

Audit and Governance Committee 2 March 2022



Working in partnership with **Eastbourne Homes**

Time and venue:

6.00 pm in the Court Room at Eastbourne Town Hall, Grove Road, BN21 4UG

Membership:

Councillor Robin Maxted (Chair); Councillors Amanda Morris (Deputy-Chair), Helen Burton, Sammy Choudhury, Peter Diplock, Tony Freebody, Md. Harun Miah and Kshama Shore

Quorum: 2

Published: Tuesday, 22 February 2022

Agenda

1 Minutes (Pages 5 - 8)

To confirm the minutes of the last meeting of the Committee.

2 Apologies for absence/declaration of substitute members

3 Declarations of Disclosable Pecuniary Interests (DPIs) by members as required under Section 31 of the Localism Act and of other interests as required by the Code of Conduct.

4 Questions by members of the public.

On matters not already included on the agenda and for which prior written notice has been given (total time allowed 15 minutes).

5 Urgent items of business.

The Chairman to notify the Committee of any items of urgent business to be added to the agenda.

6 Right to address the meeting/order of business.

The Chairman to report any requests received to address the Committee from a member of the public or from a Councillor in respect of an item listed below and to invite the Committee to consider taking such items at the commencement of the meeting.

7 Annual External Audit Letter 2018/19 (Pages 9 - 24)

Report of the External Auditor, Deloitte.

- 8 External Audits Update 2019/20 and 2020/21**
Verbal report of the External Auditor, Deloitte.
- 9 Appointment of Audit Independent Member (Pages 25 - 28)**
Report of the Head of Democratic Services.
- 10 Internal Audit Draft New Year Plan (Pages 29 - 36)**
Report of the Chief Internal Auditor.
- 11 Strategic Risk Register Quarterly Review (Pages 37 - 48)**
Report of the Chief Internal Auditor.
- 12 Internal Audit and Counter Fraud Quarterly Review (Pages 49 - 86)**
Report of the Chief Internal Auditor.
- 13 Post Assurance Review of Covid Business Grants (Pages 87 - 96)**
Report of the Chief Internal Auditor.
- 14 Date of next meeting**

Information for the public

Accessibility:

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Information for Councillors

Disclosure of interests:

Members should declare their interest in a matter at the beginning of the meeting.

In the case of a disclosable pecuniary interest (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).

Councillor right of address:

Councillors wishing to address the meeting who are not members of the committee must notify the Chairman and Democratic Services in advance (and no later than immediately prior to the start of the meeting).

Democratic Services

For any further queries regarding this agenda or notification of apologies please contact Democratic Services.

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Working in partnership with **Eastbourne Homes**

Audit and Governance Committee

Minutes of meeting held in Court Room at Eastbourne Town Hall, Grove Road, BN21 4UG on 12 January 2022 at 6.00 pm.

Present:

Councillor Robin Maxted (Chair).

Councillors Amanda Morris (Deputy-Chair), Sammy Choudhury, Peter Diplock, Md. Harun Miah and Kshama Shore.

Officers in attendance:

Jackie Humphrey (Chief Internal Auditor), Ola Owolabi (Deputy Chief Finance Officer (Corporate Finance)) and Elaine Roberts (Committee Officer).

37 Minutes

The Minutes of the last meeting, held on 24 November 2021, were confirmed as an accurate record.

38 Apologies for absence/declaration of substitute members

Apologies were received from Councillor Burton, Councillor Freebody, Homira Javadi (Chief Finance Officer) and Oliver Dixon (Head of Legal Services and Monitoring Officer).

39 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.

There were none.

40 Questions by members of the public.

The Chair reported that no questions had been submitted.

41 Urgent items of business.

There were none.

42 Right to address the meeting/order of business.

The Chair reported that no requests had been received.

43 Arrangements for Appointing External Auditors

The Committee considered the report of the Chief Finance Officer, seeking its agreement to recommend that the Full Council accepts the invitation from the Public Sector Audit Appointments (PSAA) to opt into the sector-led option for the appointment of external auditors from 1st April 2023.

Ola Owolabi, Deputy Chief Finance Officer (DCFO), presented the report, briefly outlining the requirements on the Council and the three options for appointment arrangements that were available to the Council.

The DCFO noted that the subject had been discussed at length at a number of previous meetings of the Audit and Governance Committee, and at an informal briefing with the PSAA.

The DCFO informed Members that the CFO had recently written a letter to the PSAA, seeking assurances that, should the Council chose to opt-in to the scheme, the PSAA would consider the Council's request for a different auditor, and would provide support for a smooth transition from existing to new auditor. The DCFO highlighted the importance of considering the transition phase, because the two currently outstanding sets of accounts risked potential delays should a new auditor be appointed. The ability to apply to the PSAA for support in this matter was noted as a benefit of opting into the scheme.

The Chair thanked the DCFO and invited comments and questions from the Committee.

Feedback was shared of the positive experiences that other local Councils' had had of the PSAA scheme. Members noted the usefulness of the briefing with the PSAA and there was recognition that the Council's own poor experience under the current arrangement had been largely due to issues with the current specific auditor, rather than the scheme generally.

Members requested clarification on a number of points concerning current and future costs for external auditing. In his responses, the DCFO confirmed that:

- The current external audit fee within the PSAA scheme was £52K per annum, but that the final audit fees would be more, due to extra billing for various audit works.
- Costs for external auditing from April 2023 would increase, whichever of the three options was selected.
- Research regarding likely external auditing fees for Option 2 had returned an estimate quote of between £150K-£200k per annum, of which approximately 60-65% would fall to Eastbourne Borough Council.
- The PSAA had been unable to provide estimated external audit fees, as it was too early in the timeline of preparations for the next scheme.
- By choosing the PSAA, Option 3, the Council would save on the costs of setting up and maintaining an independent panel as those costs would be over and above any relative comparable cost for auditor services.

There was general agreement amongst Members that cost should not be the only consideration in determining best value. Moreover, the impact on the Council's Finance Team of the lack of resources and poor communications exhibited by the current auditors had had hidden costs for the Council. In light of these considerations, and the fact that the Council shared a joint staff Finance Team with Lewes District Council (LDC), the DCFO agreed the evening's decision of Committee would be shared with LDC's Audit and Standards Committee.

Following questions and comments from Members regarding its request for an alternative auditor from the PSAA scheme, the DCFO reminded Members that the PSAA had clearly stated that the independent process for auditor appointments meant that requests for specific auditors could not be guaranteed. The DCFO noted that, based on previous experiences, he had confidence that the Council's request for a change of auditor would be listened to by the PSAA, and that the Council's position on this matter, and the importance it placed on the need to have a change of auditor going forward, had been made very clear to the PSAA.

The DCFO confirmed that a discussion of 'level of materiality' would be included in the External Audit Plan, presented at the start of the annual audit process from the external auditors, currently expected March 2022.

There was general agreement that joining the PSAA scheme was most likely to provide overall best value out of the three options available to the Council.

On behalf of the Committee, the Chair thanked the Chief Finance Officer and Deputy Chief Finance Officer and the Finance Team finance team for all their work and support in this matter.

Resolved (unanimously)

1. That the Committee recommends that Council approves the decision to accept Public Sector Audit Appointments' (PSAA's) invitation to opt into the sector-led option for the appointment of external auditors from 1st April 2023.

44 Date of the next meeting

The date of the next meeting was confirmed as 2 March 2022, at 6pm in the Court Room, Town Hall, Eastbourne.

The meeting ended at 6.27 pm

Councillor Robin Maxted (Chair)

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Report to:	Audit and Governance Committee
Date:	2 March 2022
Title:	The Annual Audit Letter - 2018/19 External Audit
Report of:	Chief Finance Officer
Cabinet member:	Councillor Stephen Holt, Cabinet Member for Finance
Ward(s):	All
Purpose of report:	To inform the Committee of the Annual Audit Letter for 2018/19.
Decision type:	Budget and Policy Framework
Officer recommendation:	The Committee is recommended to note the Annual Audit Letter for 2018/19.
Reasons for recommendations:	The Council External Auditor is required to provide the Committee with an annual audit letter.
Contact Officer:	Name: Ola Owolabi Post title: Deputy Chief Finance Officer E-mail: ola.owolabi@lewes-eastbourne.gov.uk Telephone number: 01323 415083

1 Introduction

- 1.1 The Annual Audit Letter (AAL) attached as Appendix A summarises key issues arising from the work carried out during the final audit. This report contains no new findings or recommendations, and reflects issues already reported within the 2018/19 External Audit Report to the Audit and Governance Committee.
- 1.2 Deloitte issued an unqualified opinion on the Council's financial statements on 30 September 2021. This means that Deloitte believe the financial statements give a true and fair view of the financial position of the Council and of its expenditure and income for the year. The AAL will be circulated to all Councillors and published on the Council's website on 2 March 2022.

2.0 2018/19 Statement of Accounts

- 2.1 The main message is that the auditors issued an unmodified audit opinion on the 2018/19 financial statements and an unmodified value for money conclusion. The findings from the financial statement audit in relation to the significant risk areas identified during the audit are set out in the appendix, which have been addressed.

2.2 External audit also noted non-material adjustments and some further unadjusted items which were discussed in detail as part of the audit completion report at the previous committee meeting. In arriving at their value for money conclusion the auditors confirmed the Council had proper arrangements in place in 2018/19 to address identified risks

3 Corporate plan and council policies

3.1 Considered as part of the overall Accounts and Audit Regulations requirement and the timescales.

4 Financial appraisal

4.1 There are no direct financial considerations arising from this report.

5 Legal implications

5.1 Comment from the Legal Services Team is not necessary for this routine monitoring report. The Accounts and Audit (England) Regulations requires the Statement of Accounts to be considered and approved by way of a committee resolution and thereafter published.

6 Risk management implications

6.1 There are no implications arising from this report.

7 Equality analysis

7.1 Equality issues are considered

8 Appendices

8.1 ➤ Appendix A - Annual Audit Letter and fee update 2018/19

9 Background papers

9.1 2018/19 Independent Auditor's (Deloitte Annual Governance Report on EBC Accounts and Value for Money conclusion report – ISA 260.



**Annual Audit Letter on the
2018/19 External Audit
Eastbourne Borough Council**

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1. Letter to Members

The Members
Eastbourne Borough Council
1 Grove Road
Eastbourne
BN21 4TW

22 February 2022

Dear Members

We have pleasure in setting out this Annual Audit Letter to summarise the key matters arising from the work that we have carried out in respect of the audit for the year ended 31 March 2019.

Although this letter is addressed to the Members of Eastbourne Borough Council ("the Council"), it is also intended to communicate the significant issues we have identified in an accessible style to key external stakeholders including members of the public.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Ltd. This is available from www.psaa.co.uk.

This letter has been discussed and agreed with the Chief Finance Officer. A copy of the letter will be provided to all Members.

This is our first year as the external auditor of the Council following the transition to the PSAA contract in 2018/19. The audit was impacted by: significant accounting issues around ICE (Investment Company Eastbourne), the work required by the Council to determine the appropriate accounting treatment for the transactions (which was not completed until after the original audit deadline), audit work on the transaction, and consequent accounting adjustments; prior year adjustments in respect of property accounting; and other issues identified in the quality of the draft financial statements and supporting information for the audit. These led to significant additional audit work being required, with the impact on the timetable further exacerbated by the impact of the Covid-19 pandemic in March 2020. All these factors led to an extension of the timetable for completing the Statement of Accounts. Our audit opinion was signed on 30 September 2021.

Yours faithfully,



Ben Sheriff
Key Audit Partner
for and on behalf of Deloitte LLP
St Albans, United Kingdom

2. Key Messages

Statement of Accounts

Unqualified opinion issued on 30 September 2021

In 2018/19 the Authority was required to prepare its Statement of Accounts in accordance with International Financial Reporting Standards ("IFRS") as defined in the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and other relevant legislation.

The first draft of the Statement of Accounts was provided to us in June 2019. However, this draft was incomplete, as it did not include the group financial statements or accounting entries for the ICE transaction. Following initial work on the accounting for the ICE transaction, an adjusted draft of the Statement of Accounts was provided in November 2019. From the completion of audit work, a number of issues were identified requiring adjustment, including in respect of the ICE transaction accounting, the accounting for property balances, and internal consistency errors.

We issued our audit opinion on the financial statements on 30 September 2021. Our opinion was not qualified.

Materiality for the Council's accounts was set at £2.1m.

Value for Money ("VfM") conclusion

Unqualified conclusion issued on 30 September 2021

We are required to base our statutory VfM conclusion on the criteria specified by the National Audit Office. This is an evaluation of whether the Council has in place proper arrangements to ensure properly informed decisions were taken and the Council deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We issued an unqualified VfM conclusion on 30 September 2021. Our ISA 260 report to the Audit Committee in July 2021 included a number of observations in respect of the Council's VfM arrangements, controls and financial position, and we note also the recommendations of the External Assurance Review of the Council carried out by the Chartered Institute of Public Finance Accountants on behalf of the Department for Levelling Up, Housing & Communities, issued in December 2021.

Audit findings

Our Audit Committee reporting included findings from our controls work and recommendations for improvement.

International Standards on Auditing (UK) require us to communicate in writing to those charged with governance the significant findings from our audit. Our report to the July 2021 Audit Committee meeting included our findings on internal control weaknesses and recommendations arising from the 2018/19 audit.

Independence and Objectivity

Independence and objectivity

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit partner and audit staff is not impaired.

3. Responsibilities and Scope

Responsibilities of the Council and Auditors

The Council is responsible for maintaining the control environment and accounting records and preparing the accounting statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 based on IFRS and other relevant legislation.

We are appointed as the Council's independent external auditors by PSAA, the body responsible for appointing auditors to local public bodies in England where they have opted into this programme.

As the Council's appointed external auditor, we are responsible for planning and carrying out an audit that meets the requirements of the National Audit Office's Code of Audit Practice ("the Code"). Under the Code, we have responsibilities in two main areas:

- auditing the Council's accounts; and
- evaluating whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money ("VFM") conclusion).

These responsibilities are set out in greater detail in the Statement of Responsibilities of Auditors and Audited Bodies. This document can be accessed here: <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>.

The scope of our work

We conducted our audit in accordance with the NAO Code of Audit Practice and the International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board ("APB"). The audit opinion on the accounts reflects the financial reporting framework adopted by the Council, being the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 based on IFRS and other relevant legislation.

We conducted our work on the 2018/19 VFM conclusion in line with guidance issued by the National Audit Office in November 2017.

4. Audit of the Accounts

Statement of Accounts	
Unqualified opinion issued on 30 September 2020	<p>We issued an unqualified opinion on the Council's 2018/19 accounts on 30 September 2021.</p> <p>Before we give our opinion on the accounts, we are required to report to those charged with governance (here the Audit Committee) any significant matters arising from the audit. To address this requirement, report was issued to the Audit Committee meeting held on 28 July 2021.</p> <p>The content of these papers including significant matters arising from the audit were discussed with the members of the Audit Committee in meetings during the course of the audit. These papers are available to view online as part of the Committee packs for those meetings.</p>
Materiality	<p>We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.</p> <p>Based on our professional judgement, materiality for the Council's accounts was set at £2.1m which equated to 2% of estimated gross expenditure at the planning stage of the audit which is same as that for the consolidated accounts. This benchmark was chosen as the Council is a non-profit organisation and total expenditure is a key measure of financial performance for users of the financial statements.</p> <p>We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £103k, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We would also report to the Audit Committee on any uncorrected disclosure matters identified when assessing the overall presentation of the financial statements. For the avoidance of doubt, these matters were identified and communicated to the audit committee in relation to the audit of the 2018/19 Statement of Accounts in the meeting held in July 2021.</p>
Significant Risks	<p>Our audit work was designed to specifically address the significant audit risks presented in further detail below. These significant audit risks were the areas that were deemed to be those with the greatest potential of being materially incorrect in the financial statements and were therefore areas of greater focus for the audit team.</p> <p>1. <u>Accounting for the ICE guarantee valuation contract:</u></p> <p>The Council (through its subsidiary, ICE), agreed to provide certain guarantees with respect to a loan taken out in relation to a property investment in Leicester. This property is owned and operated by a third party. The guarantee is two fold, in that ICE (and the council) guaranteed the repayments of the bank borrowings by the third party, and also a certain level of rental income through the property.</p>

The Council also purchased a related option to buy up to 49% of the share capital of the property company for £1 at any time, and gains the rights to 100% of the share capital should there be an event of default.

