Y			Unrestricted.	2
2.2.3	Does the Head of Internal Audit report in his or her own name to members and officers?		Y			All reports go out in the name of the Internal Audit Manager	2
2.2.4	(a)	is there an assessment that the budget for Internal Audit is adequate?	Y			Service and Financial Plan.	2
	(b)	does any budget delegated to service areas ensure that:					
	(i)	Internal Audit adherence to the Code is not compromised?	Y				2
	(ii)	the scope of Internal Audit is not affected?	Y				2
	(iii)	Internal Audit can continue to provide assurance for the Statement on Internal Control?	Y				2

Appendix F

REF	ADHERENCE TO THE STANDARD	Y	P	N	EVIDENCE	SCORE
2.3	Status of the Head of Internal Audit					
2.3.1	Is the Head of Internal Audit managed by a member of the Corporate Management Team?	Y			Reports to Section 151 officer.	2
2.4	Independence of Internal Audit Contractors					
2.4.1	Does the planning process recognise and tackle potential conflicts of interest where contractors also provide non-internal audit services?				Not applicable.	
2.5	Declaration of Interest					
2.5.1	Do audit staff make formal declarations of interest?	Y			Code of Conduct requires employees to register interest in companies proposing to contract with the Council.	2
2.5.2	Does the planning process take account of the declarations of interest registered by staff?	Y			Taken into account when allocating audits. Not formally noted.	2
3	Ethics for Internal Auditors					
3.1	Purpose					
3.1.1	Does the Head of Internal Audit regularly remind staff of their ethical responsibilities?	Y			Audit is a small team and ad hoc discussions take place all the time.	2
3.2	Integrity					
3.2.1	Has the internal audit team established an environment of trust and confidence?	Y			Client satisfaction surveys.	2
3.2.2	Do internal auditors demonstrate integrity in all aspects of their work?	Y			Client satisfaction surveys.	2
3.3	Objectivity					
3.3.1	Are internal auditors perceived as being objective and free from conflicts of interest?	Y				2
3.3.2	Is a time period set by the Head of Internal Audit for staff where they do not undertake an audit in an area where they have had previous operational roles?	Y			See Audit Manual	2
3.3.3	Are staff rotated on regular / annually audited areas?		P		This is a very small audit team and it is not always possible to rotate staff especially as some have specialities.	1

Appendix F

REF	ADHERENCE TO THE STANDARD	Y	P	N	EVIDENCE	SCORE
3.4	Competence					
3.4.1	Does the Head of Internal Audit ensure that staff have sufficient knowledge of:					
	(a) the organisation's aims, objectives, risks and governance arrangements?	Y			Policies are shared.	2
	(b) the purpose, risks and issues of the service area?	Y			These are available on the areas Service and Financial Plans.	2
	(c) the scope of each audit assignment?	Y			Scope is agreed with the Head of Audit and relevant manager.	2
	(d) relevant legislation and other regulatory arrangements that relate to the audit?	Y			Due professional care is taken to advise staff of known legislative changes or for these to be ascertained at the introductory meeting with the client.	2
3.5	Confidentiality					
3.5.1	Do internal audit staff understand their obligations in respect of confidentiality?	Y			See Code of Conduct for Auditors.	2
4.	Audit Committees					
4.1	Purpose of the Audit Committee					
4.1.1	Does the organisation have an independent Audit Committee?	Y				2
4.2	Internal Audit's Relationship with the Audit Committee					
4.2.1	Is there an effective working relationship between the Audit Committee and Internal Audit?	Y				2
4.2.2	Does the Committee approve the internal audit strategy and monitor progress?	Y			Minutes of Audit Committee	2
4.2.3	Does the Committee approve the annual internal audit plan and monitor progress?	Y			Minutes of Audit Committee	2
4.2.4	Does the Head of Internal Audit:					
	(a) attend the Committee and contribute to its agenda?	Y			Minutes of Audit Committee	2
	(b) participate in the Committee's review of its own remit and effectiveness?	Y				2
	(c) ensure that the Committee receives and understands documents that describe how Internal Audit will fulfil its objectives?	Y			Minutes and agenda of Audit Committee	2
	(d) report on the outcomes of internal audit work to the Committee?	Y			All final audit reports and regular progress reports against plan passed to Audit Committee	2
	(e) establish if anything arising from the work of the Committee requires consideration of changes to the Audit Plan, or vice versa?	Y			Minutes and agenda of Audit Committee	2
	(f) present the annual internal audit report to the Committee?	Y			Minutes and agenda of Audit Committee	2
4.2.5	Is there the opportunity for the Head of Internal Audit to meet privately with the Audit Committee?	Y			If considered appropriate.	2

Appendix F

REF	ADHERENCE TO THE STANDARD	Y	P	N	EVIDENCE	SCORE
5.	Relationships					
5.1	Principles of Good Relationships?					
5.1.1	Is there a protocol that defines the working relationship for Internal Audit with:					
	(a) management?	Y			Code of Conduct for Auditors.	2
	(b) other internal auditors?	Y			Code of Conduct for Auditors.	2
	(c) external auditors?	Y			Code of Conduct for Auditors.	2
	(d) other regulators and inspectors?	Y			Code of Conduct for Auditors.	2
	(e) elected members?	Y			Code of Conduct for Auditors.	2
5.2	Relationships with management					
5.2.1	Does the Head of Internal Audit seek to maintain effective relationships between internal auditors and managers?	Y			Any adverse comments on Client Satisfaction Surveys or made verbally will be followed up.	2
5.2.2	Is the timing of audit work planned in conjunction with management?	Y			Service critical dates avoided as far as possible e.g. budget cycle, closing of accounts, events etc.	2
5.3	Relationships with other Internal Auditors					
5.3.1	Do arrangements exist with other internal auditors that include joint working, access to working papers, respective roles and confidentiality?	Y			Within the section all files are retained on a shared drive and issues discussed regularly. Sharing of best practice occurs with other local government auditors.	2
5.4	Relationships with External Auditors					
5.4.1	Is it possible for Internal Audit and External Audit to rely on each other's work?	Y			Annual Management Letter.	2
5.4.2	Are there regular meetings between the Head of Internal Audit and the External Audit Manager?	Y			Being undertaken regularly.	2
5.4.3	Are the internal and external audit plans co-ordinated?	Y			Internal audit work closely with external audit to ensure work carried out is co-ordinated.	2
5.5	Relationships with other Regulators and Inspectors					
5.5.1	Has the Head of Internal audit sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?	Y			Contact with BFI, external audit, ESCC.	2
5.6	Relationships with Elected Members					
5.6.1	Do the terms of reference for Internal Audit define the channels of communication with members and describe how such relationships should operate?	Y			Audit Charter	2
5.6.2	Does the Head of Internal Audit maintain good working relationships with members?	Y			Direct access available to all Members. Regular attendance at Audit Committee.	2

