

Audit and Governance Committee

11 March 2024



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 Christina Ewbank (Chair); Councillors Ali Dehdashty (Deputy-Chair)
Kathy Ballard, Daniel Butcher, Andy Collins, Hugh Parker, Kshama Shore,
David Small and Stephen Gilbert (Audit Independent Member)

Quorum: 2

Published: Monday 4th March 2024

Agenda

1 Minutes (Pages 5 - 10)

To confirm and sign the minutes of the previous meeting of the Committee held on 28 November 2023.

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 External Audit update

A verbal update by the Council's External Auditor, Deloitte.

8 Treasury Management Quarterly Update (Pages 11 - 30)

Report of the Director of Finance and Performance.

9 Draft Internal Audit Plan for 2024/25 (Pages 31 - 38)

Report of the Chief Internal Auditor.

10 Internal Audit and Counter Fraud Report - Quarter 3 (Pages 39 - 74)

Report of the Chief Internal Auditor.

11 Data Analytics Strategy for Internal Audit (Pages 75 - 84)

Report of the Chief Internal Auditor.

12 Date of next meeting

To note that the next meeting of the Audit and Governance Committee is scheduled for Wednesday 26 June 2024.

Information for the public

Accessibility:

Please note that the venue for this meeting is wheelchair accessible and has an induction loop to help people who are hearing impaired. If you would like to use the hearing loop please advise Democratic Services (see below for contact details) either in advance of the meeting or when you arrive so that they can set you up with the relevant equipment to link into the system.

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Public participation:

Please contact Democratic Services (see end of agenda) for the relevant deadlines for registering to speak on a matter which is listed on the agenda if applicable.

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 (prior to the start of the meeting), with the exception of Planning Committee meetings where registering to speak must be made in accordance with the relevant public speaking rules set out in the Council's constitution.

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 28 November 2023 at 6.00 pm.

Present:

Councillor Christina Ewbank (Chair).

Councillors Ali Dehdashty (Deputy-Chair), Kathy Ballard, Daniel Butcher, Andy Collins, Hugh Parker, Kshama Shore, David Small and Stephen Gilbert (Audit Independent Member).

Officers in attendance:

Homira Javadi (Director of Finance and Performance (Section 151 Officer)), Steven Houchin (Interim Deputy Chief Finance Officer (Corporate Finance)), Jackie Humphrey (Chief Internal Auditor), Ross Sutton (Head of Financial Reporting) and Elaine Roberts (Committee Officer).

Also in attendance:

Ben Sheriff, Deloitte, External Auditor (until completion of Item: External Audit update)

24 Minutes

The minutes of the last meeting held 5 October 2023, were confirmed as an accurate record and the Chair signed the minutes.

25 Apologies for absence/declaration of substitute members

There were no apologies.

26 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.

27 Questions by members of the public.

The Chair confirmed that no questions had been received.

28 Urgent items of business.

There were none.

29 Right to address the meeting/order of business.

There were no requests to address the meeting.

30 External Audit update

Steven Houchin, Interim Deputy Chief Finance Officer (IDCFO), provided a verbal update of progress regarding Deloitte's external audit of 2020-2021 since the last meeting.

In his report, the IDCFO noted that the majority of queries had been resolved and that Deloitte expected to bring a Statement of Accounts for 2020-21 to the next Audit and Governance Committee in February. The update highlighted that Deloitte now required the 2020-21 audit to take account of issues raised by RAAC (Reinforced autoclaved aerated concrete), and that Deloitte would not be resourcing work on the audit for a three week period over Christmas due to lack of staff. The IDCFO concluded with a brief update on the status of local authority audits nationally.

Deloitte's representative, Ben Sheriff, (attending remotely) explained that the company's position on the RAAC issue was consistent with other auditors and confirmed that Deloitte expected to present a Statement of Accounts for 2020-21 at the next committee meeting.

The Committee considered the update.