This is a complex arrangement, and the financial statement risks include the potential for the accounting treatment to be incorrect. Additionally, we identified a significant Value for Money risk in relation to the governance and informed decision making with regards to this significant and unusual transaction.

- **Deloitte response**

With respect to the value for money risk, we obtained documentation as to the work that Management had performed in order to gain an understanding of the legal form of the arrangements and whether they had appropriate powers to enter into the arrangements. Additional documentation setting out the purpose and risks of the arrangements was obtained.

However, it was clear from these, and from discussion with management that the detailed accounting implications for the Council were not adequately understood (as confirmed by the delays owing to the lack of a finalised accounting treatment) and this reflected in part lack of clarity over the full terms of the agreements and the related risks to the Council.

Following detailed discussions with management, with our own specialists, and with management's experts, we performed the following:

- Concluded on the appropriateness of accounting treatments.
- Involved our own specialists in challenging the treatment of the contract, including accounting for the investment in ICE.
- Challenged management's valuation of the various elements of the financial instruments, including in particular, the treatment of the property valuation, discount rates, and the models used.
- Held discussions with Management's advisors, including Grant Thornton and Arlingclose, in order to fully understand the assumptions and estimates that management had made.
- Considered the nature of the transaction and whether the Council had the vires to make the arrangement.
- Performed sensitivity analyses of key assumptions, in order to challenge the robustness of the model, and to focus our testing on the key judgements.
- Considered any indications that the transaction had been entered into on a basis other than that of arm's length.
- Reviewed the implications of the accounting for the transaction, and the significant challenges that occurred in presenting this in the financial statements, as part of our work on Value for Money.

The final Statement of Accounts reflects adjustments arising from our challenges to the accounting for the transaction.

- **Value for money consideration**

We identified a significant risk to our VFM conclusion in respect of the ICE financial guarantee contract, due to the complexity and size of the transaction. In response:

- We reviewed supporting documentation with regards to the advice taken by the Council prior to entering into the agreement, including legal, property and commercial advice during the due diligence of the transaction, and the internal documentation on the approval of the decisions.
- We discussed the Council's arrangements with senior operational staff including the Chief Executive Officer and Chief Financial Officer.
- We considered the overall financial impact of the agreement, as well as the balance of risks and rewards
- We reviewed Internal Audit's report into the governance of the transaction, which had a "Reasonable Assurance" conclusion, but noted a number of recommendations in respect of transparency around decision making, clarity of consideration of the risks of transactions, consideration of accounting requirements, and record keeping on decision making for complex transactions
- Performed the work to support the financial statement audit

Following review of documentation and interviews with management, as well as review of the report of internal audit on the governance of the transaction, we concluded that it is not necessary to include an exception to our value for money conclusion in respect of this matter. We note that the final contractual structure entered into in 2018 was not the same as that initially consulted on and approved by Council in 2017, and would view it as good practice for a major transaction for the updated transaction structure to have been reported.

2. **Completeness of Expenditure:** We concluded satisfactorily in this area and there are no findings to report.

- **Risk identified**

Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud. We rebutted this risk, and instead identified that the fraud risk lies with the completeness of expenditure and completeness and valuation of accruals.

- **Deloitte response**

- We obtained an understanding of the design and implementation of the key controls in place in relation to recording completeness of accruals and provisions.
- We performed focused testing in relation to the completeness of expenditure including a detailed review of accruals and provisions.
- As part of this focused testing challenged any assumptions made in relation to year end accruals and provisions.
- We reviewed the year on year movement in accruals and provisions and investigated significant movements.
- We tested an enhanced sample of expenditure for late cut off at year end.

3. **Management override of controls:** We concluded satisfactorily in this area. We did not identify any significant bias in the key judgements made by management based on work performed. Furthermore, we did not identify any

instances of management override of controls in relation to the specific transactions tested based on work performed. There are no other findings to report

- **Risk identified**

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

Additionally, there was a significant, and unusual transaction in the year which was the setting up of the guarantee contract through Investment Company Eastbourne ("ICE"). This is covered as an additional significant risk.

- **Deloitte response**

- **Significant and unusual transactions:** See separate risk in relation to ICE. There were no other significant or unusual transactions in the period.
- **Journals:** We performed design and implementation testing of the controls in place for journal approval.

We used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer assisted profiling based on areas which we consider to be of increased interest.

We completed testing of the appropriateness of journal entries recorded in the general ledger. We tested the appropriateness of other adjustments made in the preparation of financial reporting.

- **Accounting estimates:** We performed design and implementation testing of the controls over key accounting estimates and judgements. The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest: valuation of the Council's estate, the pension liability, and accounting for ICE, as discussed elsewhere in this report. We reviewed accounting estimates for biases that could result in material misstatements due to fraud.

4. **Valuation of property assets:** Adjustments were required in respect of

- Treatment of additions between valuations, which had been added to fixed assets at cost without corresponding disposal entries. This was adjusted, with restatement of the comparative figures.
- Assumptions in relation to the valuations of David Lloyd (Broadwater Way), Hampden Retail Park, and the property in IIL. In addition, we identified a number of instances where we consider that the valuers did not follow best practice in their approach, typically through an overly simplified approach, and where improvements could be made for future valuations. These matters were noted to the valuer during the review process.

	<p>We have gained assurance over these areas and no other issues were noted.</p> <ul style="list-style-type: none"> Risk identified <p>The Council held £275.8 m of property assets at 31 March 2019, an decrease of £9m, made up of £8.2m revaluation gain, £5.9m of additions, offset by depreciation of £7.1m and disposals of £16.0m. Investment properties increased from £23.9m to £25.7m, of which £1.1m was valuation gains and the remainder additions.</p> <p>All properties were subject to a desktop revaluation exercise in the year as part of the council's approach to the valuations, while the investment properties were fully revalued by management's expert (WHE).</p> Deloitte response <ul style="list-style-type: none"> Our testing of the valuations of the Council's property assets involved our property valuation specialists, Deloitte Real Estate (DRE) to review and challenge the valuation undertaken, as well as testing where relevant of inputs to the valuation.
Overall opinion	<p>We issued an unqualified opinion on the Council's 2018/19 accounts on 30 September 2021. Our opinion confirms that the accounts present a true and fair view of the financial position of the Council as at 31 March 2019 and its income and expenditure for the year then ended.</p>
Annual Governance Statement and Other Information	
No issues were identified in relation to this work	<p>As appointed auditors, we review the Annual Governance Statement ("AGS") and other information presented with the financial statements to check that information is consistent with the financial statements. Following our procedures, the Council issued an addendum to the AGS covering the arrangements over the Council's subsidiaries and other investments. We do not have any other findings to report in this area.</p>
Powers and Duties	
We did not receive any questions about the accounts or make any public interest reports	<p>Under the Local Audit and Accountability Act 2014, auditors have specific powers and duties, including to give electors the opportunity to raise questions about the accounts and to consider and decide upon objections received in relation to the accounts. We did not receive any such questions or objections.</p> <p>We have a duty to consider whether to issue a report in the public interest about something we believe the Council should consider, or if the public should know about.</p> <p>We have not identified any matters that would require us to issue a public interest report.</p>

Value for Money

Background and approach

We are required to issue a value for money ("VfM") conclusion within our report on the financial statements. We are required to base our VfM conclusion on criteria specified by the National Audit Office ("NAO") where we are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. Our assessment is based on the following reporting criterion:

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

The following sub-criteria are then used to inform and guide our work and inform our overall judgement although there is no requirement to separate these nor to report against each sub-criteria:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

We would emphasise that it is the arrangements in place that we are required to assess, and not the actual decisions made by the Council.

We planned our local programme of work based on our risk assessment, which was informed by a series of risk factors determined by the National Audit Office.

We did not identify any significant risks as part of our risk assessment other than the risk relating to ICE guarantee transaction, discussed above. Our reporting to the Audit Committee also included our observations in respect of the Council's reserves and the risks looking forward in respect of financial sustainability.

Although the final report was issued after completion of our audit, we would highlight in respect of the Council's on-going arrangements the External Assurance Review of the Council carried out by the Chartered Institute of Public Finance Accountants on behalf of the Department for Levelling Up, Housing & Communities. The report was issued in December 2021 and provides an assessment of the Council's financial management and management of risk, deliverability of savings plans, efficiency in delivering services under financial pressures and the scope for capital receipts from property sales. The report makes recommendations to the Council, including points that were noted from our recommendations and communicated in our ISA260 report issued in July 2021

The VfM conclusion

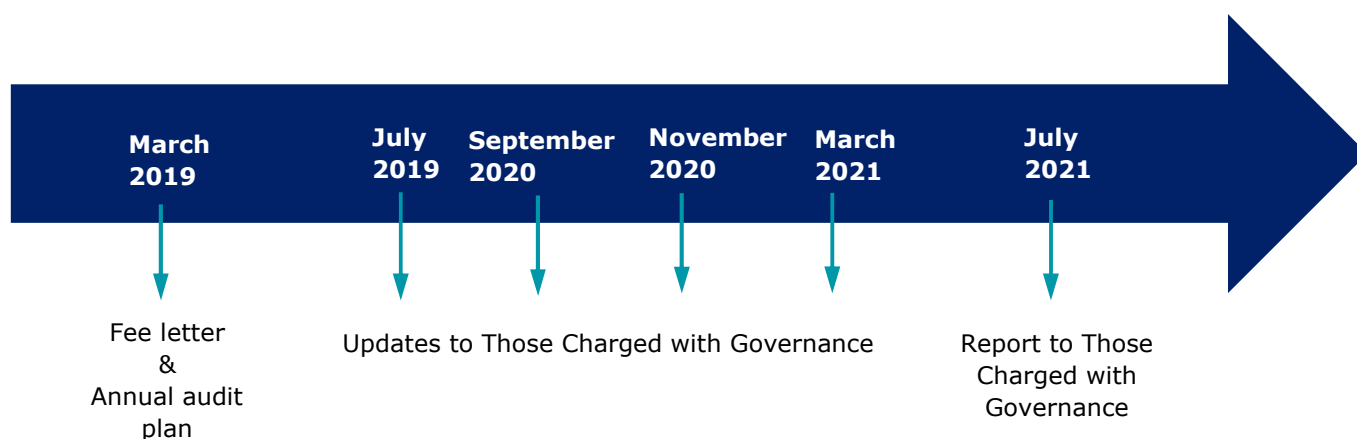
Having performed our work in line with guidance received from the National Audit Office we issued an unqualified value for money conclusion for the 2018/19 financial year.

5. Other Matters

Reports issued

Reports issued during the course of the 2018/19 audit included:

- Audit Fee letter;
- Annual Audit Plan;
- Updates on 2018/19 audit to Those Charged with Governance issued in July 2019, September 2020, November 2020 and March 2021;
- Report to Those Charged with Governance on 2018/19 audit of the Council in July 2021; and
- This Annual Audit Letter.



Statement of Responsibilities

The Statement of Responsibilities of Auditors and Audited Bodies issued by PSAA explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out in accordance with, that statement.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national data and methodology supporting our value for money conclusion as they are derived solely from the National Audit Office.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other party.

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the Annual Audit Letter since first published. These matters are the responsibility of the Council but no control procedures can provide absolute assurance in this area.

Deloitte.

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Agenda Item 9

Report to:	Audit and Governance Committee
Date:	2 March 2022
Title:	Appointment of Audit Independent Member
Report of:	Simon Russell, Head of Democratic Services
Ward(s):	All
Purpose of report:	To outline proposed arrangements for the appointment of a co-opted independent member to the Audit and Governance Committee, following Cabinet's endorsement of the recommendations from the CIPFA assurance review
Officer recommendation(s):	(1) To approve the appointment of a co-opted independent member to the Audit and Governance Committee (2) To delegate authority to the Head of Democratic Services, in consultation with the Chair of Audit and Governance Committee and Chief Finance Officer to undertake and complete the recruitment process. (3) That the specific remuneration of the Audit Independent Member appointed, be delegated to the Head of Democratic Services, in consultation with the Chair of Audit and Governance Committee and Chief Finance Officer.
Reasons for recommendations:	To action recommendation 3.3 of the CIPFA assurance review recommendation.
Contact Officer(s):	Name: Simon Russell Post title: Head of Democratic Services (and Deputy Monitoring Officer) E-mail: simon.russell@lewes-eastbourne.gov.uk Telephone number: (01323) 415021

1 Introduction

- 1.1 As previously reported at Cabinet, the council, in accepting the granting of capitalisation directions for 2020/21 and 2021/22, committed to an external review being undertaken by CIPFA (Chartered Institute of Public Finance and Accountancy). The final report was published on 12 December 2021 and arising from the report were a variety of recommendations.
- 1.2 At its meeting on 9 February 2022, Cabinet resolved to note and accept the CIPFA assurance review and endorse its recommendations, set out in the report. One of those is detailed below:

3.3	The council should appoint an independent (non-political) member on the Audit and Governance Committee.]	6 months	Recommend that the appointment of a non-voting independent member to this committee be considered at the next Annual Council meeting
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1.3 Following Cabinet’s approval and endorsement, the appointment of an Audit Independent Member is an immediate priority for the Council. The recommended process for actioning this recommendation by the required deadline is detailed below.

2 Process of Appointment

2.1 Within its existing terms of reference, the Audit and Governance Committee has power to “co-opt one person in a non-voting capacity to provide independent advice, primarily, but not exclusively, in relation to its audit functions”. The proposed appointment therefore can be made, without the requirement for Full Council approval.

2.2 Following Committee approval to the officer recommendations, an advertisement, information pack and person specification for potential application would be finalised by the Head of Democratic Services, in consultation with the Chair of Audit and Governance Committee and Chief Finance Officer.

2.3 Some of the key requirements for the appointment of an Audit Independent Member are:

- An interest in finance and governance to enhance the work of the Audit and Governance Committee.
- Ability to take an independent, unbiased, and objective view.
- Ability to examine evidence and complex documentation.

2.4 Following the application process, a selection panel, led by the Chair of Audit and Governance Committee, Chief Finance Officer and Head of Democratic Services will convene to interview and select a successful candidate. By delegating this process to the Head of Democratic Services, in consultation with the Chair of Audit and Governance Committee and Chief Finance Officer, negates the requirement of convening a Special Meeting of the Audit and Governance Committee, for the sole purpose of approving the appointment.

2.5 Should the application process prove successful, the appointment will be formally reported as part of the Annual Council schedule of appointments to Council committee and outside bodies in May 2022.

3 Consultation

3.1 The proposals in this report have been subject to consultation with the Chair of Audit and Governance Committee. No objection was raised.

4 Financial appraisal

- 4.1 Any costs associated with the recruitment, selection, appointment, and subsequent disbursements to any Independent Member will be contained from within existing revenue service budgets.
- 4.2 There are costs associated with the remuneration of the Audit Independent Member and any appropriate training required to ensure the chosen candidate can fulfil the role and participate effectively at Committee. It is proposed that the Audit Independent Member be paid a retainer of £1,000 per annum. Any training expenses required would be absorbed within the existing training budget, subject to approval from the Head of Democratic Services. This retainer would be reviewed periodically by an Independent Remuneration Panel, along with all other allowances paid to Councillors.

5 Legal implications

- 5.1 The appointment is to be undertaken in accordance with the Council's constitution and the implications arising from the appointment are set out in this report.