Appendix F

REF	ADHERENCE TO THE STANDARD		Y	P	N	EVIDENCE	SCORE
6	Staffing, Training and Continuing Professional Development						
6.1	Staffing Internal Audit						
6.1.1	Is Internal Audit appropriately staffed (numbers, grades, qualifications, personal attributes and experience) to achieve its objectives and comply with these standards?		Y			1 x AAT and PIIA . 1 x AAT and QiCA 2 x AAT.	2
6.1.2	Does the Head of Internal Audit have access to appropriate resources where the necessary skills and expertise are not available with the internal audit team?		Y				2
6.1.3	Is the Head of Internal Audit professionally qualified and experienced?		Y			IAM qualified AAT and PIIA	2
6.1.4	Does the Head of Internal Audit have wide experience of internal audit and management?		Y			Internal Audit Manager 9 years internal audit 5 years management.	2
6.1.5	(a)	Do all internal audit staff have up-to-date job descriptions?	Y			Maintained by HR Service.	2
	(b)	Are there person specifications that define the required qualifications, competencies, skills, experience and personal attributes for internal audit staff?	Y			Maintained by HR Service and reviewed at each vacancy.	2
6.2	Training and Continuing Professional Development						
6.2.1	(a)	Has the Head of Internal Audit defined the skills and competencies for each level of auditor?	Y			Within job descriptions and person specs	2
	(b)	Are individual auditors periodically assessed against these predetermined skills and competencies?	Y			Annual appraisal helps to identify training needs.	2
	©	Are training or development needs identified and included in an appropriate ongoing development programme?	Y			As part of appraisals process.	2
	(d)	Is the development programme recorded, regularly reviewed and monitored?	Y			Reviewed as part of the following year's appraisal and six month review.	2
6.2.2	Do individual auditors maintain a record of their professional training and development activities?		Y			CPD logs set up and staff aware these need to be completed.	2
7	Audit Strategy and Planning						
7.1	Audit Strategy						
7.1.1	(a)	Is there an <i>internal audit</i> strategy for delivering the service?	Y			Contained in Service and Financial Plan and in Strategic Audit Plan	2
	(b)	Is it kept up-to-date with the organisation and its changing priorities?	Y			Strategic audit plan is risk assessed annually.	2
7.1.2	Does the strategy include:						
	(a)	Internal Audit objectives and outcomes?	Y				2
	(b)	how the Head of Internal Audit will form and evidence his or her opinion on the control environment?	Y			Audit Charter	2
	©	how Internal Audit's work will identify and address local and national issues and risks?	Y			Audit Charter	2
	(d)	how the service will be provided, i.e., internally, externally or a mix of the two?	Y			Audit Charter	2
	(e)	the resources and skills required to deliver the strategy?	Y			Covering report to audit plan.	2
7.1.3	Has the strategy been approved by the Audit Committee?		Y			Approved annually by Audit Committee	2

Appendix F

REF	ADHERENCE TO THE STANDARD		Y	P	N	EVIDENCE	SCORE
7.2	Audit Planning						
7.2.1	Is there a risk-based plan that is informed by the organisation's risk management, performance management and other assurance processes?		Y				2
7.2.2	Where the risk management process is not fully developed or reliable, does the Head of Internal Audit undertake his or her own risk assessment process?		Y			Audit Plan report	2
7.2.3	Are stakeholders consulted on the audit plan?		Y				2
7.2.4	Does the plan demonstrate a clear understanding of the organisation's functions?		Y				2
7.2.5	Does the plan:						
	(a)	cover a fixed period of no longer than one year?	Y			Audit Plan	2
	(b)	outline the assignments to be carried out?	Y			Audit Plan	2
	©	prioritise assignments?	Y			Each assignment assessed for risk.	2
	(d)	estimate the resources required?	Y			Specific time allocation for each planned assignment.	2
	(e)	differentiate between assurance and other work?	Y			Audit Plan	2
	(f)	allow a degree of flexibility?	Y			Contingency and consultancy time has been allocated.	2
7.2.6	If there is an imbalance between the resources available and resources needed to deliver the plan, is the Audit Committee informed of proposed solutions?		Y			Report to Audit Committee	2
7.2.7	Has the plan been approved by the Audit Committee?		Y			See minutes of the March Audit Committee	2
7.2.8	If significant matters arise that jeopardise the delivery of the plan, are these addressed and reported to the Audit Committee?		Y			Meetings with Audit Committee are held quarterly and progress against plan and any identified extra work required is reported.	2
8	Undertaking Audit Work						
8.1	Planning						
8.1.1	(a)	Is a brief prepared for each audit?	Y			Audit Brief	2
	(b)	Is the brief discussed and agreed with relevant managers?	Y			An introductory meeting is held with the relevant manager.	2
8.1.2	Does the brief set out:						
	(a)	objectives?	Y			Working programme – Key controls, tests to be carried out and reasons.	2
	(b)	scope?	Y			Working programme – Covers each key control area in details listing all other controls expected in the area.	2
	©	timing?	Y			Audit brief	2
	(d)	resources?	Y			Audit brief	2
	(e)	reporting requirements?	Y			Contained in the Audit Manual.	2