Members queried why RAAC issues, which had come to light in 2023, were concerning an audit of 2020-21. The IDCFO confirmed this point had been raised with Deloitte and had logged a request that Deloitte consider how the issue could be managed to avoid further delays to the 2020-21 Audit. The IDCFO reported that identification of potential RAAC was scheduled to be completed by mid-December and follow up investigations if required would take place in January.

Following further comments from members, Officers explained Deloitte's auditing process, which identified particular areas such as housing benefit and debt recovery for review and sample testing, followed by a second internal review, which often led to additional queries.

In response to concerns over possible delays, Deloitte and Finance Officers confirmed that the vast majority of queries had been closed and cleared and that both parties expected that a Statement of Accounts for 2020-21 would be brought to the next committee meeting. Officers confirmed that management of RAAC issues would be challenged again if necessary.

Resolved (unanimously) - To note the verbal update.

31 Annual report on Covert Surveillance Management

Lee Ewan, RIPA (Regulation of Investigatory Powers Act 2000) Monitoring Officer (RIPA MO), presented the report, supported by Oliver Dixon, Lawyer and Senior Responsible Officer for RIPA compliance. The presentation

included an explanation of the powers available to the Council under the Act and highlighted that no applications had been made to use the covert surveillance or undercover powers during the whole of the period covered by the report.

The Chair thanked the RIPA MO for the report and invited questions and comments from Members.

In the following discussions, Officers confirmed that, while there had been no covert surveillance or undercover activity over the past year, it was best practice to report annually. The RIPA MO explained that, following a recommendation from IPCO's (Investigatory Powers Commissioner's Office) 2022 inspection of the Council's surveillance management systems, the Council's policy had been updated to include a specific section concerning collection and management of personal data during surveillance. Officers confirmed that the one investigation carried out since then had fully complied with the revised policy, with case data deleted as soon as the deadline for appeal had passed.

Members thanked Officers for the report and complimented the Team on its thorough approach, which gave assurance and confidence that the Council was complying with relevant legislation and Home Office Code of Practice.

Resolved (unanimously)

To note the covert surveillance summary for September 2022 to September 2023.

32 External Assessment Report

Jackie Humphrey, Chief Internal Auditor (CIA) introduced the External Annual Assessment report. This included an outline of the periodic assessments required to 'audit the auditors', a summary review of the resultant recommendations, the Team's responses, and the Team's approach to secure both qualitative as well as quantitative performance measures.

The Committee considered the report.

The CIA confirmed that a request had been logged for an introduction meeting between Internal Audit and the new external auditors, Grant Thornton, once they were in place.

Following queries from Members, Officers provided further explanation of the two recommendations from the review that had required further consideration and comment from the Chief Finance Officer/151 Officer. The CIA clarified the pay award policy of the Council.

The CIA undertook, for the end of year report, to follow up a request that any changes where recommendations had been complied with would be highlighted, for clarity.

Resolved (unanimously)

To note the information in the report.

33 Internal Audit and Counter Fraud Work Report - Quarter 2

Jackie Humphrey, Chief Internal Auditor (CIA) presented the report, which included a summary of the process adopted by the Internal Audit Team and an explanation of its work to date, as outlined in the report and appendices.

Following questions from Members, Officers noted that:

- The report's approach to income savings figures from counter-fraud work followed national guidelines.
- Internal Audit's work to support anti-slavery was most apparent in the work of the counter-fraud team, which worked closely with the Police to provide useful information and guide victims to support services.
- Additional progress had been made to both items with 'red' RAG status since the close of the period covered by the report (July-September 2023) and follow up actions with Film Liaison had been completed. Officers would check the average licensing fees for location filming and feedback to Members.
- CMT (Corporate Management Team) would consider adding the issue of RAAC to the Strategic Risk Register at its next meeting.
- Auditing best practice had shown that a two-person checking process did not require the individuals to come from different departments to be effective at preventing fraud and could benefit from using persons who understood the business.
- The training programme to raise fraud awareness across the Council was run on a rolling basis in recognition of staff turnover. Departments covered to date this year included all teams within Housing, Revenue and Benefits and Customer First.
- Commitments to specific date deadlines would be sought from those departments with more than one follow-up, including those expecting changes to the team.