6 Risk management implications

- 6.1 It should be noted that the requirement of implementation of an Audit Independent Member is 6 months. Should the application process be unsuccessful due to lack of interest or sufficient quality of candidate, there may be a slight delay in meeting this recommendation.

7 Appendices

- None

8 Background papers

The background papers used in compiling this report were as follows:

- [Cabinet Report – Assurance Review](#)

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Report to:	Audit and Governance Committee
Date:	2nd March 2022
Title:	Draft internal audit plan for 2022/23
Report of:	Chief Internal Auditor
Ward(s):	All
Purpose of report:	To propose an internal audit plan for 2022/23
Officer recommendation(s):	To consider and agree the proposed plan.
Reasons for recommendations:	The remit of the Audit and Governance Committee includes the duties to agree an Annual Audit Plan and keep it under review and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the council's arrangements for identifying and managing risk.
Contact Officer(s):	Name: Jackie Humphrey Post title: Chief Internal Auditor E-mail: jackie.humphrey@lewes-eastbourne.gov.uk Telephone number: 01323 415925 or internally on extension 5925.

1.0 Introduction

- 1.1 The internal audit function contributes to the council's overall governance arrangements through the audits carried out in the annual internal audit plan.
- 1.2 The draft audit plan is taken to both the Corporate Management Team and the Audit and Governance Committee for consideration and approval.

2.0 Approach to setting the plan.

- 2.1 During the past few years it has been noted that senior managers are more willing to approach Internal Audit to request various audit reviews be carried out in their areas. As these requests usually involve issues which are a high risk, or are of immediate importance, these have been carried out by the team. There have also been times where an audit review of one area has been proposed but, at the time of scoping the review, the relevant senior manager has requested that the scope be changed to cover a different area with which they have concerns.
- 2.2 It is important that Internal Audit add value to the council and ensure that any emerging areas of concern are considered. The work of the team must add value and be flexible whilst still ensuring that there is an adequate breadth of cover to the work that is carried out.
- 2.3 In order to ensure adequate coverage, the total number of areas that can be audited has been divided into the departments under which they sit. The number of areas by department have then been calculated as a percentage of the total number of areas. The table below shows the number of areas listed in

the universe for each department which has then been calculated as a percentage of the total.

**Calculation of each department as a percentage of
the whole council**

Department	No of areas	% of total
Regeneration	15	10%
Tourism and Enterprise	18	12%
Service Delivery	58	39%
Corporate Services	59	39%
TOTAL	150	100%

These percentages have then been used to inform the contents of the plan and this is explained in more detail below.

3.0 The Audit Universe

3.1 The Audit Universe is the list of all areas across the councils which can be reviewed; this includes areas across both Eastbourne Borough and Lewes District Councils so that a full joint audit plan can be produced. Whilst many services are now delivered jointly, there are still some which are relevant to only one council and these are identified as such where appropriate.

4.0 Production of the draft audit plan for 2022/23.

4.1 The internal audit plan for each year begins by calculating the number of audit days available. This takes the number of work days of each member of staff less non-chargeable time (e.g. annual leave, public holidays, sick leave, training, admin. etc.). From the remaining days, 36 are allocated for audits for Eastbourne Homes and 5 for South East Environmental Services Ltd – both of which are paid for by the companies.

4.2 There are twelve “managed” audits which have to be undertaken every year as these cover our main financial systems and their controls. The time taken for these days is also taken off the remaining number along with some allocation for special pieces of work, advice, consultancy etc.

4.3 The Audit Manager is undertaking a Leadership apprenticeship and one Auditor is completing an apprenticeship scheme training with the Institute of Internal Auditors. This has reduced the audit time available while they undertake the training. Also a new member of staff joined the team in January 2022 and while the majority of training will take place during the last quarter of 21/22 some training will take place in 22/23. Another Auditor post is currently being advertised so time has been added to the plan for this post but at a reduced level because of the initial training that will need to be undertaken. The time of the Audit Manager is further reduced as she is providing the training to the new staff.

- 4.4 The total number of days available for carrying out audit reviews is then calculated and this can be seen at Appendix A. The calculation currently takes into account the Auditor position which is currently being advertised. It is hoped that this post will be filled by the beginning of the new financial year. If it is not then the plan will need to be adjusted to account for this.
- 4.5 The total number of days available for audits having been arrived at (see Appendix A) these have then been split by the percentages shown at 2.3. This is as follows:

Calculation of total audit days available for the plan

Total days available		326 audit days
Regeneration	10%	33 audit days
Tourism and Enterprise	12%	39 audit days
Service Delivery	39%	127 audit days
Corporate Services	39%	127 audit days

- 4.5 The universe is the starting point for developing the annual audit plan. Current issues facing the councils are considered and any relevant areas in the universe will be considered for auditing. Equally, any priorities or initiatives for the councils will be considered in the same way.
- 4.6 Once the audits that affect the objectives of the councils have been considered, the rest of the universe is looked at and consideration given to other areas of higher risk, areas that haven't been audited for some time, and new areas added. Any that are considered as being due for review are added to the list based on the percentages at 2.3 and the number of days available.
- 4.7 Time has been put aside for auditing Tourism. However, most of the Tourism functions are for Eastbourne and the recent Local Government Finance Review from Cipfa /Department Levelling Up, Housing and Communities for Eastbourne Borough Council has stated that the council should rely less on Tourism. A full review of this area is therefore being undertaken. The time set aside for auditing Tourism has therefore not been allocated to any specific review at this time. The situation will be monitored and consideration will be given to monitor the ongoing review or to carry out targeted audits later in the year.
- 4.8 The majority of services are now shared across the authorities so the audit plan reflects this as well. The draft plan therefore is flexible, covers the work in both authorities and reflects the risk levels around internal controls. This draft plan can be found at Appendix B.
- 4.9 The plan is in place to provide a list of audits that will be carried out if no other work is requested from the team. However, by using the percentage approach when other work is requested, it will be carried out within the time allocated for that department and will mean that one of the lower risk audits will be carried forward to be undertaken within a future audit plan. The aim is to ensure that the breadth of audit work across all areas is maintained whilst still being able to be flexible to requests. Should work be requested that would take the department beyond the percentage allocated then a conversation would be held to decide on the importance of the piece of work being requested.

4.10 The work of the team will be reported quarterly to the Audit and Governance Committee.

5.0 Financial Appraisal

5.1 There are no financial implications.

6.0 Legal Implications

6.1 This report takes account of regulation 5 of the Audit and Accounts Regulations 2015 which requires the Council to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

7.0 Risk Management Implications

7.1 If the council does not have an effective governance framework that is subject to proper oversight by Councillors it will not be able to demonstrate that it has in place adequate means to safeguard council assets and services, and it could be subject to criticism from the council’s external auditor or the public.

8.0 Equality Analysis

8.1 An equalities impact assessment is not considered necessary.

9.0 Appendices

9.1 Appendix A– Calculation of audit resources for the draft plan.
Appendix B – Draft Audit plan for 2022/2023

10. Background Papers

10.1 Audit universe

Jackie Humphrey
Chief Internal Auditor

APPENDIX A – Internal Audit Draft New Year Plan

Calculations of auditor days available for the plan

	Audit Manager	Auditor 1	Auditor 2	Auditor 3	Auditor 4
Total days	261	261	261	261	261
Non charge	230	101	109	129	129
Actual days	31	160	152	132	132

Total days available less audit days provided to other companies

Total of Auditor days available	607
Less Eastbourne Homes Limited	36
Less South East Environmental Services Limited	5
Net Total audit days available	566

Calculating days available for operational audits

Net total audit days available	566
Less days for Annual audits	205
Less days for Follow ups of audits from previous years	35
Available for operational audits	326

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Appendix B – Internal Audit Draft New Year Plan

Audit days available split per areas' percentage of the council

	No of areas	% of universe		Actual days	Rounded days
Regeneration	15	10		32.63	33
Tourism and Enterprise	18	12		39.12	39
Service Delivery	58	39		127.14	127
Corporate Services	59	39		127.14	127
Total days				326.03	326

INTERNAL AUDIT DRAFT PLAN 2021/22

Regeneration and Planning	No. of audit days
North Street Quarter	10
Section 106 Agreements	15
Performance Management Software (controls)	8
Total days Regeneration and Planning	33

Tourism and Enterprise	No. of audit days
Tourism and Enterprise	39
Total days Tourism and Enterprise	39

Service Delivery	No. of audit days
Safes and Keys	10
Health and Safety	20
Household Support Fund	15
Newhaven Port	15
Bulky Waste	10
Allocations and Lettings System	10
Aids and Adaptations	15
Shared Ownership/Resales	12
Green Consultancy	20
Total days Service Delivery	127

Corporate Services	No. of audit days
Manager Responsibilities/Training	20
Risk Management	20
Cloud Computing	12
Data Protection	15
Crisis Management/Emergency Planning	10
Invoice Handling - Flow Matrix	10
Docusign	10
Key IVR	10
Governance of council companies	20
Total days Corporate Services	127

Appendix B – Internal Audit Draft New Year Plan

Report to:	Audit and Governance Committee
Date:	2nd March 2022
Title:	Strategic Risk Register Quarterly Review
Report of:	Chief Internal Auditor
Ward(s):	All
Purpose of report:	To report to Committee the outcomes of the quarterly review of the register by Corporate Management Team
Officer recommendation(s):	To receive and note the update to the Strategic Risk Register
Reasons for recommendations:	The Council is committed to proper risk management and to regularly updating the committee with regard to the Strategic Risk Register.
Contact Officer(s):	Name: Jackie Humphrey Post title: Chief Internal Auditor E-mail: Jackie.humphrey@lewes-eastbourne.gov.uk Telephone number: 01323 415925

1 Introduction

- 1.1 The Strategic Risk Register is a high level document that records the key risks facing the council: those risks that would prevent the authority from achieving its overall strategies and objectives.
- 1.2 Maintaining the Strategic Risk Register is a vital part of the governance arrangements of the authority and, as such, it is overseen by the Corporate Management Team who review it on a quarterly basis.
- 1.3 The risk register shows the risk, a description of the risk, the risk score if no action is taken (original risk score), the internal controls put in place to mitigate the risk and the risk score after these controls are in place (current risk score).
- 1.4 The risk register is brought to the committee when any changes have been made to it following review by the Corporate Management Team.

2 Process

- 2.1 The Strategic Risk Register is the top level of the risk management process. Whilst the Strategic Risk Register is considered quarterly at the Corporate Management Team, this is a simply a review of the register itself.
- 2.2 There are many different risks and pieces of work that feed into the Strategic Risk Register. These are managed and monitored on a day to day basis within the relevant sections and departments.
- 2.3 The quarterly meeting of the Corporate Management Team to discuss the Strategic Risk Register allows the relevant Director/Assistant Director to provide feedback on risks in their area. This information is then used to consider changes that may need to be made to the Strategic Risk Register.
- 2.4 The Corporate Management Team will also carry out “horizon scanning” at these meetings: considering issues that are arising and considering whether they need to be included in the register.

3 February 2022 Review

3.1 The Strategic Risk Register was taken to Corporate Management Team on 2nd February 2022 for the quarterly review.

3.2 The Local Government Finance Review published by the Department for Levelling Up, Housing and Communities included the recommendation:

“The Strategic Risk Register should monitor the commercial investments/or commercial transactions undertaken by the council or the commercial entities the council has an interest in: Ensuring that appropriate mitigations are put in place to manage the risks inherent in these types of transactions”.

This recommendation was agreed and Corporate Management Team decided on the following mitigating action to be added to SR_009 (Commercial enterprises that are fully controlled by the authority...):

“Regular monitoring of the progress of enterprises in parallel with the (cross-party) Strategic Property Board and wider governance arrangements”.

3.3 The scores of all the risks were also considered and it was decided that no scores required updating.

3.4 The changes can be seen on the Strategic Risk Register at Appendix A.

4. Financial appraisal

4.1 There are no financial implications arising from this report.

5. Legal implications

5.1 This report is for noting only and therefore the Legal Services team has not been consulted on the content of it.

6. Risk management implications

6.1 If the Council does not have an effective risk management framework that is subject to proper oversight by Councillors it will not be able to demonstrate that it has in place adequate means to safeguard Council assets and services, and it could be subject to criticism from the Council’s external auditor or the public.

7. Equality analysis

7.1 An equalities impact assessment is not considered necessary because the report is for information only and involves no key decisions.

8. Appendices

Appendix A - Strategic Risk Register

9. Background papers

None

Jackie Humphrey
Chief Internal Auditor

Appendix A: Strategic Risk Register (Eastbourne)

Report Type: Risks Report

Generated on: 08 February 2022

Key to scoring risk levels

Likelihood scoring scale	Impact scoring scale
1= unlikely	1=minor
2= possible	2=moderate
3=likely	3=significant
4=highly likely	4=major
5= almost certain	5=critical

Likelihood x impact score of 1 to 4: Low risk (Green)

Likelihood x impact score of 4 to 12: Medium risk (Amber)

Likelihood x impact score of 15 to 25: High risk (Red)

Appendix A – Strategic Risk Register

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
SR_001	No political and partnership continuity/consensus with regard to organisational objectives	Sudden changes of political objectives at either national or local level renders the organisation, its current corporate plan and Medium Term Financial Strategy unfit for purpose.	3	4	12	<u>Reduces Likelihood</u> 1. Create inclusive governance structures which rely on sound evidence for decision making. <u>Reduces Impact</u> 2. Annual review of corporate plan and Medium Term Financial Strategy 3. Creating an organisational architecture that can respond to changes in the environment.	Chief Executive	2	3	6	Amber	03-May-2022
SR_002	Changes to the economic environment makes the Council economically less sustainable	1. Economic development of the town suffers. 2. Council objectives cannot be met. 3. Covid-19 has had a serious impact on the council's finances. 4. The council's Recovery and Reset programme fails to meet its objectives.	5	5	25	<u>Reduces Impact</u> 1. Robust Medium Term Financial Strategy reviewed annually and monitored quarterly. Refreshed in line with macro economic environment triennially. 2. Creating an organisational architecture that can respond to changes in the environment. <u>Reduces Likelihood</u> 3. The council is currently in ongoing discussions with Central Government around financial support to cover costs related to expenditure	Chief Financial Officer	5	5	25	Red	03-May-2022

Appendix A – Strategic Risk Register

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						on response to the Covid-19 pandemic. 4. Regular monitoring of the progress and outcomes of the Recovery and Reset programme.						
SR_003	Unforeseen socio-economic and/or demographic shifts creating significant changes of demands and expectations.	1. Unsustainable demand on services. 2. Service failure. 3. Council structure unsustainable and not fit for purpose. 4. Heightened likelihood of fraud.	5	5	25	<u>Reduces Likelihood and Impact</u> 1. Grounding significant corporate decisions based on up to date, robust, evidence base. (e.g. Census; Corporate Plan Place Surveys; East Sussex in Figures data modelling). 2. Ensuring community and interest group engagement in policy development (e.g. Neighbourhood Management Schemes; Corporate Consultation Programme)	Director of Service Delivery	3	3	9	Amber	03-May-2022
SR_004	The employment market provides unsustainable employment base for the needs of the organisation	Employment market unable to fulfil recruitment and retention requirements of the Council resulting in a decline in performance standards and an increase in service costs.	4	4	16	<u>Reduces Likelihood</u> 1. Changes undertaken to increase non-financial attractiveness of EBC to current and future staff. 2. Appropriate reward and recognition policies reviewed on a regular basis. <u>Reduces Likelihood and Impact</u>	Asst Director for HR and Transformation	3	2	6	Amber	03-May-2022

Appendix A – Strategic Risk Register

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						3. Review of organisation delivery models to better manage the blend of direct labour provision. Pursuit of mutually beneficial shared service arrangements.						
SR_005	Not being able to sustain a culture that supports organisational objectives and future development.	1. Decline in performance. 2. Higher turnover of staff. 3. Decline in morale. 4. Increase in absenteeism. 5. Service failure 6. Increased possibility of fraud. 7. The council's Recovery and Reset programme fails to meet its objectives.	4	4	16	<u>Reduces Likelihood</u> 1. Deliver a fit for purpose organisational culture. <u>Reduces Likelihood and Impact</u> 2. Continue to develop our performance management capability to ensure early intervention where service and/or cultural issues arise. 3. Continue to develop communications through ongoing interactions with staff. 4. Regular monitoring of the progress and outcomes of the Recovery and Reset programme.	Asst Director for HR and Transformation	3	4	12	Amber	03-May-2022