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REF	ADHERENCE TO THE STANDARD		Y	P	N	EVIDENCE	SCORE
8.2	Approach						
8.2.1	Is a risk-based audit approach used?		Y			Audit Plan	2
8.2.2	Does the audit approach show when management should be informed of interim findings where key (serious) issues have arisen?		Y			Audit manual	2
8.2.3	Does the audit approach include a quality review process for each audit?		Y			QA procedures and evaluations	2
8.3	Recording Audit Assignments						
8.3.1	Has the Head of Internal Audit defined a standard for audit documentation and working papers?		Y			Contained within the Audit Manual and templates for working programme and reports.	2
8.3.2	Do quality reviews ensure that the defined standard is followed consistently for all audit work?		Y			Every report is read by the Internal Audit Manager before publication.	2
8.3.3	Are working papers such that an experienced auditor can easily:						
	(a)	identify the work that has been performed?	Y			Testing is cross-referenced to the relevant numbered control and risk in the working programme.	2
	(b)	re-perform it if necessary?	Y				2
	(c)	see how the work supports the conclusions reached?	Y			Every report is read by the Internal Audit Manager before publication.	2
8.3.4	Is there a defined policy for the retention of all audit documentation, both paper and electronic?		Y			Contained in the Council's Retention and disposal policy.	2
8.3.5	Do all retention and access policies conform to appropriate legislation, i.e. Data Protection Act, Freedom of Information Act, etc and any organisational requirements?		Y			Retention and Disposal Policy set up as part of implementation of FOI across the Council.	2
8.3.6	Is there an access policy for audit files and records?		Y			Audit Manual.	2
9	Due Professional Care						
9.1	Responsibilities of the Individual Auditor						
9.1.1	Are there documents that set out the requirements on all audit staff in terms of:						
	(a)	being fair and not allowing prejudice or bias to override objectivity?	Y			Code of Conduct for Auditors	2
	(b)	declaring interests that could be perceived to be conflicting or could potentially lead to conflict?	Y			Code of Conduct for Auditors	2
	(c)	receiving and giving gifts and hospitality from employees, clients, suppliers or third parties?	Y			Code of Conduct for Auditors	2
	(d)	using all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions?	Y			Code of Conduct for Auditors	2
	(e)	being alert to the possibility of intentional wrongdoing, errors or omissions, poor value for money, failure to comply with management policy or conflict of interest?	Y			Code of Conduct for Auditors	2
	(f)	having sufficient knowledge to identify indicators that fraud or corruption may have been committed?	Y			Code of Conduct for Auditors	2
	(g)	disclosing all material facts known to them which, if not disclosed, could distort their reports or conceal	Y			Code of Conduct for Auditors	2

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REF	ADHERENCE TO THE STANDARD		Y	P	N	EVIDENCE	SCORE
		unlawful practice?					
	(h)	disclosing any non-compliance with these standards?	Y			Code of Conduct for Auditors	2
	(i)	not using information they gain in the course of their duties for personal use?	Y			Code of Conduct for Auditors	2
9.2	Responsibilities of the Head of Internal Audit						
9.2.1	Has the Head of Internal Audit established a monitoring and review programme to ensure that due professional care is achieved and maintained?		Y			Quality Assurance Checklist.	2
9.2.2	Are there systems in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct?		Y			Anti Fraud and Corruption Policy, Code of Conduct for Auditors and Audit Manual.	2
10	Reporting						
10.1	Principles of Reporting						
10.1.1	Is an opinion on the control environment and risk exposure given in each audit report?		Y			Included in the manual and checked as part of the QA process	2
10.1.2	Has the Head of Internal Audit determined the way in which Internal Audit will report?		Y			Audit Manual. Set reporting template used.	2
10.1.3	Has the Head of Internal Audit set out the standards for internal audit reporting?		Y			Audit Manual.	2
10.1.4	Are there laid-down timescales for reports to be issued?		Y			Audit Manual.	2
10.2	Reporting on Audit Work						
10.2.1	Do the reporting standards include:						
	(a)	format of the reports?	Y			Audit Manual.	2
	(b)	quality assurance of reports?	Y			Audit Manual.	2
	(c)	the need to state the scope and purpose of the audit?	Y			Audit Manual.	2
	(d)	the requirement to give an opinion?	Y			Audit Manual.	2
	(e)	the process for agreeing reports with the recipient?	Y			Audit Manual.	2
	(f)	an action plan or record of points arising from the audit and, where appropriate, of agreements reached with management together with appropriate timescales?	Y			Audit Manual.	2
10.2.2	Does the audit reporting process include discussion and agreement of reports?		Y			Audit Manual.	2
10.2.3	Has the Head of Internal Audit determined a process for prioritising recommendations according to risk?		Y			Audit Manual. Also explained within each audit.	2
10.2.4	Are areas of disagreement recorded appropriately?		Y			Individual audit reports.	2
10.2.5	Are those weaknesses giving rise to significant risks that are not agreed drawn to the attention of senior management?		Y			Also, all final reports are passed to the Audit Committee	2
10.2.6	Is the circulation of each audit report determined when preparing the audit brief?		Y			Also dependent on recommendations which may refer to other departments not identified at the start of the audit.	2
10.2.7	(a)	Does the reporting process include details of circulation of that particular audit report?	Y			Circulation is electronic, so recipients are visible.	2
	(b)	Is this included in the brief for each individual audit?	Y			To be discussed at introductory meeting – see Audit	2

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REF	ADHERENCE TO THE STANDARD	Y	P	N	EVIDENCE	SCORE
					Manual.	
10.2.8	Does the head of Internal Audit have mechanisms in place to ensure that:					
	(a) recommendations that have a wider impact are reported to the appropriate forums?	Y			See 10.2.6 and 10.2.5 above.	2
	(b) risk registers are updated?	Y			Previous audits feed back to risk assessment.	2
10.3	Follow-up Audits and Reporting					
10.3.1	Has the Head of Internal Audit defined the need for and the form of any follow-up action?	Y			Audit Manual.	2
10.3.2	Has the Head of Internal Audit established appropriate escalation procedures for internal audit recommendations not implemented by the agreed date?	Y			Audit Manual and Protocol for Dealing With Disputed Recommendations and Unanswered Reports.	2
10.3.3	Where appropriate, is a revised opinion given following a follow-up audit and reported to management?	Y			Short report for each audit follow up	2
10.3.4	Are the findings of audits and follow-ups used to inform the planning of future audit work?	Y			Embedded within planning process, but not documented.	2
10.4	Annual Reporting and Presentation of Audit Opinion					
10.4.1	Does the Head of Internal Audit provide an annual report to support the Statement on Internal Control?	Y			Annual report on audit activity informs the Annual Governance Statement	2
10.4.2	Does the Head of Internal Audit's annual report:					
	(a) include an opinion on the overall adequacy and effectiveness of the organisation's control environment?	Y			Annual report on audit activity.	2
	(b) disclose any qualifications to that opinion, together with the reasons for the qualification?	Y			Annual report on audit activity.	2
	(c) present as summary of the audit work from which the opinion was derived, including reliance placed on work by other assurance bodies?	Y			Annual report on audit activity.	2
	(d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control?	Y			Annual report on audit activity.	2
	(e) compare the actual work undertaken with the planned work and summarise the performance of the internal audit function against its performance measures and targets	Y			Annual report on audit activity.	2
	(f) comment on compliance with the standards of the Code?	Y			Annual report on audit activity.	2
	(g) communicate the results of the internal audit quality assurance programme?	Y			Annual report on audit activity.	2
10.4.3	Has the Head of Internal Audit made provision for interim reporting to the organisation during the year?	Y			Quarterly reporting to the Audit Committee.	2
11	Performance, Quality and Effectiveness					
11.1	Principles of Performance, Quality and Effectiveness					
11.1.1	Is there an audit manual?	Y			Audit Manual	2
11.1.2	Does the audit manual provide guidance on:					
	(a) carrying out day-to-day audit work?	Y			Audit Manual	2
	(b) complying with the Code?	Y			Audit Manual	2
11.1.3	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards?	Y				2