Members congratulated the positive score achieved by Council's IT Team from an external review of IT security. Officers confirmed that the results of the audit on cloud computing would be brought to the Committee's meeting in February.

Resolved (unanimously)

To note the information in the report, along with further information requirements identified by Members during the meeting.

34 Treasury Management Quarterly Update

Ross Sutton, Head of Financial Reporting, presented the update and the Committee considered the report.

Following questions from Members, Officers highlighted, from a Treasury point of view, some of the key positive and negative impacts of interest rates over the past year.

Officers supported Members' concerns over the challenge presented by rising costs of borrowing and gave assurance of the Finance Team's work to mitigate the impact of interest rates where possible.

Officers confirmed that a Council representative would attend the Bank of England's quarterly economic review meetings.

Officers clarified queries on a number of issues including fixed term deposits, projections for likely external debt, and the report's details of capital programme spending, and agreed to share information of the latest figures.

The CFO provided a brief outline of funding reductions since 2010 and drew a distinction between the 'demand-led' financial challenges being faced by the Council, such as the 'cost of living crisis', compared to some other Councils where financial difficulties were due to poor financial decisions.

The Committee requested a briefing session from the Finance Team to help Members to better understand the Council's current position.

Resolved (unanimously):

To note that Treasury Management Activities for the period April to September 2023 had been in accordance with the approved Treasury Strategies.

35 Strategic Risk Register Quarterly Review

Jackie Humphrey, Chief Internal Auditor, presented the outcomes of the Corporate Management Team's quarterly review of the Risk Register. The presentation noted the addition of two further risks around housing and CMT's response to the Committee's suggestion to add the issue of outstanding external audits to the Risk Register.

The Committee thanked the CIA for the report and there were no questions. The CIA noted the potential future inclusion of the RAAC issue in the risk register.

Resolved (unanimously)

To note the update to the Strategic Risk Register

36 Date of next meeting

The date of the next meeting was confirmed as Wednesday 28 February 2024 at 6pm in the Court Room, Eastbourne Town Hall.

The meeting ended at 7.55 pm

Councillor Christina Ewbank (Chair)

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Report To:	Audit and Governance Committee
Date:	11 March 2024
Report Title:	Treasury Management
Report of:	Director of Finance and Performance (Chief Finance Officer – S151 Officer)
Ward(s):	All
Purpose of report:	To present details of recent Treasury Management activities.
Officer Recommendations:	The Committee is recommended to note that Treasury Management Activities for the period April to December 2023 have been in accordance with the approved Treasury Strategies.
Reasons for recommendations:	Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code).
Contact Officer(s):	Name: Ross Sutton Post title: Head of Financial Reporting e-mail: ross.sutton@lewes-eastbourne.gov.uk Telephone number: 07591 988346

1. Introduction

- 1.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021).
- 1.2 A requirement of the Code is the creation and maintenance of a Treasury Management Policy Statement (TMSS) which sets out the policies and objectives of the Council's treasury management activities. Regular monitoring reports are required to meet the Treasury Management governance and scrutiny aspects. The Audit and Governance Committee are to review details of treasury transactions against the criteria set out in the TMSS and make recommendations to Council as appropriate.
- 1.3 The timetable for reporting Treasury Management activity in 2023/24 is shown in the table below and takes into account the timescale for the publication of each Committee agenda. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Governance Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
5 October 2023	April to June 2023
28 November 2023	April to September 2023 (Mid Year Review)
11 March 2024	April to December 2023
June 2024	2023/24 Annual Report (up to 31 March 2024)

1.4 Treasury Management is an integral part of the Council's overall finances and the performance of this area is very important. Whilst individual years matter, performance is best viewed over a medium to long term basis. The action taken in respect of the debt portfolio in recent years has been beneficial and has resulted in savings. Short term gains might, on occasions, be sacrificed for longer term certainty and stability.

1.5 The criteria for lending to Banks are derived from the list of approved counter parties provided by the Council's Treasury Management advisors, Link Group (Link). The list is updated regularly to reduce the risk to the Council by removing lower rated counterparties and reducing maximum loan durations.