Appendix A – Strategic Risk Register

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
SR_006	Council prevented from delivering services for a prolonged period of time.	1. Denial of access to property 2. Denial of access to technology/information 3. Denial of access to people	4	5	20	<u>Reduces Likelihood</u> 1. Adoption of best practice IT and Asset Management policies and procedures. <u>Reduces Likelihood and Impact</u> 2. The council has created a more flexible, less locationally dependent, service architecture. <u>Reduces Impact</u> 3. Regularly reviewed and tested Business Continuity Plans. 4. Regularly reviewed and tested Disaster Recovery Plan.	Chief Executive	2	4	8	Amber	03-May-2022
SR_007	Council materially impacted by the medium to long term effects of an event under the Civil Contingencies Act	1. Service profile of the Council changes materially as a result of the impact of the event. 2. Cost profile of the Council changes materially as a result of the impact of the event. 3. Work adversely affected by reduced staff numbers due to effects of pandemic virus.	5	5	25	<u>Reduces Likelihood and Impact</u> 1. Working in partnership with other public bodies. 2. Robust emergency planning and use of Council's emergency powers. <u>Reduces Impact</u> 3. Ongoing and robust risk profiling of local area (demographic and geographic).	Chief Executive	2	4	8	Amber	03-May-2022

Appendix A – Strategic Risk Register

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		4. Emergency caused by a climate change event				4. Review budget and reserves in light of risk profile. <u>Reduces Likelihood</u> 5. Adoption of, and action to implement, the council's Climate Emergency Strategy						
SR_008	Failure to meet regulatory or legal requirements	1. Trust and confidence in the Council is negatively impacted. 2. Deterioration of financial position as a result of regulatory intervention/penalties. 3. Deterioration of service performance as a result of regulatory intervention/penalties	3	4	12	<u>Reduces Likelihood</u> 1. Developing, maintaining and monitoring robust governance framework for the Council. 2. The Council has adopted and published an Asset Management Strategy (AMS) that set out how the Council uses its land and property assets effectively to deliver its service and the rules by which the Council can purchase assets in the future. These strategies are updated on a yearly basis as part of the Capital and Medium-Term Financial Strategies. 3. Ensure there is full understanding the impact of new legislation.	Chief Executive	2	4	8	Amber	03-May-2022

Appendix A – Strategic Risk Register

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						4. All managers are required to abide by the Council's procurement rules. <u>Reduces Likelihood and Impact</u> 5. Building relationships with regulatory bodies. 6. Develop our Performance Management capability to ensure early intervention where service and/or cultural issues arise. 7. Ensure that fire risk regulations are adhered to and that Fire Risk Assessments are regularly reviewed.						
SR_009	Commercial enterprises that are fully controlled by the authority do not deliver financial expectations or do not meet governance requirements.	1. Unfamiliar activity with staff inexperienced in this area. 2. Council finances affected if projects do not meet financial expectations. 3. Reputational damage if governance procedures are inadequate. 4. Failure to abide by company law.	5	5	25	<u>Reduces Likelihood</u> 1. Hire suitably qualified/experienced staff to give legal and specialist support. 2. Up or re-skill staff to maximise commercial opportunities. <u>Reduces Likelihood and Impact</u> 3. Ensure that projects meet core principles.	Director of Regeneration and Planning And Chief Executive	4	3	12	Amber	03-May-2022

Appendix A – Strategic Risk Register

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						4. Ensure governance processes are set up and adhered to. 5. Regular monitoring of the progress of enterprises in parallel with the (cross-party) Strategic Property Board and wider governance arrangements.						
SR_010	The Council suffers a personal data breach by inadequate handling of data or by an IT incident	1. Trust and confidence in the Council is negatively impacted. 2. Deterioration of financial position as a result of regulatory intervention/penalties 3. Deterioration of service performance as a result of regulatory intervention/penalties 4. Increased probability of compensation claims by persons affected by a personal data breach.	3	4	12	<u>Reduces Likelihood</u> 1. Ongoing corporate training for data protection. 2. Ensure all staff complete the e-learning Data Protection course. 3. Ensure that the Data Protection Policy is regularly reviewed. 4. Ensure the Data Protection Officer is afforded the resources to discharge their statutory functions. 5. Ensure that managers regularly remind staff of their responsibilities under data protection, including personal data breach reporting arrangements. 6. Ensure the suite of IT policies is kept up to date.	Chief Executive	2	4	8	Amber	03-May-2022

Appendix A – Strategic Risk Register

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						7. Ensure that IT security is in place and regularly tested. <u>Reduces Impact</u> 8. Incident management procedures to mitigate loss or breach of data are in place.						

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Report to:	AUDIT AND GOVERNANCE COMMITTEE
Date:	2nd March 2022
Title:	Internal Audit and Counter Fraud Report for three quarters of the financial year 2021-2022 – 1st April to 31st December 2021.
Report of:	Chief Internal Auditor
Ward(s):	All
Purpose of report:	To provide a summary of the activities of Internal Audit and Counter Fraud for three quarters of the financial year 2021-2022 – 1st April to 31st December 2021.
Officer recommendation(s):	That the information in this report be noted and members identify any further information requirements.
Reasons for recommendations:	The remit of the Audit and Governance Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk.
Contact Officer(s):	Name: Jackie Humphrey Post title: Chief Internal Auditor E-mail: jackie.humphrey@lewes-eastbourne.gov.uk Telephone number: 01323 415925

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- 1 Introduction**
 - 1.1 The remit of the Audit and Governance Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk.
 - 1.2 The quarterly report includes a review of work undertaken by Internal Audit and Counter Fraud.
 - 1.3 This report summarises the work carried out by Internal Audit and Counter Fraud across the first three quarters of the financial year 2021-22.
 - 2 Review of the work of Internal Audit carried out in the first three quarters of the financial year 2021-22**
 - 2.1 During the year to date 16 final reports and 16 follow up reports have been issued. In the last quarter 9 final reports, 7 follow up reports and 3 draft reports have been issued.
 - 2.2 A list showing all the reports issued during the year, along with assurance levels given, can be found at Appendix A. This list also shows audit reviews carried out in the last financial year where follow ups are still being carried out. Lines greyed out are showing that follow ups are not being carried out.

- 2.3 Where there are outstanding recommendations after a follow up has been carried out, these are listed at Appendix B. This table also gives the feedback from managers made at the last follow up review.
- 2.4 There are two audit reviews which have outstanding recommendations following two follow ups and one following three follow ups. All three had follow up reviews carried out in December and further reviews will be carried out in three months. A summary of these follows but full details are contained in Appendix B.
- Business Continuity Planning – Third follow up:
- Writing of the plans was to be carried out by East Sussex County Council. However, the officer there has left and the work is now to be carried out by the councils' own Emergency Planning Officer.
- Procurement – Second follow up:
- Work is reported as ongoing. The Strategic Procurement Manager post was part-time but has been made full-time as of January 2022.
- Members Allowances – Second follow up:
- Owing to Covid restrictions few claims have been presented so there has been little, or nothing, to test at follow up.
- 2.5 At the beginning of the financial year the work of the team was impacted by carrying a vacancy and the absence of a team member for an extended period. This highlighted the lack of resilience within the team. The request to fill the vacant post was therefore agreed and recruitment was carried out in October, with the new Auditor taking up the post on 10th January 2022.
- 2.6 At the same time the structure of the Internal Audit team was reviewed following the checking of the Benefits Subsidy Claim work being handed back to Customer First. This work was a substantial part of the Senior Auditor role. The review was undertaken to ensure the internal audit service had the appropriate structure and resources to effectively deliver the internal audit remit in line with the Public Sector Internal Audit Standards. The outcome of the review was that, due to the substantial part of the Senior Auditor role being lost, the post was no longer required and resources could be better deployed to provide more cost-effective auditing hours, whilst delivering a more resilient and professional service.
- 2.7 Following consultation, this was agreed, and the new structure came into effect on 1st January 2022. A recruitment exercise for the newly formed Auditor post is currently ongoing.
- 2.8 Once the team is fully resourced, and initial training has been completed, further reviews of ways of working will be carried out. This will be carried out to ensure that the ways that audits are planned, carried out and reported are also up-to-date, professional and provide the best service possible.
- 3 Second Follow Up of Arrears Collection**
- 3.1 At the committee meeting in November a report on Arrears was requested. The Director of Service Delivery has been working with the Leader of the Council and other councillors about Arrears and it is not intended to duplicate that information here.

- 3.2 An audit review of Arrears Collection was carried out in January 2021 and was due for a second follow up review. Therefore, the second follow up review has been carried out and the report on this has been attached to this committee report at Appendix C.
- 3.3 The report shows that only one of the original seven recommendations made has been addressed. Of the six outstanding recommendations, four are in the process of being addressed. For clarity, the full responses of the relevant managers have been included in the report.
- 4 Review of the work of Counter Fraud carried out in the first three quarters of the financial year 2021-22**
- 4.1 Cases have continued to be built and monitored during the easing of lockdown restrictions, with the team responding to new and emerging fraud risks following the release of Covid-19 support packages to businesses and individuals.
- 4.2 The team continues to target the high risk and value areas of tenancy housing while also undertaking other exercises as detailed below. An increase in fraud referrals and information from the public has been noted during and post Covid-19 restrictions – this is partly explained by more people working from home but also the work to increase fraud awareness, particularly tenancy fraud.
- 4.3 Housing Tenancy – The team continue to work closely with colleagues in Homes First and Legal. There are currently 26 ongoing sublet/abandonment tenancy cases at various stages. 11 tenancy fraud cases were closed with no further action and two properties were returned with a net saving to the authority of £186,000. One property is expected to be returned to the council in January 2022 with legal action in process to take possession of a further property.
- 4.4 Right to Buy – There continues to be a steady volume of applications since autumn 2020. 34 cases are currently either being checked to prevent and detect fraud and protect the authority against money-laundering or waiting for a home visit to verify residential status. Eight cases were closed in this period with four withdrawn applications resulting in a net preventative saving of £339,900.
- 4.5 Housing Applications/Homeless Placement – the team are working directly with colleagues in Homes First to implement additional counter-fraud measures to ensure the limited housing stock that is available will only be allocated to those in genuine need. One investigation resulted in the cancellation of a temporary accommodation placement, which costs the council on average £12,000 (based on the average length of a placement). In addition, the household was removed from the housing waiting list which the National Fraud Initiative estimates is a preventative saving of £3,240.
- 4.6 National Non-Domestic Rates – As part of the review of Covid-19 Business Grant Fund applications discrepancies of Small Business Rate Relief and liable rate payer have been found. This has resulted in changes to business rate bills with a net income of £16,862.95 generated to the authority. 10 cases have been closed during the year with additional cases still outstanding.
- 4.7 Council Tax – 10 cases have been investigated during the third quarter with a net recoverable income of £5,677.29 generated for the authority and a preventative saving of £2,795.20. A review of Council Tax exemptions/disregards is also planned to begin during the fourth quarter of the year.

- 4.8 Council Tax Reduction – Eight cases have been closed in this period generating a total recoverable income of £9,801.12 and a preventative saving of £4,404.80.
- 4.9 Housing Benefit – The team continue to work closely with the Department for Work and Pensions (DWP) and our colleagues in the Benefits section. Due to resource restrictions, and pressing need to assess Universal Credit applications, the DWP have limited their capacity to investigate Housing Benefit. However, this has begun to change with 32 cases closed in this period generating recoverable Housing Benefit overpayments of £32,732.56 and a preventative saving of £23,274.56.
- 4.10 Housing debtors – The team continue to look at debt avoidance where loans have been made to assist with securing housing and have remained outstanding following existing debt recovery methods of contact. This activity has recouped £2,866.51 during this period which otherwise might have been written off.
- 4.11 National Fraud Initiative – The 2020/21 exercise is ongoing with the first batch of 1659 cases to review. The team have cleared 447 cases so far with 46 open for investigation. Two frauds and one error have been found which have resulted in overpayments totalling £13,254.92.
- 4.12 Data Protection Requests – the team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. During this period the team dealt with 12 requests from the Police and other authorities. In addition, four fit and proper person checks were completed for new or renewal HMO (Houses in Multiple Occupation) licences and 17 Gas Safety checks were completed on council properties where the tenant has not responded.
- 4.13 Five allegations were received from the general public during the quarter which were closed down due to either insufficient information/contact details or the matter did not relate to a council concern.
- 4.14 Following on from the government’s announcement to support businesses through the Covid-19 pandemic. The team have been working closely with the revenues specialists to prevent and investigate fraudulent applications. The team are currently continuing undertaking post verification work as requested by the Department for Business, Energy and Industrial Strategy. This includes sample checking on each of the grant schemes and reviewing applications where only one grant has been applied for as this has been identified as an area of higher risk of fraud. A report providing an update on this work will be provided separately.
- 4.15 One member of the team was selected as a finalist for the ‘Outstanding Investigator’ category at the 2021 ‘Tackling Economic Crime Awards’ held in December. These awards are independent and aim to recognise outstanding contributions in tackling all areas of economic crime – the awards showcase the very best organisations, teams, individuals, and initiatives across the public and private sector.
- 4.16 A table showing the savings made by the Counter Fraud team in the first three quarters of 2021-2022 can be found at Appendix C.

5 Financial appraisal

5.1 There are no financial implications relating to expenditure arising from this report. Details of savings generated by the Counter Fraud team are included in Appendix C.

6 Legal implications

6.1 This report is for noting only and therefore the Legal Services team has not been consulted on the content of it.

7 Risk management implications

7.1 If the council does not have an effective governance framework that is subject to proper oversight by councillors it will not be able to demonstrate that it has in place adequate means to safeguard council assets and services, and it could be subject to criticism from the council's external auditor or the public.

8 Equality analysis

8.1 An equalities impact assessment is not considered necessary because the report is for information only and involves no key decisions.

9 Environmental sustainability implications

9.1 Not applicable

10 Appendices

- 10.1 Appendix A – Audit reports issued and follow ups
- Appendix B – Recommendations outstanding after follow ups
- Appendix C – Arrears Collection – Second follow up report
- Appendix D – Counter Fraud savings

Jackie Humphrey
Chief Internal Auditor

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Key to assurance levels

Assurance Level	Description
Full Assurance	Full assurance that the controls reduce the risk to an acceptable level.
Substantial Assurance	Significant assurance that the controls reduce the level of risk, but there are some reservations; most risks are adequately managed, for others there are minor issues that need to be addressed by management.
Partial Assurance	Partial assurance that the controls reduce the level of risk. Only some of the risks are adequately managed; for others there are significant issues that need to be addressed by management.
Minimal Assurance	Little assurance that the controls reduce the level of risk to an acceptable level; the level of risk remains high and immediate action is required by management.
No Assurance	No assurance can be given. The reasons will be explained thoroughly in the report.