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REF	ADHERENCE TO THE STANDARD		Y	P	N	EVIDENCE	SCORE
11.1.4	Does the Head of Internal Audit have arrangements in place to assess the performance and effectiveness of:						
	(a)	each individual audit?	Y			Review prior to issue and quality questionnaires.	2
	(b)	the internal audit service as a whole?	Y				2
11.2	Quality Assurance of Audit Work						
11.2.1	Does the Head of Internal Audit have a process in place to ensure that work is allocated to auditors who have the appropriate skills, experience and competence?		Y			Allocated on experience and qualifications. Training and team working to develop skills.	2
11.2.2	Does the Head of Internal Audit have a process in place to ensure that all staff are supervised appropriately throughout all audits?		Y			Day to day supervision provided by Internal Audit Manager	2
11.2.3	Does the supervisory process cover:						
	(a)	monitoring progress?	Y			One to ones and general updating – small team	2
	(b)	assessing quality of audit work?	Y			One to ones and general updating – small team	2
	(c)	coaching staff?	Y			Individual training as required / identified + team approach to audits.	2
11.3	Performance and Effectiveness of the Internal Audit Service						
11.3.1	Does the Head of Internal Audit have a performance management and quality assurance programme in place?		Y			Client Satisfaction Surveys are used after every audit.	2
11.3.2	Does the performance management and quality assurance framework include as a minimum:						
	(a)	a comprehensive set of targets to measure performance:	Y			Used in terms of benchmarking	2
	(i)	which are developed in consultation with appropriate parties?	Y				2
	(ii)	which are included in service level agreements, where appropriate?	Y				2
	(iii)	against which the Head of Internal Audit measures, monitors and reports appropriately on progress?	Y			Benchmarking	2
	(b)	user feedback obtained for each individual audit and periodically for the whole service?	Y			See 11.3.1. above.	2
	(c)	a periodic review of the service against the strategy and the achievement of its aims and objectives, the results of which are used to inform the future strategy?	Y			Constantly looking for improvements but not formalised.	2
	(d)	internal quality reviews to be undertaken periodically to ensure compliance with this Code and the audit manual?	Y				2
	(e)	an action plan to implement improvements?	Y				2
11.3.3	Does the Head of Internal Audit compare the performance and the effectiveness of the service over time, in terms of both the achievement of targets and the quality of the service provided to the user?		Y			Will be reported quarterly to the Audit Committee	2

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REF	ADHERENCE TO THE STANDARD	Y	P	N	EVIDENCE	SCORE
11.3.4	Do the results of the performance management and quality assurance programme evidence that the internal audit service is:					
	(a) meeting its aims and objectives?	Y			QA programme and reporting	2
	(b) compliant with the Code?	Y			QA programme and reporting	2
	(c) meeting internal quality standards?	Y			QA programme and reporting	2
	(d) effective, efficient, continuously improving?	Y			QA programme and reporting	2
	(e) adding value and assisting the organisation in achieving its objectives?	Y			QA programme and reporting	2
11.3.5	Does the Head of Internal Audit report on the results of the performance management and quality assurance programme in the annual audit report?	Y			This form is reported to the Audit Committee.	2
11.3.6	Does the Head of Internal Audit provide evidence from his or her review of the performance and quality of the internal audit service to the organisation for consideration as part of the annual review of the effectiveness of the system of internal audit?	Y				2

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Source : Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 published by CIPFA.
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384 highest score possible – current rating 383 expressed as a percentage 99.73%

Body:	AUDIT AND GOVERNANCE COMMITTEE
Date:	26 JUNE 2013
Subject:	Annual Governance Statement
Report Of:	Internal Audit Manager
Ward(s)	All
Purpose	To consider the Annual Governance Statement to be signed by the Council Leader and Chief Executive.
Recommendation(s):	The Committee approves the Annual Governance Statement.
Contact:	Jackie Humphrey, Internal Audit Manager, Telephone 01323 415925 or internally on extension 5925. E-mail address jackie.humphrey@eastbourne.gov.uk

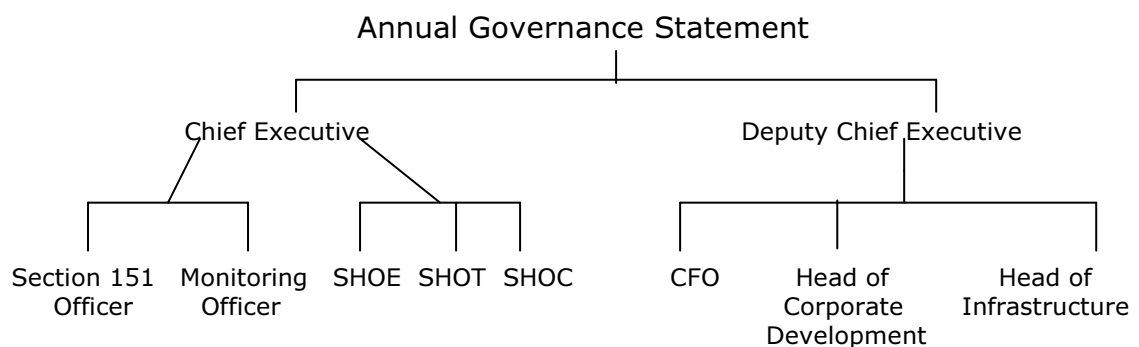
1.0 Background

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

2.0 Governance Framework

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

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



3.0 Annual Governance Statement

- 3.1 The Annual Governance Statement is a document that provides a structure in which to consider the Council's governance arrangements and their effectiveness. This ensures that major control issues are identified and action taken to address these issues.
- 3.2 There are essentially three parts to the statement:
- ☐ A statement of responsibility and purpose
 - ☐ A description of the components of the governance framework that exist in the Council

- The resulting issues and actions arising from those arrangements

4.0 Amendments to Annual Governance Statement

- 4.1 In December 2012 an addendum to the CIPFA "Delivering Good Governance in Local Government, Framework" was published. This updated the example of an annual governance statement to "give an increased emphasis on a strategic approach".
- 4.2 In practice this has added eight key elements to the section "The Governance Framework" and has moved and adjusted some text under "Review Of Effectiveness" and "Significant Governance Issues". However none of these changes materially affect the overall statement.

5.0 The 2012/13 Review

- 5.1 The 2012/13 governance issues and subsequent action plan has been compiled from:

The annual report of the Internal Audit Manager
Corporate Management Team
Scrutiny reports
Standards reports
External Audit reports
Reports of external review bodies
Managers' Assurance Statements
Evidence from the Council's Monitoring Officer(s)
Review by the Chief Finance Officer, Deputy Chief Executive and Internal Audit Manager.
- 5.2 Completed Managers' Assurance Statements were returned from all Heads of Service and from Eastbourne Homes Limited and none raised any concerns to be considered for inclusion in the Annual Governance Statement.
- 5.3 The Internal Audit Manager, in consultation with the Council's Corporate Management Team, has concluded that there is one area of internal governance that meets the criteria to report as an issue requiring disclosure. The one area of concern noted has been included since it is in regard to a significant income stream.
- 5.4 Once agreed by this committee the Annual Governance Statement will be given to the Chief Executive and Leader of the Council to sign before it is published alongside the Statement of Accounts.

6.0 Recommendation

- 6.1 The committee approves the Annual Governance Statement.

Jackie Humphrey
Internal Audit Manager

Background Papers:

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

None

Annual Governance Statement

Scope of responsibility

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

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

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

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

The purpose of the governance framework

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

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

The governance framework has been in place at the Council for the year ended 31 March 2013 and up to the date of approval of the Annual Reports on financial Outturn and performance and Statement of Accounts.

The governance framework

Key elements of the systems and processes that comprise the authority's governance arrangements include arrangements for:

Key Elements	Owner	Confirmation that arrangements are in place	Comments
Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users	Heads of Service and Senior Heads of Service. (HOS)	Yes	Set out in the themed sections of the 2010-2015 Corporate Plan
Reviewing the authority's vision and its implications for the authority's governance arrangements	HOS	Yes	Annual review and approval by full Council of key projects and activities within the priority themes in the Corporate Plan
Translating the vision into objectives for the authority and its partnerships	Heads of Service and Senior Heads of Service. (HOS)	Yes	Set out in the themed sections of the 2010-2015 Corporate Plan
Measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources	HOS/ Chief Finance Officer (CFO)	Yes	Collation of performance data and milestones through use of Covalent system as set out in the Corporate Plan alongside planned activity together with their specific reporting lines and time tables. Monitoring management and intervention arrangements through Corporate Management Team, Cabinet and Scrutiny in place.
Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication	Head of Corporate Development (HOCD) / HOS	Yes	Set out in responsibility for functions and roles section of the Council's Constitution and confirmed by the Council at its annual meeting scheme
Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff	HOS	Yes	Set out in relevant sections of the Council's Constitution, reviewed as necessary in accordance with new or changing guidance

Key Elements	Owner	Confirmation that arrangements are in place	Comments
Reviewing the effectiveness of the authority's decision-making framework, including delegation arrangements, decision-making in partnerships and robustness of data quality	Monitoring Officer	Yes	
Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability	Audit and Governance Committee	Yes	Set out in terms of reference for the committee
Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained	Audit and Governance Committee	Yes	Set out in terms of reference for the committee
Ensuring effective management of change and transformation	CMT and Cabinet	Yes	Overseeing change projects.
Ensuring the authority's financial management arrangements conform with the governance requirements of the <i>CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)</i> and, where they do not, explain why and how they deliver the same impact	CFO	Yes	

Key Elements	Owner	Confirmation that arrangements are in place	Comments
Ensuring the authority's assurance arrangements conform with the governance requirements of the <i>CIPFA Statement on the Role of the Head of Internal Audit (2010)</i> and, where they do not, explain why and how they deliver the same impact	Internal Audit Manager	Yes	
Ensuring effective arrangements are in place for the discharge of the monitoring officer function	CEO	Yes	
Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities	HOS/ CFO	Yes	Audit and Governance Committee in place with core functions defined in the Council's constitution. The Council also submits items to Cabinet such as external audit reports and the Annual Audit and Inspection letter
Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful	HOCD/ CFO/ MO	Yes	Set out in the rules of procedure section of the Council's constitution
Whistle-blowing and for receiving and investigating complaints from the public	Internal Audit Manager (IAM)/ HOCD	Yes	Set out in the codes and protocols section of the Council's constitution and regularly reviewed by Internal Audit
Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training	HOCD	Yes	Work force development and member development plans are in place.

Key Elements	Owner	Confirmation that arrangements are in place	Comments
Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation	HOCD	Yes	Annual bespoke consultation designed each year alongside corporate plan, budget and service planning processes jointly owned by Executive and Scrutiny. To direct priority projects and activities.
Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships,(ref 7) and reflecting these in the authority's overall governance arrangements.	Senior Head of Community Services (CS) /HOCD	Yes	All working partnerships have previously been the subject of equality impact assessments and are properly constituted. Elected member representatives appointed annually by full Council and listed in the Council's constitution.