Follow Up Reports Issued In Current Year For Audits Completed In Previous Years

AUDIT	FINAL ASSURANCE LEVEL	FIRST FOLLOW-UP DATE	FIRST FOLLOW UP ASSURANCE LEVEL	SECOND FOLLOW-UP DATE	SECOND FOLLOW UP ASSURANCE LEVEL	THIRD FOLLOW-UP DATE	THIRD FOLLOW- UP ASSURANCE LEVEL
IR35 (Off-Payroll working)	No	01.07.21	Minimal	30.11.21	Full	N/A	N/A
Members Allowances	Substantial	14.07.21	Substantial	22.12.21	Substantial	Not yet due	Not yet due
Procurement	Partial	26.07.21	Partial	16.12.21	Partial	Not yet due	Not yet due

Appendix A – Quarterly Report On Internal Audit and Counter Fraud Work

AUDIT	FINAL ASSURANCE LEVEL	FIRST FOLLOW-UP DATE	FIRST FOLLOW UP ASSURANCE LEVEL	SECOND FOLLOW-UP DATE	SECOND FOLLOW UP ASSURANCE LEVEL	THIRD FOLLOW-UP DATE	THIRD FOLLOW- UP ASSURANCE LEVEL
Business Continuity Planning	Minimal	21.05.21	Partial	19.08.21	Partial	20.12.21	Partial
Arrears Collection	Partial	06.09.21	Partial	Ongoing	Not yet due	Not yet due	Not yet due
Implementation of Housing Software	Partial	10.09.21	Substantial	Ongoing	Not yet due	Not yet due	Not yet due
Leaseholder Management and Recharges	Partial	10.09.21	Substantial	Ongoing	Not yet due	Not yet due	Not yet due
Rechargeable Repairs	Partial	20.09.21	Full	N/A	N/A	N/A	N/A
Fly Tipping	Partial	22.09.21	Partial	Ongoing	Not yet due	Not yet due	Not yet due
Internet/Intranet/Telephone Payments	Partial	21.10.21	Full	N/A	N/A	N/A	N/A
Officers Expenses	Substantial	09.11.21	Substantial	Not yet due	Not yet due	Not yet due	Not yet due

Audit Reports Issued In Current Year

AUDIT	FINAL DATE	FINAL ASSURANCE LEVEL	FIRST FOLLOW-UP DATE	FIRST FOLLOW UP ASSURANCE LEVEL	SECOND FOLLOW-UP DATE	SECOND FOLLOW UP ASSURANCE LEVEL	THIRD FOLLOW-UP DATE	THIRD FOLLOW- UP ASSURANCE LEVEL
Council Tax 20-21	16.04.21	Substantial	N/A	N/A	N/A	N/A	N/A	N/A

Appendix A – Quarterly Report On Internal Audit and Counter Fraud Work

AUDIT	FINAL DATE	FINAL ASSURANCE LEVEL	FIRST FOLLOW-UP DATE	FIRST FOLLOW UP ASSURANCE LEVEL	SECOND FOLLOW-UP DATE	SECOND FOLLOW UP ASSURANCE LEVEL	THIRD FOLLOW-UP DATE	THIRD FOLLOW-UP ASSURANCE LEVEL
Payroll 20-21	02.06.21	Substantial	N/A	N/A	N/A	N/A	N/A	N/A
Revs and Bens Computer System	09.07.21	Full	N/A	N/A	N/A	N/A	N/A	N/A
Benefits 20-21	24.08.21	Substantial	N/A	N/A	N/A	N/A	N/A	N/A
Creditors 20-21	07.09.21	Partial	N/A	N/A	N/A	N/A	N/A	N/A
Housing Rents 20-21	19.10.21	Partial	N/A	N/A	N/A	N/A	N/A	N/A
Treasury Management 20-21	20.10.21	Substantial	N/A	N/A	N/A	N/A	N/A	N/A
Stage Door	15.11.21	Minimal	Not yet due	Not yet due	Not yet due	Not yet due	Not yet due	Not yet due
Theatres 20-21	17.11.21	Substantial	N/A	N/A	N/A	N/A	N/A	N/A
Main Accounting 20-21	01.12.21	Substantial	N/A	N/A	N/A	N/A	N/A	N/A
Debtors 20-21	01.12.21	Partial	N/A	N/A	N/A	N/A	N/A	N/A
Furloughing	06.12.21	Full	N/A	N/A	N/A	N/A	N/A	N/A
Regeneration Projects	06.12.21	Substantial	Not yet due	Not yet due	Not yet due	Not yet due	Not yet due	Not yet due
Love Clean Streets App	16.12.21	Partial	Not yet due	Not yet due	Not yet due	Not yet due	Not yet due	Not yet due

Appendix A – Quarterly Report On Internal Audit and Counter Fraud Work

Draft Reports Issued In the Current Year That Are Awaiting Responses

AUDIT	Draft issued
Film Liaison Unit	14.12.21
IT 20-21	14.12.21
HR - Covid New Ways of Working	16.12.21
Information Governance	20.12.21

OUTSTANDING RECOMMENDATIONS FROM AUDIT REPORTS WHICH REMAIN OUTSTANDING AFTER FOLLOW UP

COLOUR KEY

High Risk
Medium Risk
Low Risk

REPORTS ISSUED 20/21

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
IR35 (Off Payroll Working)	No	8	6	0	30.11.21	Second	Full	0	0	0	N/A	N/A	N/A
Members Allowances	Substantial	0	3	0	22.12.21	Second	Substantial	0	2	0	Apr-22	All expenditure must be evidenced by official VAT receipts. Where expenditure includes VAT, reimbursement must be claimed through the creditors system.	<u>Audit Comment</u> No claims including VAT had been made by the time of the follow up so this could not be checked
												All expenditure must be charged to the correct general ledger code.	<u>Audit Comment</u> Testing at follow up revealed one claim had been incorrectly coded
Procurement	Partial	0	11	0	16.12.21	Second	Partial	0	9	0	Apr-22	A Procurement Strategy must be written, adopted and disseminated.	Due to working pressures this has not progressed however, it has been agreed that the Strategic Procurement Manager role will be made permanent from 1st January 2022. This should help facilitate its progress however, the appointment has not yet been formalised by the issue of a contract.
												A Procurement Forward Plan must be written, adopted and disseminated.	In progress, a number of business plans have been received to support the developments of the forward plans. There is potential for this to be incorporated into the

Appendix B – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
													Community Wealth Building Officer role.
												Performance against the Procurement Forward Plan must be monitored and reported.	<p>The comments from the last follow up apply and the Strategic Procurement Manager has monitored savings and social value commitments against the procurements which he has managed.</p> <p><u>Audit comment:</u> Responsibility for updating the contract register going forward must be identified.</p>
												Policies and procedures must clearly state that Corporate contracts must be publicised around the Council.	<p>Councils are required to publish transparency data about their contracts on a quarterly basis. Although the councils' contract registers are published on the website, they are incomplete and the data in some cases is inaccurate.</p> <p><u>Audit comment:</u> Responsibility for updating the contract register going forward must be identified.</p>
												Policies and procedures must clearly state that where corporate contracts exist these, and no other company, must be used.	Amendments to the Contract Procedure Rules are still being worked on.

Appendix B – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
												<p>Creditor expenditure must be regularly reviewed and investigated to highlight opportunities to put contracts in place and identify failure to use current corporate contracts.</p>	<p>Spend analysis is completed on an annual basis.</p> <p><u>Audit comment:</u> To ensure that expenditure out of contract is identified promptly spend analysis should be completed on a more regular basis.</p>
												<p>Non-compliance of raising purchase orders must be monitored and persistent offenders reported to the head of the relevant service area.</p>	<p>We are reviewing available resources to be able to implement this new initiative including assigning the new interim systems accountant to this task to ensure compliance.</p>
												<p>A note must be added to guidance on raising invoices reminding officers to: • check the contracts register to consider whether their order could fall under the remit of a supplier with whom the organisation has an outstanding contract. Where a corporate contract exists these, and no other company, must be used • prompt officers to consider using suppliers already set up on the creditors system for a similar product</p>	<p>Guidance for raising purchase orders will be updated to remind officers to check the contracts register for the supply of goods and services.</p>

Appendix B – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
												The ability to expand the "Types" facility within Creditors must be investigated and if possible use of "Types" implemented across EBC, LDC, EHL and SEESL.	A meeting with the Strategic Procurement Manager will be arranged to consider the use of "Types" and whether this would work.
Business Continuity Planning	Minimal	4	0	0	20.12.21	Third	Partial	2	0	0	Apr-22	Business Continuity Plans for both councils must be completed and adopted as soon as possible.	The County Emergency Planning Officer was going to assist in training our Heads of Service (HOS) to complete their Business Impact Assessments. However the officer has now left and our Emergency Planning Officer, who has undertaken a week's intensive training course on business continuity will be undertaking the training of HOS with the Emergency Planning Officer and Regulatory Services Lead and Emergency Planning Officer in the New Year.
												Business Continuity Plans for every department must be completed and adopted as soon as possible.	The County Emergency Planning Officer was going to assist in training our Heads of Service (HOS) to complete their Business Impact Assessments. However the officer has now left and our Emergency Planning Officer, who has undertaken a week's intensive training course on business continuity will be undertaking the training of HOS with the Emergency Planning

Appendix B – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
													Officer and Regulatory Services Lead and Emergency Planning Officer in the New Year.
Arrears Collection	Partial	2	2	3	06.09.21	First	Partial	2	1	3	Ongoing	Action must be taken to investigate the possible recovery of old debts.	The Income Maximisation and Welfare Team (IMWT) will need to balance the recovery and management of older debts against in-year collection performance to ensure any shift in resource to collect and write off legacy debt doesn't impact on in year performance and income levels. Two different recovery strategies are under consideration for overpaid housing benefit collection to support the IMWT in managing and collecting both new and aged debt.
												Where appropriate consideration must be given to writing off old debts as irrecoverable.	A report setting out the options for dealing with overpaid housing benefit, including statute barred debt will be considered by CMT.

Appendix B – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
												Consideration should be given to aligning all income and recovery departments under the management of Customer First / Account Management	This is being considered outside of the Customer First Resolution Team restructure and is subject to wider conversations.
												An overarching corporate arrears collection strategy must be drawn up and adopted, under which the separate policies for the individual debt streams sit, to ensure council departments responsible for collecting monies are acting in accordance with approved guidelines.	The Fair Debt Policy will be reviewed and updated to take account of the changes in the organisation and the Breathing Space legislation.
												A review of the terms of Debtor accounts should be undertaken to ascertain if it is possible or practical to add interest to unpaid invoices.	Via the relevant Strategic Property Boards, we agreed that we could enter into payment plans with tenants of up to 6 months on a case by case basis during the pandemic and we have not added interest on to those amounts due. Leases sometimes allow provision that we could add interest if we feel the situation is relevant, but the reality is that, particularly over the last 18 months, tenants have been struggling to such a degree that increasing the rent they owed would have likely seen them fail – leaving us with bigger issues of empty units.

Appendix B – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
												Investigation should be undertaken to ensure Aged Debt Analysis reports are available for all income streams and used for monitoring recovery of arrears.	Ongoing investigations are taking place.
Implementation of Housing Software	Partial	2	0	1	10.09.21	First	Substantial	1	0	0	Ongoing	Resources must be made available to ensure constructive communication and cohesive working across the teams enables knowledge sharing to produce the required report parameters.	The councils' approach to report writing has been consolidated through the recent reshaping exercises in Business Planning and Performance and IT BAU. A Recruitment Authorisation Form will shortly be submitted to CMT to consider a new, more resilient and sustainable approach to report writing. The work to explore how the Change Agents and/or a solution sprint could help with this work is currently being scoped.
Leaseholder Management and Recharges	Partial	0	2	0	10.09.21	First	Substantial	0	1	0	Ongoing	The Leaseholder Handbook must be reviewed and updated.	Material for both authorities secured and initial draft compilation 30% complete. Aim to have 1st draft ready by end of Q3 for consultation with Leaseholder panel
Fly Tipping	Partial	0	7	0	22.09.21	First	Partial	0	7	0	Ongoing	The councils must develop a fly-tipping policy and strategy.	Due to recent reshaping delivery this has not yet been undertaken. New Head of Neighbourhood First role will take this forward with Neighbourhood First Manager when appointed and Senior Specialist Adviser (Waste) and the Lead for Waste

Appendix B – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
												<p>The current procedures must be reviewed to ensure that they are up to date and include the following: • accurately recording evidence of the fly tip • all investigation steps taken • all enforcement action taken</p>	<p>Neighbourhood First Manager post is due to be recruited to as part of reshaping delivery. Neighbourhood First Team leaders can ensure procedures are updated</p>
												<p>Procedures must be put in place to monitor the following: • administration of fly-tipping • decision making • penalty notices issued • record of payments received • action taken when payments are not received</p>	<p>Neighbourhood First Manager post is due to be recruited to as part of reshaping delivery. Neighbourhood First Team leaders can ensure processes are reviewed</p>
												<p>Standard fly-tipping letters must be reviewed, aligned and made available for use by all officers in Neighbourhood First.</p>	<p>Neighbourhood First Manager to take forward once recruited</p>
												<p>Photographic evidence and copies of letters must not be stored in officers' personal folders. Arrangements must be made for this information to be stored in a central location using a uniform approach.</p>	<p>Neighbourhood First Manager to take forward once recruited</p>
												<p>A plan of regular anti fly-tipping campaigns must be established to target different types of fly-tipping to include residents, traders, and those operating businesses from home.</p>	<p>Neighbourhood First Manager to take forward once recruited</p>

Appendix B – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
												Consideration must be given to reinstating meetings with other local authorities and organisations to share knowledge, methods of working and discuss what action can be taken to target fly-tipping and raise awareness in the community.	Neighbourhood First Manager to take forward once recruited
Internet/Intranet/Telephone Payments	Partial	0	4	0	21.10.21	First	Full	0	0	0	N/A	N/A	N/A
Officers Expenses	Substantial	2	2	11	09.11.21	First	Substantial	0	1	5	Mar-22	The Reimbursement of Officers Expenses via Creditors claim form must be updated to include a link to up to date relevant council rules.	There has been staff availabilities issues and I will suggest the deadlines are extended.
												Officers expenses claims forms should be amended to have a tick box to be completed to show that a VAT receipt has been attached and a disclaimer that expenses claims may be questioned if there is no VAT receipt or the receipt is illegible.	There has been staff availabilities issues and I will suggest the deadlines are extended.
												Consideration should be given to listing the most regularly used detail codes on the instructions tab of the Officers Expenses claim form. (e.g. travel, subsistence, equipment etc) and a note to cross reference this put onto the form itself.	There has been staff availabilities issues and I will suggest the deadlines are extended

Appendix B – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
												The mileage claim form must be changed to ask for the total mileage as calculated by AA route planner and not ask for mileometer readings. A screen dump of the AA route planner showing the route and total mileage should also be asked for on the claim and no claim processed unless a screen dump was sent with the claim.	The claim form on the Hub has not been updated regarding mileage calculation and Head of HR confirmed that they were not aware of any mileage calculation claim form changes.
												Claims for off-peak travel between Lewes and Eastbourne must be paid at the post 9am return rail fare once the appropriate Easit discount has been applied regardless of whether the officer claiming used the Easit discount in accordance with the Travel Policy.	To be raised at the next Senior Manager Forum.
												Detail codes quoted on expense claim forms must be checked, prior to payment being made, to ensure that where the claim is relates to an obvious cost (e.g. subsistence) the correct code has been used.	To be raised at the next Senior Manager Forum.

REPORTS ISSUED 21/22

No follow ups yet due

STRONGER together



Lewes District Council



Working in partnership with Eastbourne Homes

SECOND FOLLOW UP

INTERNAL AUDIT REPORT

ARREARS COLLECTION AUDIT

JANUARY 2022

Completed by: Jackie Humphrey – Chief Internal Auditor

1. INTRODUCTION

- 1.1 A review of the Arrears Collection process has been undertaken as part of Internal Audit's risk based annual plan. The purpose of the review was to provide assurance to management on the overall adequacy and effectiveness of controls operating within the system.
- 1.2 The Joint Transformation Programme was launched in May 2016 to enable Lewes District Council (LDC) and Eastbourne Borough Council (EBC) to share the provision of certain services. The Joint Transformation Model was developed to enable and deliver the benefits of merging specific council services and changing the way they are delivered. It incorporated lessons learned from the experience of other councils and built on work done under LDC's Programme Nexus and EBC's Future Model Programme, which restructured the council so that it was no longer organised by service lines, but around the customer; the focus was on putting the customer first.
- 1.3 The impact that Covid-19 has had on council finances has been widely reported. As of September 2020 the estimated loss to Lewes District Council was £4 million in 2020/2021 and to Eastbourne Borough Council was £8 million in 2020/2021 This has been further exacerbated by a temporary relaxing of the recovery processes during the year for income streams, such as Council Tax, Non-Domestic Rates and Sundry Debtors.
- 1.4 The review looked at arrears collection in the following areas:
- Council Tax
 - Non-Domestic Rates (Business Rates)
 - Housing Benefit Overpayments
 - Housing Rents
 - Sundry Debtors / General Income
- 1.5 The review did not look at rent arrears for Eastbourne Homes Ltd as this has been covered under a separate review.
- 1.6 Systems administrators are responsible for the daily management, upkeep, configuration, and reliable operation of the various business computer systems used across the councils, including OPENRevenues, Academy and Housing Cx which were all referred to as part of this review. The systems administrators form part of the Business Applications Unit Team which falls under the Information Communication Technology Service Area.