Review of effectiveness

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

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

- Continual assessment and review by officers of the corporate governance arrangements to ensure they are 'fit for purpose' in a changing environment
- All reports from Internal Audit work, annual report by the Head of Internal Audit
- External Auditor's Annual Audit and Inspection Letter and other commissioned audit reports
- Risk Management – review of report by the Head of Internal Audit, Annual Governance Statement and Strategic Risk Register reported to Corporate Management Team.
- Audit and Governance Committee – Review of report by the Head of Internal Audit, Annual Governance Statement, Internal Audit provision, all internal audits and Strategic Risk Register. Also considers the draft annual financial statements including the Annual Governance Statement in June and then the final statements following audit in September
- Scrutiny – Any item discussed by the Audit and Governance Committee can be subject to Scrutiny as required
- Corporate Management Team - Consideration of Internal Audit Plan, Strategic Risk Register and Annual Governance Statement.
- Cabinet – Consideration of External Auditor's Annual Audit and Inspection Letter and other commissioned audit reports. To sponsor and recommend adoption of the accounts.
- Managers' Assurance Statements – Statements cover the operational, project and partnership responsibilities of Heads of Service. These can be used to highlight concerns and actions required to improve governance throughout the Council and at Eastbourne Homes Ltd.
- External reviews – Reviews carried out by external agencies, e.g. APP; Benefit Performance Review; RIPA inspection which impact on the governance framework.
- Governance arrangements at Eastbourne Homes Ltd (EHL) – reviews carried out and reports written by the internal and external auditors engaged by EHL which are reported to their own Audit Committee and Board. Ad hoc reviews are carried out on EHL systems by the internal auditors of the council. At the end of year the Audit Committee of EHL have a minuted disclaimer concerning fraud and corruption.

We have been advised on the implications of the result of the review of effectiveness of the governance framework by the Audit and Governance Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

Significant Governance Issues

Internal controls across the authority were generally found to be sound. However the following exceptions are noted;

Area	Issue	Actions
Theatres Reconciliations	Monthly reconciliations had not been carried out	Work is being carried out to ensure that reconciliations for the year are carried out retrospectively and any variances investigated. Reconciliations are now being carried out on a monthly basis.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed on behalf of Eastbourne Borough Council:

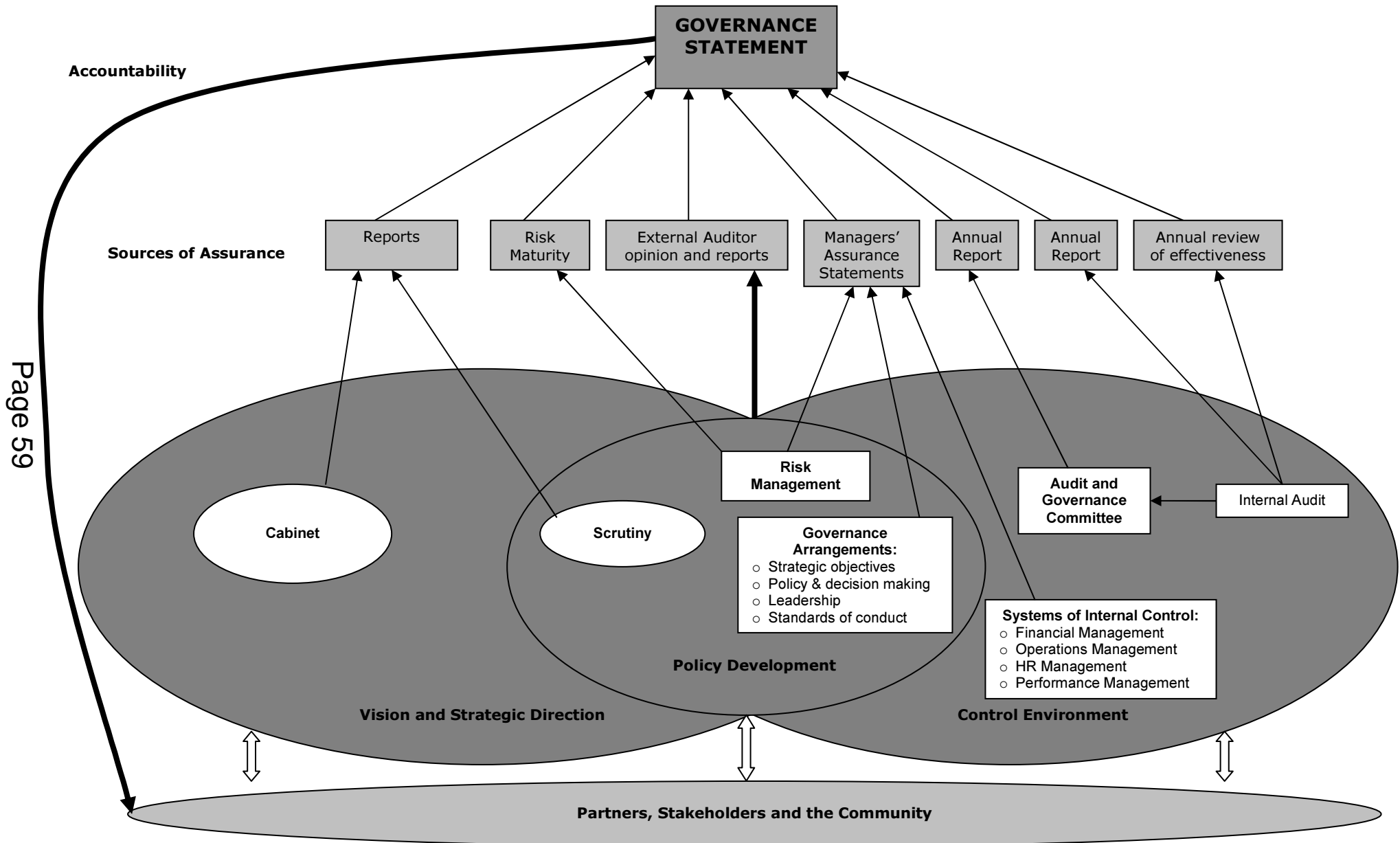
.....
Leading Member

.....
Chief Executive

Date:

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APPENDIX 1



Appendix 2

ANNUAL GOVERNANCE STATEMENT TIMETABLE

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

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DEPT:

Ref	Governance Responsibility	No Concerns	Minor Concerns	Some Concerns	Substantial Concerns	Major Concerns	Explanation of concerns Action Plan
1.	Services are planned and managed to implement the priorities of Eastbourne Borough Council. Demonstrated through: <ul style="list-style-type: none"> • Service plan aligned to the Council's priorities • Plans in place to monitor the quality of service to users and seek continuous improvements • Making best use of resources to ensure excellent service and value for money is achieved • Dealing effectively with any failures in service delivery. 						
2.	There are good working relationships with Members and officers responsibilities are clearly defined. Demonstrated through: <ul style="list-style-type: none"> • Statutory Officers have clearly defined scope and status to fulfil their roles • Delegated powers are clearly defined and understood • Member/officer protocol operates effectively in practice • Partnership governance arrangements are clearly defined and appropriate 						

DEPT:

Ref	Governance Responsibility	No Concerns	Minor Concerns	Some Concerns	Substantial Concerns	Major Concerns	Explanation of concerns Action Plan
3.	The values of good governance are demonstrated and high standards of conduct and behaviour. Demonstrated through: <ul style="list-style-type: none"> • Effective communication to all staff of the code of conduct, standing orders, Financial Procedure Rules, Contract Procedure Rules and Anti Fraud and Corruption Policy • Effective performance management of staff and regular appraisals • The Council's values are understood and promoted 						
4.	Management decision making and advice to Members are well founded and involve consideration of professional advice and identified risks. Demonstrated through: <ul style="list-style-type: none"> • Effective arrangements to ensure data quality (complete, accurate, timely and secure) • The internal control framework operates effectively • Professional advice is obtained where appropriate and is recorded • Risk management operates effectively in strategic, 						

DEPT:

Ref	Governance Responsibility	No Concerns	Minor Concerns	Some Concerns	Substantial Concerns	Major Concerns	Explanation of concerns Action Plan
	project and operational areas <ul style="list-style-type: none"> Decisions made are in accordance with delegated powers and the Council's constitution Arrangements are in place to obtain assurance on the management of key risks 						
5.	The capacity and capability of officers has been developed to ensure effective performance. Demonstrated through: <ul style="list-style-type: none"> Training and development of staff Workforce planning to ensure there are adequate staffing levels Statutory officers have sufficient resources to fulfil their role 						
6.	Robust public accountability is ensured by engaging with local people and stakeholders Demonstrated through: <ul style="list-style-type: none"> Arrangements to communicate with relevant sections of the community Undertaking effective consultation with public and other stakeholders Consultation with staff and engagement in decision making is undertaken 						

DEPT:

Ref	Governance Responsibility	No Concerns	Minor Concerns	Some Concerns	Substantial Concerns	Major Concerns	Explanation of concerns Action Plan
7.	Adequate processes have been put in place for the safeguarding of children and vulnerable adults.						
8.	Adequate action has been taken to ensure compliance with the requirements of the Bribery Act. Demonstrated through: <ul style="list-style-type: none"> Proportionate procedures have been put in place to prevent bribery The risks of bribery have been assessed and added to the departmental risk register Procedures and risks are regularly monitored and reviewed. 						
		Yes	No	Considered but not used			
9.	Have you had reason for using/considering using surveillance which would fall under RIPA?						
		Yes	No	If yes, please give details			
10.	Are you aware of any frauds over £10k that have not already been informed to the Internal Audit section.						

BODY: **AUDIT AND GOVERNANCE COMMITTEE**

DATE: **26 June 2013**

SUBJECT: **Annual Accounts 2012/13**

REPORT OF: **Financial Services Manager**

Ward(s): All

Purpose: To present the annual accounts for 2012/13

Decision Type Key decision

Contact: Pauline Adams, Financial Services Manager Tel: 01323 415979.

Recommendations: Members are asked to note the draft annual accounts for 2012/13.

1.0 Introduction

1.1 The Accounts and Audit Regulations 2011 require the Council to formally approve and publish the Statement of Accounts for the financial year ending 31 March 2013 by 30 September 2013

1.2 It is the Chief Financial Officer's (CFO) responsibility to ensure the preparation of the Statement is in accordance with the CIPFA/LASAAC Code of Practice on local Authority Accounting in the United Kingdom (the Code). The CFO is also responsible for certifying that the accounts represent a true and fair view of the authority's financial position by 30 June.

1.3 The responsibility for the formal adoption of the accounts has been delegated to this Committee and the accounts together with any audit amendments will be presented back this committee prior to the September deadline so that members can comply with this duty. This responsibility is intended to enhance the corporate accountability and ownership of the finances of the authority. It is also a requirement under the Accounts and Audit Regulations for the person presiding at the Committee at which approval is given to sign and date them.

1.4 The Statement of Accounts is to be considered by the Cabinet on 10 July 2013 and any comments from this Committee will be reported verbally.

2.0 Format of the Statement of Accounts

2.1 The format of the Statement of Accounts has been prepared in line with the requirements of the Code and related guidance

notes.

2.2 The draft statement of accounts is circulated separately. An overview and key points of interest attached at Appendix 1.

2.3 There have been no major changes to the Code this year.

However the following few minor changes have been included in the 12/13 final accounts preparation:

- HRA accounting for property, plant and equipment in relation to transfers to and from the Major Repairs Reserve under the new self –financing arrangements for housing authorities introduced 1 April 2012,
- New note on Business Rate appeals, with the introduction of new arrangement for business rate retention on 1 April 2013 local authorities will assume the liability for refunding ratepayers who successfully appealed against the rateable value of their properties, which is reported as a post balance sheet event.
- Clarification over when redundancy costs are to be accounted for, which is when the decision is made rather than when actually paid. This has had an impact on the accounts for this year following the staffing changes brought about following the re-structure for Customer First.
- New note on pension changes that relate to accounting standards for pension reporting due in 13/14, comparator figures for 12/13 have to be reported. This change will not have any financial impact on the Council accounts.

These changes are also explained within the Foreword of the Statement of Accounts.

2.4 The Annual Governance Statement is not reported within the Statement of Accounts but sits along side the statement giving members assurance that the data supporting the figures included in the accounts are based on sound financial systems.

3.0 Financial Results

3.1 The provisional outturn for the general fund, HRA and capital was reported to the Cabinet on 29 May 2013. An analysis of the Council's financial activity of the year 1 April 2012 to 31 March 2013 can be found in the Foreword of the Statement of Accounts and the key issues are outlined in the overview attached at Appendix 1.

4.0 External Audit

4.1 The 2012/13 Statement of Accounts is still subject to external audit by BDO LLP (the new name for our audit provider following the merger with PKF (UK) LLP), who have to report back to this committee by 30 September 2013. Any significant subsequent changes will be reported at that time.