- 1.7. Some working practices for Revenues, which include Council Tax, Non-Domestic Rates (NDR) and Housing Benefit Overpayment (Eastbourne), are currently under review and therefore some observations made during the audit may already be being addressed.
- 1.8. This report will be sent to:
- Deputy Chief Executive
 - Director of Service Delivery
 - Chief Finance Officer
 - Head of Customer First
 - Head of ICT
 - Functional Lead (Growth & Prosperity)
 - Functional Lead (Thriving Communities)
 - Systems & Transactional Manager (Finance)
 - Specialist Services Manager
 - Account Services Manager
 - Business Applications Manager
- 1.9. Completion of audit work relies greatly on the help and co-operation given by Service Heads and their staff. Internal Audit takes this opportunity to thank the staff contacted during the audit for their courtesy and co-operation.

2. SUMMARY OF THE POSITION AT THE TIME OF THE FINAL REPORT

2.1. A review of the Arrears Collection Policy and Procedures found that:

- There is no overarching corporate arrears collection strategy, under which the policies for the individual debt streams sit, in place for Eastbourne Borough Council (EBC) or Lewes District Council (LDC).
- The Financial Procedures Rules, which were re-written and approved in 2019, clearly define the duties of the Directors, Assistant Directors and Heads of Service with regard to Financial Planning and being aware of income patterns.
- There are arrears collection procedures for all areas, however a recommendation was made in the 2019/20 Housing Rents annual audit for this to be reviewed and aligned for both authorities.

2.2. Arrears Policies and Procedures were reviewed to ensure they are adequate:

- Reminder notices are issued at appropriate intervals.
- Interest cannot be added to statutory debts although, in certain circumstances, charges can be added where recovery action is taken. Asset Management have discussed whether interest could be added if a Leaseholder defaults on rental payments, but these have not been implemented.
- Whilst periodic statements are not issued unless specifically requested by the customer, accounts, bills, and reminders advise what is due or outstanding. In addition, customers are able to access up to date information via the self-service portal for some debt streams.
- Generally, adjustments to accounts are administered through the relevant software systems, with relevant audit trails or evidence stored on the document retention system.
- There is evidence to confirm that automated daily reconciliations are carried out for EBC in respect of Council Tax, NDR and Housing Benefits on the Open Revenues system. However, confirmation has not been provided as to whether there is a similar process for LDC in respect of the Academy system.
- There are a number of payment methods available to enable customers to have various options to pay outstanding accounts.
- Information was provided to confirm that suspense accounts for Debtors and Housing Rents were monitored and, where appropriate, cleared on a timely basis. However, despite requests, the auditor did not receive similar evidence regarding Council Tax or NDR and is therefore unable to confirm that these are reviewed daily.

2.3. Collection of Arrears where reviewed to ensure they are appropriately monitored and managed and found:

- Aged debt analysis reports do not appear to be available for some of the income streams to the council.
- Where aged debt analysis reports are available not all of them are used for monitoring recovery of arrears and the focus is on recovering more recent arrears whilst older debts remain outstanding.
- Debtor accounts are monitored where payment arrangements have been made and a review of the collection process for Council Tax, NDR and Eastbourne Housing Benefit overpayments is currently being undertaken.
- There are suitable explanations as to why recovery action is suspended for Debtor accounts.

2.4. Write offs are suitably controlled with supporting evidence and that the bad debt provision is reviewed

- Testing of write-offs was carried out as part of the annual audits, covered by this review, and recommendations were made to ensure system controls were in place so that write off authorisations levels could not be exceeded.

2.5. Additional Observations

- Historically customers had complained about having to contact multiple departments; implementing a 'customer first' perspective meant breaking down silos, redesigning customer journeys and processes, automating to give customers greater on-line access and changing the culture within the organisations. The purpose of programmes like the Future Model

restructure, which gave rise to creation of Customer First, was to allow customers the ability to deal with one person for all debts.

- However Sundry Debtors, which also includes overpaid Housing Benefit for LDC, is currently under the management of Finance, whereas all other collection of monies due to the councils is administered and collected by the Account Management and Specialist Advisors within Service Delivery, under the strategic guidance of the Functional Lead Growth & Prosperity.
- The current segmented structure is not conducive to good working practices and does not support the Customer First intention.
- The internal structure also causes problems with difficulties and misunderstandings between Systems Administrators working in the Business Applications Unit (IT) in the Information Communication Technology Service Area and Senior Specialist Advisors working in Specialist Services in the Customer First Service Area due to a lack of shared knowledge and expertise in the work of Specialist Services and the required outputs from the appropriate systems. Such misunderstandings can cause delays and errors.
- The Functional Lead has suggested a review of the role of system administrators should be undertaken as part of the recovery reset programme to consider whether Systems Administrators for Open Revenues and Academy would be better placed within Service Delivery to be able to work closer with Specialists Advisors / practitioners and so that they are better able to respond and meet service priorities and objectives.

3.0. Assurance Level at time of initial review

3.1. Provisional Assurance Level Prior to Recommendations Being Implemented:
Assurance Level: **Partial Assurance**

Full Assurance	Full assurance that the controls reduce the risk to an acceptable level.
Substantial Assurance	Significant assurance that the controls reduce the level of risk, but there are some reservations; most risks are adequately managed, for others there are minor issues that need to be addressed by management.
Partial Assurance	Partial assurance that the controls reduce the level of risk. Only some of the risks are adequately managed; for others there are significant issues that need to be addressed by management.
Minimal Assurance	Little or no assurance that the controls reduce the level of risk to an acceptable level; the level of risk remains high and immediate action is

	required by management.
--	-------------------------

Number of recommendations:					
High	2	Medium	2	Low	3

3.2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards (PSIAS).

REASONABLE ASSURANCE

In giving this assessment, it should be noted that assurance cannot be absolute. The most that an Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the framework of internal control. The performance of internal audit work is not, and should not be taken as, a substitute for management’s responsibilities for the application of sound management practices. It should be emphasised that the responsibility for a sound system of internal controls, and the prevention and detection of fraud and other irregularities, rests with management. The work of Internal Audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity.

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4. SUMMARY OF POSITION AT TIME OF FIRST FOLLOW UP

4.1. A review of the Arrears Collection Policy and Procedures found that:

- The Lead for Income Maximisation and Welfare advised that separate arrears strategies will be developed for individual debt streams that are currently collected by the Income and Welfare Team; it is not possible to create an overarching collection strategy for all debt streams as each debt stream is governed by a different set of rules and regulations and will require different approaches to recovery and collection.
- The first report setting out a strategy to enhance overpaid housing benefit collection will be presented by the Lead for Income Maximisation and Welfare to CMT in September.
- The Fair Debt Policy will be reviewed and updated to take account of restructuring, change in roles and ways of working across the organisation and the Breathing Space legislation. Under the legislation creditors must pause contact and enforcement action for up to 60 days to enable a debtor to seek debt advice if they are told a debt owed to them is in a breathing space.

4.2. Arrears Policies and Procedures were reviewed to ensure they are adequate:

- The Head of Property, Delivery and Compliance advised that when a leaseholder defaults on rental payments, payment plans can be arranged for up to 6 months without adding interest.
- Some property leases allow provision to add interest however, interest has not been applied during the last 18 months due to the Covid-19 pandemic.
- Interest is not charged on unpaid housing leaseholder service charges, if necessary, a charge is placed against the property and any money owed is recovered from the proceeds of the sale of the property at a later date.
- A review of the terms of Debtor accounts to ascertain if it is possible or practical to add interest to unpaid invoices is outstanding.

4.3. **Collection of Arrears were reviewed to ensure they are appropriately monitored and managed and found:**

- The Head of Customer First is reviewing the availability and use of Aged Debt Analysis reports.

4.4. **Additional Observations**

- Consideration is being given to aligning all income and recovery services under the management of the Income and Welfare Team.
- In the Customer First reshaping exercise which restructured the service, reviewed and changed roles and ways of working, it was decided that Systems Administrators for Open Revenues and Academy will not be placed within Service Delivery.

5. **Assurance Level after follow up completed**

5.1. Assurance Level: **Partial Assurance**

Full Assurance	Full assurance that the controls reduce the risk to an acceptable level.
Substantial Assurance	Significant assurance that the controls reduce the level of risk, but there are some reservations; most risks are adequately managed, for others there are minor issues that need to be addressed by management.
Partial Assurance	Partial assurance that the controls reduce the level of risk. Only some of the risks are adequately managed; for others there are significant issues that need to be addressed by management.
Minimal Assurance	Little or no assurance that the controls reduce the level of risk to an acceptable level; the level of risk remains high and immediate action is required by management.

Number of recommendations originally made:					
High	2	Medium	2	Low	3
Number of recommendations still outstanding:					
High	2	Medium	1	Low	3

6. SUMMARY OF POSITION AT TIME OF SECOND FOLLOW UP

- 6.1 Recovery of old debts: The Customer First team will have staff focussed on recovery of debt when fully staffed. However, recruitment has been an issue. There has also been pressure of work due to the extra work of administering Covid-19 grants. Action has begun to maximise the collection of overpaid Housing Benefit debts.
- 6.2 Writing off bad debts: Historic debts need to be reviewed to see if they can be written off. It should be noted that the councils have limited powers to write off debts in respect of Council Tax and Business Rates.
- 6.3 Aligning income and recovery departments: The Customer First team will have staff focussed on recovery of debt when fully staffed. However, recruitment has been an issue.
- 6.4 Placement of Systems Administrators: This was considered, and it was decided not to change the current set up.
- 6.5 Corporate Collection Strategy: The Fair Debt Policy is still to be reviewed and updated.
- 6.6 Charging interest on unpaid commercial invoices: The Deputy Chief Finance Officer to discuss this with the Debtors Team Leader.
- 6.7 Availability and use of Aged Debt Analyses: It is reported that work continues on addressing this recommendation.

7. Assurance Level after second follow up completed

7.1. Assurance Level: **Partial Assurance**

Full Assurance	Full assurance that the controls reduce the risk to an acceptable level.
Substantial Assurance	Significant assurance that the controls reduce the level of risk, but there are some reservations; most risks are adequately managed, for others

	there are minor issues that need to be addressed by management.
Partial Assurance	Partial assurance that the controls reduce the level of risk. Only some of the risks are adequately managed; for others there are significant issues that need to be addressed by management.
Minimal Assurance	Little or no assurance that the controls reduce the level of risk to an acceptable level; the level of risk remains high and immediate action is required by management.

Number of recommendations originally made:					
High	2	Medium	2	Low	3
Number of recommendations still outstanding at first follow up:					
High	2	Medium	1	Low	3
Number of recommendations still outstanding at second follow up:					
High	2	Medium	1	Low	3

Responses to recommendations have been made in detail and therefore the usual action plan has been adjusted to allow for the full responses to be recorded.

Recommendation: Action must be taken to investigate the possible recovery of old debts.	Risk and Timescale : High - 12 months	Current Position: ONGOING
Position at Final Report	Lead for Income Maximisation and Welfare Resourcing capacity to achieve this recommendation will be considered through the Service Delivery restructure in the New Year.	

<p>Response at First Follow Up</p>	<p style="text-align: center;">Lead for Income Maximisation and Welfare</p> <p>The Income Maximisation and Welfare Team (IMWT) will need to balance the recovery and management of older debts against in-year collection performance to ensure any shift in resource to collect and write off legacy debt doesn't impact on in year performance and income levels.</p> <p>Two different recovery strategies are under consideration for overpaid housing benefit collection to support the IMWT in managing and collecting both new and aged debt.</p>
<p>Response to Second Follow Up</p>	<p style="text-align: center;">Head of Customer First</p> <p>When we are fully staffed we will be focussing some of the team on recovery of debt as a full-time piece of work. We are also in the process of identifying those with multiple debts across services and contacting them to offer assistance and advice. (The Head of Customer First later explained that her comments are superseded by the comments below).</p> <p style="text-align: center;">Lead for Income Maximisation and Welfare</p> <p>The audit report set out a number of recommendations and it has been acknowledged that the Customer First Resolution Team (CFRT) restructure and recruitment phase would mean that the Income and Welfare Team couldn't address all aged debt income streams at once. Further pressures such as the delivery of CV-19 Business grants over the past two years has and continues to place considerable pressure on the service whilst maintaining day to day Revenues administration and in year collection activity. Pressure is expected to continue in 2022 as the pandemic continues and the migration of two Revenues and Benefits systems to one single system is expected to take at least 12 months to complete.</p> <p>Additional capacity (11 extra posts) was factored into the new CFRT structure last April in order to provide a more targeted focus on Income collection and recovery (including the review of aged debts). Recruitment to these posts has proved challenging throughout 2021 as there is a national issue of too many vacancies and not enough people wishing to change jobs, there are still currently 3 Income Advisor posts that remain vacant. These posts are to be advertised again in January and it is hoped that these posts will be filled before the start of the new financial year.</p> <p>Once the team is at capacity and the new Advisors have been fully trained additional resource will be gradually moved to focus on in year and arrears collection. The CFRT Operational Manager will prepare a resource action plan to gradually transition resource to arrears collection during 2022.</p> <p>Action has begun to address the immediate priority debt stream as directed by the Chief Finance Officer which is to maximise the collection of overpaid Housing Benefit debts. The approach and strategy was set out in a report that was presented to Corporate Management Team in September and subsequently to the Accelerating Change Steering Group in November. Recommendations to deploy a digital recovery strategy and purchase a module that will help to increase Direct Earnings Attachment Orders for debts where it has been possible to identify a debtors employer through matching to HMRC records. The contract for the digital recovery strategy was signed in December and the data sharing agreement is being finalised by Legal Services. Implementation will start in the New Year once the delivery of the latest round of CV-19 business grants has finished towards the end of February.</p> <p style="text-align: center;">ONGOING</p>

Appendix C – Quarterly Report on Audit and Counter Fraud Work

Recommendation: Where appropriate consideration must be given to writing off old debts as irrecoverable.		Risk and Timescale: High-6 months	Current Position: OUTSTANDING
Position at Final Report	Agreed		
Response at First Follow Up	<p style="text-align: center;">Lead for Income Maximisation and Welfare comment: <u>EBC overpaid housing benefit</u></p> <p style="text-align: center;">A report setting out the options for dealing with overpaid housing benefit, including statute barred debt will be considered by CMT in September.</p> <p style="text-align: center;">Finance comment: <u>LDC overpaid housing benefit</u></p> <p style="text-align: center;">If the benefit claim is ongoing the overpayment is recovered from the ongoing benefit. Finance monitor the overpayment when benefit has ceased and when debts prove irrecoverable there is an annual review and Finance receive the authorisation to write off irrecoverable debts from the Head of Customer First.</p>		
Response to Second Follow Up	<p style="text-align: center;">Head of Customer First</p> <p>There is a write off procedure but the historic debts need to be reviewed in conjunction with finance to ensure they are ok to be passed for write off. (The Head of Customer First later explained that her comments are superseded by the comments below).</p> <p style="text-align: center;">Lead for Income Maximisation and Welfare</p> <p>The councils have limited powers for writing off debts in respect of Council Tax and Business Rates which are legally due and payable. There is no legal power to write off, for instance, on the grounds that the customer cannot afford to pay. In practice the councils are therefore able only to write off under the following exceptional circumstances:</p> <ul style="list-style-type: none"> · The debt is uneconomic to pursue any further · The debtor has absconded or the debtor is deceased · A term of imprisonment has been served (no further recourse to recover the outstanding amount) · The debtor has gone into bankruptcy or liquidation and there no funds available to creditors <p>We cannot easily 'strategise' writing off aged debts by oldest year, especially through automation or bulk write off as it requires a case-by-case review to assess individual cases which is time consuming and must be balanced with the collection and recovery of in-year debts. There is also a duty to protect the public purse for those residents that do pay their Council Tax on time otherwise the cost of writing off a significant amount of debt will be passed on to the taxpayer. Due regard to the Council's bad and doubtful debt provisions must be considered in this regard.</p> <p style="text-align: center;">OUTSTANDING</p>		

Appendix C – Quarterly Report on Audit and Counter Fraud Work

Recommendation: Consideration should be given to aligning all income and recovery departments under the management of Customer First / Account Management	Risk and Timescale: Medium - 3 months	Current Position: ONGOING
Position at Final Report	<p style="text-align: center;">Head of Customer First comment: To be considered as part of the service delivery reshaping</p> <p style="text-align: center;">Finance comment: Currently it is being actively looked at to stop issuing invoices to individuals to cover the cost of Emergency Accommodation, and rather to monitor and collect this debt through the Housing CX Rent system. So this function, although maybe not all historic debt, in this area would move to Account Management to look after.</p>	
Response at First Follow Up	<p style="text-align: center;">Head of Customer First This is being considered outside of the Customer First Resolution Team restructure and is subject to wider conversations.</p>	
Response to Second Follow Up	<p style="text-align: center;">Head of Customer First When we are fully staffed we will be focussing some of the team on recovery of debt as a full-time piece of work. We are also in the process of identifying those with multiple debts across services and contacting them to offer assistance and advice.</p> <p style="text-align: center;">ONGOING</p>	
Recommendation: A review of the role of system administrators should be undertaken as part of the recovery reset programme to consider whether Systems Administrators for Open Revenues and Academy would be better placed within Service Delivery to be able to work closer with Specialists Advisors / practitioners and so that they are better able to respond and meet service priorities and objectives	Risk and Timescale: Medium - 3 months	Current Position: ADDRESSED
Position at Final Report	<p style="text-align: center;">Head of Customer First To be considered as part of the service delivery reshaping which will include reporting lines</p> <p style="text-align: center;">Head of ICT Administration rights for systems must and has to be in IT, this is a requirement under PSN</p>	
Response at First Follow Up	<p style="text-align: center;">Head of Customer First This was considered but not accepted within the Customer First reshaping exercise.</p> <p style="text-align: center;">ADDRESSED</p>	
Response to Second Follow Up		

Appendix C – Quarterly Report on Audit and Counter Fraud Work

Recommendation: An overarching corporate arrears collection strategy must be drawn up and adopted, under which the separate policies for the individual debt streams sit, to ensure council departments responsible for collecting monies are acting in accordance with approved guidelines.		Risk and Timescale: Low - 3 months	Current Position: OUTSTANDING
Position at Final Report	AGREED		
Response at First Follow Up	Deputy Chief Finance Officer The Fair Debt Policy will be reviewed and updated to take account of the changes in the organisation and the Breathing Space legislation.		
Response to Second Follow Up	Deputy Chief Finance Officer The Fair Debt Policy has not been updated for a while and probably needs updating to include Debt Relief Orders , IVAs and Bankruptcy as well as Breathing Space as they are all a common occurrence due to the current economic climate. The Fair Debt Policy will need to be written as such that all debts streams are incorporated including the different rules and regulations. OUTSTANDING		

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Recommendation: A review of the terms of Debtor accounts should be undertaken to ascertain if it is possible or practical to add interest to unpaid invoices.		Risk and Timescale : Low - 3 months	Current Position: ONGOING
Position at Final Report	Deputy Chief Finance Officer A review of unpaid Debtor accounts will be conducted later in the year, taking into consideration that it might not be appropriate or acceptable to move forward with this during the ongoing pandemic. In terms of Commercial Debt, where businesses have turned to the council for assistance to stay afloat and trading during Covid19 pandemic, the financial impact of interest charges would be taken into consideration.		
Response at First Follow Up	Head of Property, Delivery and Compliance Via the relevant Strategic Property Boards, we agreed that we could enter into payment plans with tenants of up to 6 months on a case by case basis during the pandemic and we have not added interest on to those amounts due. Leases sometimes allow provision that we could add interest if we feel the situation is relevant, but the reality is that, particularly over the last 18 months, tenants have been struggling to such a degree that increasing the rent they owed would have likely seen them fail – leaving us with bigger issues of empty units.		

Response to Second Follow Up

Deputy Chief Finance Officer

Interest has been added to one Asset historically due to non-payment of rent and a “clause” is now added to all new Leases written that Interest can be added for outstanding rent. This clause wasn’t always included in the Leases in the past so Interest may not be added in some cases .

When the council provides a “Service” the Legal Contract signed by both parties at the time can include a Clause that “Interest” can be added due to Non-Payment . The Legal dept would have to comment on this and whether this “Clause” would be allowed.

Audit Comment

The Late Payment of Commercial Debts (Interest) Act 1998 allows the following:

When a payment becomes late

You can claim interest and debt recovery costs if another business is late paying for goods or a service.

If you agree a payment date, it must usually be within 30 days for public authorities or 60 days for business transactions.

You can agree a longer period than 60 days for business transactions - but it must be fair to both businesses.

If you do not agree a payment date, the law says the payment is late 30 days after either:

- *the customer gets the invoice*
- *you deliver the goods or provide the service (if this is later)*

Deputy Chief Finance Officer

Agreed – will work with the Debtors Team Leader to implement this.

ONGOING

Appendix C – Quarterly Report on Audit and Counter Fraud Work

Recommendation: Investigation should be undertaken to ensure Aged Debt Analysis reports are available for all income streams and used for monitoring recovery of arrears.	Risk and Timescale : Low - 3 months	Current Position: ONGOING
Position at Final Report	<p style="text-align: center;">Business Applications Manager</p> It will be investigated whether Open Revenues and Academy can support Aged Debt Analysis reporting requirements.	
Response at First Follow Up	<p style="text-align: center;">Head of Customer First</p> Ongoing investigations are taking place.	
Response to Second Follow Up	<p style="text-align: center;">Head of Customer First</p> This piece of work is still ongoing and I will work with IT BAU to get this in place as soon as possible. This requires work by our suppliers. <p style="text-align: center;">ONGOING</p>	

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Appendix D – Quarterly report on Audit and Counter Fraud work

INCOME AND SAVINGS ACROSS THE CURRENT FINANCIAL YEAR

Areas of savings	QUARTER ONE		QUARTER TWO		QUARTER THREE		QUARTER FOUR		YEAR TOTAL	
	Income	Savings	Income	Savings	Income	Savings	Income	Savings	Income	Savings
Tenancy Housing										
Recovery of council properties	0	0	0	£93,000.00	0	£186,000.00	0	0	£0.00	£279,000.00
Right To Buy value saved through intervention	0	£503,700.00	0	£493,000.00	0	£339,900.00	0	0	£0.00	£1,336,600.00
Housing intervention/fraud	0	0	0	0	0	£15,240.00	0	0	£0.00	£15,240.00
Revenues										
National Non Domestic Rates	£6,016.91	0	£24,092.44	0	£16,862.95	0	0	0	£46,972.30	£0.00
Council Tax	£27,197.44	0	£10,399.02	0	£5,677.29	0	0	0	£43,273.75	£0.00
Value of ongoing Council Tax increase per week	0	£11,208.96	0	£8,261.12	0	£2,795.20	0	0	£0.00	£22,265.28
Council Tax Penalties	0	0	0	0	0	0	0	0	£0.00	£0.00
CTR & Housing Benefit										
Council Tax Reduction	£1,569.89	0	£899.71	0	£9,801.12	0	0	0	£12,270.72	£0.00
Council Tax Reduction weekly incorrect benefit	0	£1,878.08	0	£565.01	0	£4,404.80	0	0	£0.00	£6,847.89
Housing Benefit	£656.11	0	£3,674.19	0	£32,732.56	0	0	0	£37,062.86	£0.00
Housing Benefit weekly incorrect benefit	0	£4,063.95	0	£235.52	0	£23,274.56	0	0	£0.00	£27,574.03
Income from Administrative penalty collection	£553.20		£591.82	0	£127.97	0	0	0	£1,272.99	£0.00
NFI										
Overpayments identified	0	0	0	0	£13,254.92	0	0	0	£13,254.92	£0.00
Weekly incorrect benefit identified	0	0	0	0	0	£1,390.83	0	0	£0.00	£1,390.83
TOTALS	£35,993.55	£520,850.99	£39,657.18	£595,061.65	£78,456.81	£573,005.39	£0.00	£0.00	£154,107.54	£1,688,918.03

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Report to:	Audit and Governance Committee
Date:	2nd March 2022
Title:	Post Assurance Review of the First and Second Phase of Covid Business Grants
Report of:	Chief Internal Auditor
Ward(s):	All
Purpose of report:	To update the Committee on the progress of the work of the work undertaken to verify the coronavirus business support payments administered by Eastbourne Borough Council
Officer recommendation(s):	To note the report.
Reasons for recommendations:	The remit of the Audit and Governance Committee includes the duty to keep under review the probity and effectiveness of internal controls, both financial and operational.
Contact Officer(s):	Name: Jackie Humphrey Post title: Chief Internal Auditor E-mail: jackie.humphrey@lewes-eastbourne.gov.uk Telephone number: 01323 415925 or internally on extension 5925.

1.0 Introduction

- 1.1 The purpose of this report is to provide an update of the work undertaken to verify the coronavirus business support payments administered by Eastbourne Borough Council and to establish whether any payments were made in error or were fraudulent. This report is a revised version of the 'Post Assurance Review of the First Round of Covid Grants' reported to committee on 29th September 2021. The verification work takes into account the individual policy for each grant to establish eligibility alongside the Post Event Assurance Plan required by the Department for Business, Energy and Industrial Strategy:
- to assess the level of fraud and error in Covid-19 grant schemes, loans etc
 - to identify instances of fraud and/or error and take action to recover money
 - to make recommendations to improve systems and processes
- 1.2 The report covers different approaches taken to verify the eligibility of payments and highlight cases where additional investigation is required. The post assurance work has evolved as more data analysis tools become available (e.g. Ascendant fraud and error reports/National Fraud Initiative) and reflects the evolving nature of each of the nine different grant schemes released to date.
- 1.3 This report covers the first two waves of Business Support Grants made available to eligible businesses:
- Phase One April – September 2020
- Small Business Grant Fund
 - Retail, Hospitality and Leisure Grant Fund

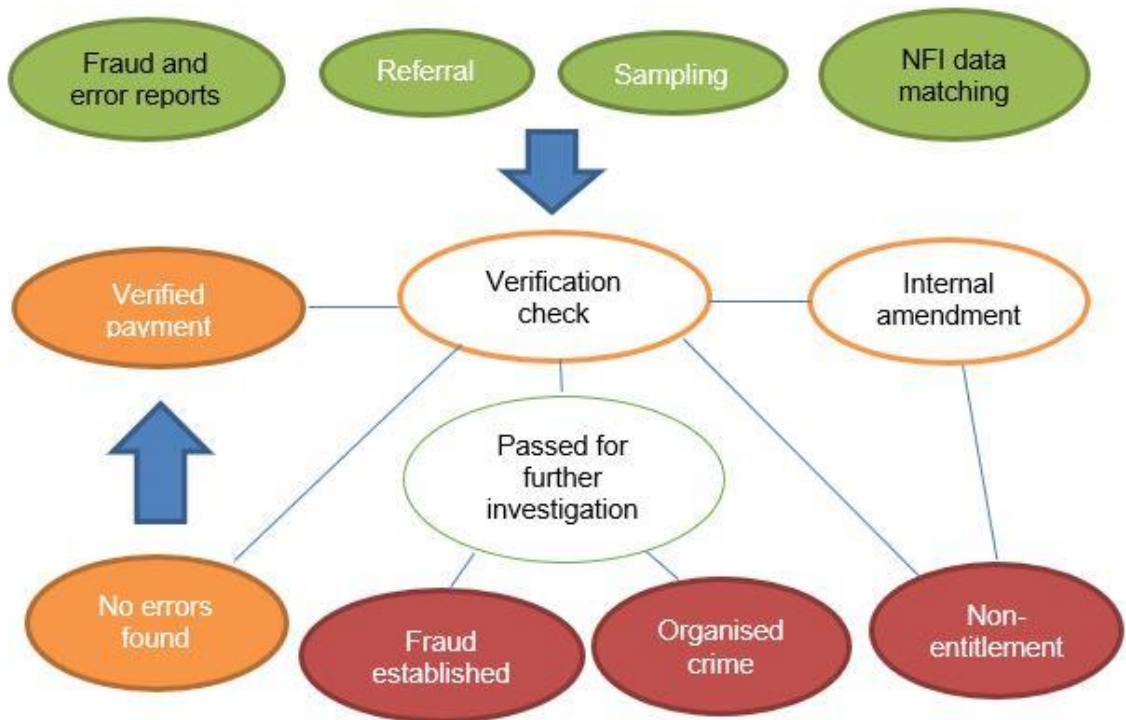
Phase Two from September 2020

- Additional Restrictions Grant
- Local Restrictions Support Grants
- Closed Business Lockdown Payment
- Christmas Support Payment
- Restart Grant

2.0 **Scope**

2.1 The Post Event Assurance Plan includes different methods of highlighting fraud and error, which will be explained in further detail below. Each method includes source material which has been taken from the Covid-19 applications received by the council and matched against internal and external data. Additional enhanced checks are taken where a discrepancy has been found causing the application to be referred to an investigation officer.

2.2 **Diagram to illustrate the Post Event Assurance Plan Process**



2.3 **Timeline of Post Event Assurance**

The table below provides a guide to the timeline of expected activities considering the availability of data and internal resources. The Department for Business, Energy and Industrial Strategy are also undertaking sample testing of the grants administered and post verification work undertaken.

Quarter	Fraud/Error investigations	Sample testing	Ascendant Fraud and Error report	National Fraud Initiative	BEIS grant audit verification
Apr - Jun 2020					
Jul – Sep 2020		Ascendant software			
Oct - Dec 2020					
Jan – Mar 2021				Phase One grants	
Apr – Jun 2021				Phase One grants	Phase One grants
Jul – Sep 2021		Phase One high risk			
Oct – Dec 2021					
Jan – Mar 2022				Phase Two grants	Phase Two grants
Apr – Jun 2022				Phase Two grants	

3.0 Methodology

- 3.1 The council has partnered with a private company, Ascendant Solutions, to verify grant applications, this work commenced with the government's introduction of the Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund. Applications are made via an online portal where data provided is matched against multiple sources of internal and external data. Each application is marked by either a green, amber, or red result – with green a low risk, moving up to red where discrepancies with data or multiple applications have been found requiring manual verification. Each successful Small Business Grant or Retail, Hospitality and Leisure Grant application has a value of either £10,000 - £25,000 depending on the eligible business criteria (as of 11 March 2020) and property rateable value – Phase Two grants vary in amounts depending on the scheme.
- 3.2 In addition to the review of Phase One and Two applications, the post assurance work will also review and highlight discrepancies with internal and external data held as part of the existing counter-fraud work. This may demonstrate incorrect business rates payers, incorrect receipt of rate relief (e.g. Small Business Rate Relief) and discrepancies found with internal awards of Housing Benefit, Council Tax Reduction and licensing and environmental health certificates.
- 3.3 To commence this review, an initial test sample of around 20 applications was randomly selected from each of the marked green, amber or red results following Ascendant Solutions verification process. Further targeted sampling would be based on the initial findings alongside known risk factors and previous examples where fraud and error have been found.
- 3.4 The information provided with each application included two forms of identity which were then compared against the following:

- **Open Source** – public information of the business’s presence online - this may highlight additional businesses in other areas, a change of business use, occupation or dissolved business prior to 11 March 2020.
- **Companies House** – verify information held on Companies House - this may highlight a dissolved limited business or business due to be struck off prior to 11 March 2020.
- **Director/Sole trader** – public information check to verify applicant exists and any associated links which may highlight duplicate business ownership.
- **Business Rates** – internal checks on documentation held in the council’s document management system and Open Revenues system – this will highlight any discrepancies held against the grant application and may show a change in the business in occupation.
- **Contact record** – internal checks on council’s document management system system – this may highlight discrepancies held with any contact made to the council.
- **Benefits** – internal checks on any active applications for Universal Credit, Housing Benefit, and Council Tax Reduction – this may highlight undeclared income from a business and false application for benefit.
- **Licensing and Environmental Health** – internal checks on council’s document management and APP systems – this may highlight discrepancies with presentations made to the council for food safety, premises and alcohol licences against grant application data.