4.2 BDO are due to start their audit work on 8 July 2013.

5.0 Consultation

5.1 The accounts will be open for public inspection between 5 July and 1 August 2013 when any taxpayer of the Borough is entitled to come, inspect and make copies of the accounts and all books, deeds, contracts, bills, vouchers and receipts related to those accounts. The date set for questioning the external auditor has been set as 2 August 2013 until the end of the audit. All queries and questions must be put in writing to him and sent directly to his offices.

6.0 Summary

6.1 Members are asked to note the annual accounts for 2012/13.

Background Papers:

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

CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) and Guidance notes for practitioners.

2012/13 Final Accounts working papers.

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Overview of the 2012/13 Statement of Accounts.

Introduction

1. The content and format of the accounts is as prescribed in the Accounting Code of Practice (the Code) issued by the Chartered Institute of Public Finance and Accountancy CIPFA). Under the oversight of the Financial Reporting Advisory Board.
2. The code is based on approved accounting standards issued by the International Accounting Standards Board except where these are inconsistent with specific statutory requirements. The code constitutes proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.
3. This overview summarises the contents of the accounts and draws Members' attention to the reasons for any significant variances in the 2012/13 position when compared to 2011/12.

Explanatory Foreword and Key Points of Interest

4. The foreword provides a brief summary of the outturn on the revenue and capital budget and sets out the context in which the accounts are produced giving rise to the financial position shown as at 31 March 2013.
5. The most significant changes for the Authority finances in 2012/13 were:
 - Total general fund underspend on service expenditure for the year of £54,785. This figure is in line with the Budget Monitoring reports submitted quarterly to the Cabinet and the provisional outturn reported on 29 May 2013.
 - A decrease in the general fund balance of £743,848, resulting in a balance as at 31 March 2013 of £3.9m.
 - An increase of £4.1m in the pension liability due to a actuarial assumptions. The pension fund assets and liabilities are due to be revalued as at 31 March 13 and will be reported in the Autumn.

Statement of Responsibilities

6. This sets out the respective responsibilities of the Authority and the Chief Finance Officer (Section 151 Officer) in relation to the production of the final accounts.

Auditors Report

7. The External Auditors will provide an independent opinion as to whether the statement of accounts presents fairly the financial position of the Council at 31 March 2013 and its income and expenditure for the year. Following approval of the accounts by Members the External Auditor will issue his report for inclusion in the final published accounts.

Movement in Reserves Statement

8. This statement shows the movement in the year of the different reserves held by the Council, including both usable and unusable reserves. (Unusable reserves are technical adjustment accounts to record notional assets and liabilities such as pensions, revaluations etc.)

Comprehensive Income and Expenditure Account

9. The comprehensive income and expenditure account shows, in the format required by the Code, all day-to-day expenses and related income on an accruals basis incurred in providing all services for the year. The deficit/surplus is akin to that of a large unlisted UK company and does not reflect the balance on the General Fund, which is shown on the statement of movement on reserves.
10. In order to reflect the cost of utilising assets in the provision of services, as required by the Code, gross expenditure on operations includes charges such as depreciation and the write off of revenue expenditure financed from capital under statute (REFFCUS). (This is where expenditure is incurred that does not relate to an asset in the ownership of the Council, such as improvement grants). However, these adjustments are not intended to impact on the council Taxpayer and their effect is therefore neutralised by entries reflected in the Movement in Reserves Statement. These ensure that the council tax is charged only with the interest costs of borrowing and the statutory provision for the repayment of debt.
11. Similarly the cost of retirement benefits is included in the net cost of services when they are earned by employees, rather than when the benefit is paid out as pension. The impact of the notional charge (which is a requirement of IAS19) is reversed out in the Movement in Reserves Statement and replaced by actual employer contributions to the pension fund.
12. After taking all these reconciliation items into account the general fund underspend was £54,785, resulting in a transfer from the general fund balance of £743,848 compared to

the planned budget contribution of £643,606. The general fund balance as at 31 March 2013 stands at £3.9m.

Balance Sheet

13. The balance sheet sets out the financial position of the Council as at 31 March 2013. The statement shows the balances and reserves at the Council's disposal, its long term indebtedness, and the fixed and current assets employed. The principal movements on the balance sheet are described below.
14. Net cash and bank balances (less cash balances overdrawn) as at 31 March have increased by £5.0m due to the conversion of short term investment of £1.9m into call accounts and additional investment in call accounts of £4.8m.
15. A decrease in short-term borrowing of £3.4m due to the loan maturity and subsequent repayment.
16. Long term borrowing has increased by £8.4m due to replacing the matured short term borrowing with longer term borrowing and new borrowing taken on to replace the use of internal cash balances being used to internally finance capital expenditure. This action was taken to take advantage of low borrowing rates and is in line with the Council's treasury management strategy.
17. The amount of debt owed to the authority has decreased by £271,022.
18. The amount owed by the Council to its creditors has increased by £1.1m due to an increase in the amount of NNDR to be paid into the national pool.

Notes to the Core Financial Statements

19. The notes to the core financial statements are intended to provide supporting information to the figures shown in both the income and expenditure account and the balance sheet. They have been prepared in accordance with the Code.

Supplementary Single Entity Accounts

20. The housing revenue account and accompanying notes represents the income, expenditure and government subsidy incurred in operating the Council's housing stock. The surplus for the year was £177,691 and the housing revenue account balance as at 31 March 2013 was £2.1m.

21. The collection fund and accompanying notes account independently for income relating to council tax and non-domestic rates on behalf of all precepting bodies (i.e. the authorities for which the income has been raised, including the Council's own general fund). The surplus balance of £114,570 is to be recovered from each precepting body in proportion to its Band D Council Tax during 2013/14 & 2014/15. This balance is separated on the Balance Sheet between the precepting authorities to reflect this Council's own financial position rather than a group position of the Collection Fund authorities.

Cash Flow Statement and Notes

22. This statement summarises the inflows and outflows of cash arising from transactions with third parties for both revenue and capital purposes.

Group Accounts

23. The Council is required to show the material interest that it has in any subsidiary and associated companies. The group accounts are structured in line with the authorities' core accounting statements and are accompanied by notes in the same way. It has been identified that the only requirement for consolidation is with Eastbourne Homes Ltd. Group are not included at this time however they submitted to the auditors along with the main statement at the end of June.