4.0 Ascendant Software Testing

4.1 The first stage of the review process was to conduct sample testing of the result data (green, amber, and red) produced by Ascendant and matched against manual verification checks to monitor for accuracy and quality. These checks would provide an indication as to whether assurance can be placed on the reports being produced by Ascendant.

4.2 Green

A total of 20 cases with a green result were randomly selected for this review. The 20 cases include 8 limited companies and 12 sole traders. Of the grant applications, 17 claimed Small Business Grant and 3 Retail, Hospitality and Leisure Grant.

4.3 Outcome of green case review

All 20 applications were shown to be correctly matched against the internal and external records found. Where records were not found, such as open source checks, this can be attributed to the nature of the business or the individual trader. No discrepancies were found which warranted further investigation or highlighted that an error or fraud had occurred.

4.4 An issue was shown with 4 businesses trading under different names from what was held; however other information verified that the businesses remained eligible for grant assistance.

4.5 Amber

A total of 21 amber cases were randomly selected for this review. The 21 cases include 10 limited companies and 11 sole traders. Of the grant applications, 15 claimed Small Business Grant and 6 Retail, Hospitality and Leisure Grant.

4.6 **Outcome of amber case review**

21 applications were shown to hold discrepancies or missing information when matched against the internal and external records found. Additional verification would therefore be necessary to reduce the risk of fraud. Where records were not found, such as open source checks, this can be attributed to the nature of the business or the individual trader.

4.7 3 cases (2 limited companies, 1 sole trader) required further investigation. 1 business was listed under Companies House as due to be struck off, 1 was found to hold possible change of occupant with a benefit issue and another shows conflicting occupation information.

4.8 11 cases were found with inadequate identity documentation in support of their application, these proofs consisted of old correspondence (from 2018/2019), poor quality of document causing difficulty in viewing, unofficial evidence or documentation which did not match what they had been uploaded against (e.g. credit card uploaded as lease agreement).

4.9 **Red**

A total of 21 red cases were randomly selected for this review. The 21 cases include 8 limited companies and 13 sole traders. Of the grant applications 18 claimed Small Business Grant and 3 Retail, Hospitality and Leisure Grant.

4.10 **Outcome of red case review**

21 applications were shown to hold discrepancies or missing information when matched against the internal and external records. Additional verification checks would therefore be necessary to reduce the risk of fraud. Where records were not found, such as open source checks, this can be attributed to the nature of the business or the individual trader.

4.11 7 cases (1 limited company, 6 sole traders) required further investigation prior to grant payment. 4 businesses are shown from internal records to have dissolved prior to March 2020, 3 are shown to have changed management and rate payer – this highlight concerns with the data held at the start April 2020.

4.12 10 cases were found with inadequate identity documentation in support of their application, these proofs consisted of old correspondence (from 2018/2019), poor quality of document causing difficulty in viewing, unofficial evidence or documentation which did not match what they had been uploaded against (e.g. credit card uploaded as lease agreement).

5.0 **Ascendant Software Testing Conclusion**

5.1 Of the initial 62 random applications reviewed, none of the applications verified by Ascendant with a green status showed irregularity and cause for further investigation. Of the amber and red cases, all showed discrepancies which were to be expected. Of the grants awarded, 3 amber and 7 red were found to require further investigation. The results of the sampling shows that the Ascendant system appears to be correctly allocating grant claims into the correct report status based on the information held by the council and therefore reasonable reliance can be placed on it.

6.0 Post Assurance – Phase One Grants

- 6.1 To begin the work the 10 cases requiring further investigation in the amber and red categories as noted in the review of the results from Ascendent above, were investigated. All had claimed Small Business Grant, with 7 applications from sole traders. The 3 limited companies were all found to have made applications with discrepancies compared to information on Companies House records. No fraud was identified in 9 cases and these have now been closed resulting in an update to the liable rate payer following additional documentation to prove eligibility. 1 application is being treated as fraudulent.
- 6.2 1500 applications for Small Business Grant and Retail, Hospitality and Leisure Grant were processed by Eastbourne Borough Council between April – September 2020. Each of these applications were processed through Ascendant resulting in a green, amber or red result. The manual checking using the methodology detailed above resulted in similar outcomes with the green cases showing little or no concern, and with inconsistencies found with the amber and red cases requiring further verification. A decision was made to sample test applications with the highest degree of risk based on the Ascendant data analytics process in the red and amber categories. This consisted of 255 red cases and 591 amber applications.
- 6.3 Each amber and red application has been reviewed following the process detailed above or via internal or external referral. Of these, 12 applications are currently still under review for fraud and error with 12 applications found to have been paid incorrectly. Of these cases none so far have been found to be part of organised crime. All 12 cases claimed the £10,000 Small Business Grant with a total value of £120,000. Recovery of these incorrect payments have either been made or are outstanding. The percentage of fraud and error found so far is small in comparison to the volume of grants administered, however additional localised and national checks are still being undertaken so no conclusion can be made at this time.
- 6.4 Of the cases found to be incorrectly paid, there is a mixture of reasons, for example businesses which ceased to be trading as of the 11 March 2020, or a business was subsequently found not to be eligible under the policy criteria for the scheme (i.e. not qualified for small business rate relief), or a dispute between parties following a change or transfer of the business in occupation.
- 6.5 The National Fraud Initiative ran a national data matching exercise for phase one grants in March 2021. All 1505 applications of Small Business Grant and Retail, Hospitality and Leisure Grant were provided with 26 returned requiring further review. Of these cases most had already been identified by internal checks with one Small Business Grant application found to be incorrectly awarded to the value of £10,000. In a separate exercise all bank accounts where grants had been paid were provided to the National Fraud Initiative to verify the integrity the accounts through an Experian credit check.
- 6.6 As part of the Department for Business, Energy and Industrial Strategy's 'Post Payment Assurance Verification Process' a random sample of 15 phase one applications, supporting documents and evidence of post payment checks were requested as part of this exercise. The documentation was provided to the

Department for Business, Energy and Industrial Strategy in May 2021, no outcome response has been provided as of the completion date of this report.

6.7 National recovery guidance has now been provided by the Department for Business, Energy and Industrial Strategy for any grants awarded fraudulently, in error or non-compliance with the grant schemes. The council's internal debtor's team have been following these procedures and working with the grant recipients to arrange repayment. There are currently 8 Small Business Grant applications in the recovery process. An agreement with the Department for Business, Energy and Industrial Strategy is nearly in place to transfer responsibility for grants which we have been unable to recover.

6.8 Full assurance and assessment of the fraud and error found in the grants paid out cannot be provided at this time as applications remain under investigation. It should also be noted that grant data is constantly being collected and analysed through post assurance work internally and nationally by the National Fraud Initiative, National Crime Agency, National Investigation Service, and other government agencies.

7.0 Post Assurance – Phase Two Grants

7.1 The Phase Two grants, although similar in purpose, are also broader in scope than Phase One, with the introduction of grants specifically tailored to support the local and regional business industry and grants to help with post-Covid recovery. Businesses had to be either mandated to close, or impacted due to the local or national restrictions. The business needed to be operational and/or occupied on the prescribed date for the relevant scheme.

7.2 The variation in grants available to businesses is also reflected in the number of applications which coincided with each additional period of lockdown or restrictions due to the Covid-19 pandemic. Of the 6561 successful Phase Two applications, 1260 were from businesses who received 2 or more grants. With each subsequent application, further evidential documentation was required along with supplementary information of how the business is affected to meet eligibility criteria.

7.3 A review of Phase Two grants found that with the increasing number of multiple applications from businesses, a clearer picture of eligibility can be established. This has highlighted a potential risk with businesses who have only made one application, particularly the Phase One grants which has resulted in additional sampling.

7.4 A review of the Ascendant system which, as with the Phase One grants, is the administrative portal for applications and also where an assessment of entitlement is made. It was found that the system separated each grant applied for under its individual scheme and time frame, there was no evidence found of duplication. Ascendant also separates applications into red, amber and green in terms of the manual verification required. A high number of red cases had already been checked previous during Phase One, it was also found with the nature of certain businesses, such as shared spaces or without a business premises that a red flag would be raised but on further investigation eligibility can be established.

7.5 A review of bank accounts used for the 6561 applications found no duplication between businesses. Bank accounts used for payments were also verified against the evidence provided to match the business account held. All details

obtained from successful grants in Phase Two have been provided to the National Fraud Initiative who are now due to undertake a national data matching exercise in March 2022, this may highlight discrepancies when our data is compared to other local authorities and matched against records of organised criminals held by government agencies.

- 7.6 Unlike the Phase One grants, which required businesses to meet specific eligibility such as being in receipt of a Small Business Rate Relief or work in the Retail and Hospitality sectors, Phase two grants incorporate a larger spectrum of the business industry and Covid-19 restrictions. So effectively a business would be ineligible for one grant where the business was not mandated to close, but eligible for an alternative grant as this sector was covered within an alternative grant scheme. 244 applications Phase Two grant applications were declined and advised to apply for an alternative grant.
- 7.7 Of the errors found, change of circumstances are the most common where a business has changed hands and the council is only made aware afterwards either through verification checks or by the new business occupier. 5 Phase Two grants with the combined value of £21,000 have been found to be paid incorrectly and are currently going through the recovery process- this is out of £21,161,215 paid out in total for Phase 2 grants. 50 grants are still being investigated.
- 7.8 It is expected that a random sample of cases for each Phase Two grant scheme will be selected by the Department for Business, Energy and Industrial Strategy for post verification auditing in the coming months. The council has only been requested to provide 1 sample of a 'Christmas Support Payment' application and supporting evidence so far, with no outcome as of the completion date of this report.

8.0 Conclusions

- 8.1 In conducting a review of the fraud and errors found, it is necessary to first look at the Business Grant schemes as a whole - including the environment in which these grants were created during a national pandemic. It should be noted, that before Universal Credit was introduced a considerable amount of work was undertaken using a test and learn methodology with robust data of an individual and their circumstances to prevent fraud. In contrast, Coronavirus Business Grants were implemented in a matter of weeks with the data from local authority business ratepayer records used for a basis of eligibility. Business rate payer records do not provide the same level of detail as they were formed for the basis of rates collection, not fraud prevention or grant administration.
- 8.2 Following the introduction of Small Business Grants and Retail, Hospitality and Leisure Grants, several businesses came forward presenting a change in business occupancy. This has resulted in a considerable amount of work to update records where businesses have changed hands or commenced trading. Several cases have also required individual assessments where disputes exist over grant eligibility. These challenges have taken place in periods of national restrictions where the majority of businesses were either closed or faced severe restrictions with government expectation of a swift administration of grant payments. It is evident by the release of Phase Two grant schemes these issues had largely been resolved resulting in a clearer picture of active businesses in operation in Eastbourne.

- 8.3 The application process restricts one grant per eligible property. This limits the opportunity for duplicate grant fraud which has been an issue with other authorities. This has also helped encourage eligible businesses to come forward and support an investigation where a potential fraudulent application has been made. When factoring in incomplete or withdrawn applications, it can be shown that 2003 Phase One and Two applications were not completed. It is unclear of the reasons for these incomplete applications, but the checks and measures in place are likely to have reduced some fraudulent applications which would otherwise have claimed a grant.
- 8.4 Issues were found with out-of-date information held on our internal records for the actual business in occupation or trading name as of the 11 March 2020. This was a particular issue with businesses in receipt of Small Business Rate Relief and eligible to claim Small Business Grant with a higher number found in the 'amber and red' categorisation. There is a potential therefore for fraudulent applications to be made by individuals or businesses representing themselves as the registered rate payer without appropriate prior notification to the council. There is also the potential for un-notified changes to the premises ending eligibility for purpose of grant entitlement. These anomalies are unlikely to be discovered through Ascendant verification or desktop investigations alone, there is therefore a risk cases remain undetected – this is a particular risk with Phase One grants.
- 8.5 Issues were found with supporting evidence provided for a selection of Phase One applications in each of the green, amber and red categories. There is therefore a risk an application may have been successful without adequate identification evidence. However, where subsequent grant applications have been applied for in Phase Two, additional supporting evidence has been provided and therefore a stronger case of eligibility has been established.

9.0 Observations

- 9.1 The initial roll out of Small Business Grants and Retail, Hospitality and Leisure Grants were introduced to support businesses at a unique and challenging time during the first national lockdown. The administration of the schemes also presented to the council several challenges in providing financial support in a timely and efficient manner while also limiting the risk of fraud and error. If further preparation time was available, other measures may have been considered to increase verification accuracy - such as a full review of businesses in occupation or detailed disclosure of business ownership within the town. As this was not possible at the time, further post verification checks are required on a localised and national level to establish the level of fraud and error.
- 9.2 With the introduction of subsequent national and localised coronavirus business support grants, further applications and documentary supporting evidence has been provided. This has allowed for a more up to date record of businesses operating in the town and improved the level of assurance when verifying grant applications. The highest level of discrepancies found related to undeclared changes with businesses applying for Small Business Grants and in receipt of Small Business Rate Relief, it is recommended that more regular reviews are undertaken for those businesses in receipt of this relief to limit the level of incorrect billing and maximise council income streams.
- 9.3 Supporting documentation evidence for Small Business Grant and Retail, Hospitality and Leisure Grant applications were found to vary in acceptable

standards. This has been fed back to the grant administration team with improvement shown in the accepted documentation found in subsequent coronavirus grant applications. A higher level of verification can now be confirmed with the Phase Two scheme and those businesses which have claimed grants in both Phase One and Two.

10.0 Next Steps

- 10.1 The Counter-Fraud team will undertake further sampling of coronavirus grant cases where only one application has been made. We also expect the Phase Two National Fraud Initiative data matching results to be released in March 2022.
- 10.2 We also expect further Post Payment Assurance audit sampling requests from the Department for Business, Energy and Industrial Strategy for the Phase Two grants to be requested in the near future.
- 10.3 Testing will also be undertaken on the third round of grants which were administered, and this work will be reported back to the Department for Business, Energy and Industrial Strategy as well as reported internally; to management, the Corporate Management Team and the Audit and Governance Committee.

11.0 Financial Appraisal

- 11.1 There are no financial implications.

12.0 Legal Implications

- 12.1 This report takes account of regulation 5 of the Audit and Accounts Regulations 2015 which requires the Council to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

13.0 Risk Management Implications

- 13.1 If the council does not have an effective governance framework that is subject to proper oversight by Councillors it will not be able to demonstrate that it has in place adequate means to safeguard council assets and services, and it could be subject to criticism from the council’s external auditor or the public.

14.0 Equality Analysis

- 14.1 An equalities impact assessment is not considered necessary.

15.0 Appendices

- 15.1 None

16. Background Papers

- 16.1 None

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