2. Economic Background

2.1 The Bank of England's Monetary Policy Committee have continued to hold the Bank Rate at 5.25% (since August 2023). A detailed economic commentary for the period ending 31 December 2023 is attached as **Appendix A**.

3. Interest Rate Forecasts

3.1 The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

3.2 The latest forecast on 8 January 2024 sets out a view that the MPC are keen to further demonstrate their anti-inflation credentials by keeping Bank Rate at 5.25% until at least September 2024.

3.3 Link's forecast of bank rate and PWLB borrowing rates (at 8/1/24) are set out below.

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.80	4.30	3.80	3.30	3.20	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.60	4.10	3.70	3.20	3.20	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Note

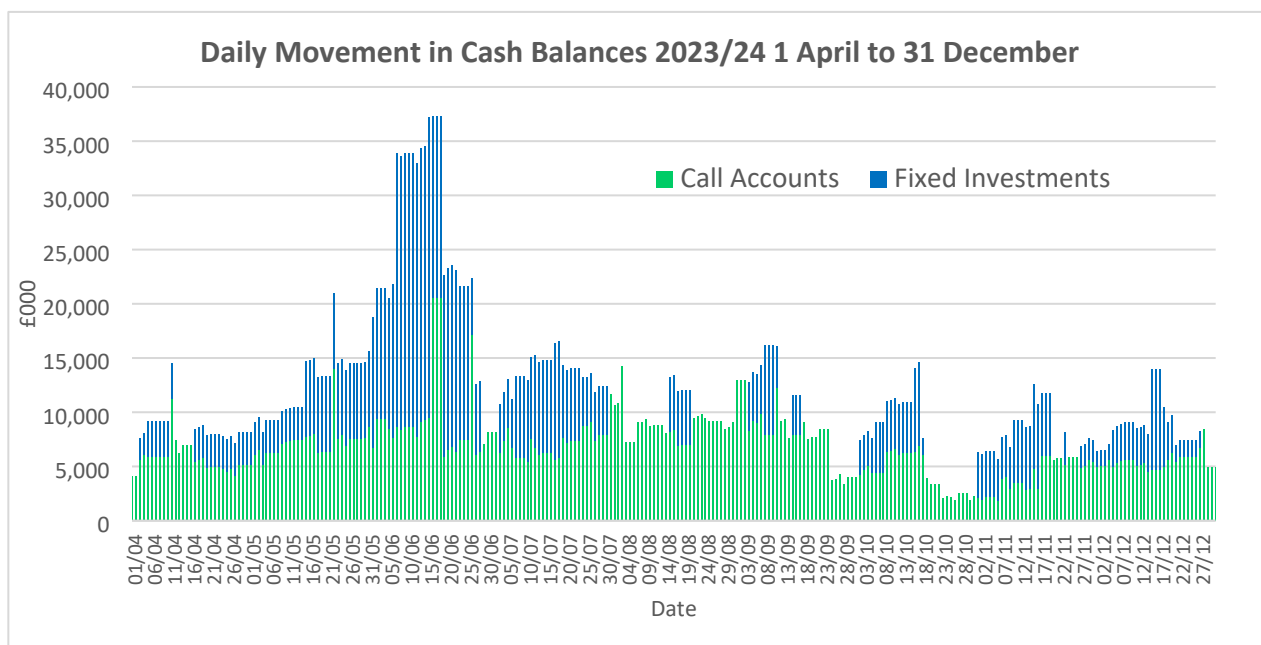
- 1) In a continuation of previous views, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- 2) The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

4. Annual Investment Strategy

- 4.1 CIPFA published a revised 'Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes' in December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.
- 4.2 The Treasury Management Strategy Statement for 2023/24, which includes the Annual Investment Strategy (AIS), was approved by the Full Council on 23 February 2023. It sets out the Council's investment priorities as being:
 - Security (of Capital);
 - Liquidity;
 - Yield.
- 4.3 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.
- 4.4 There are no policy changes to the TMSS. The details in this report update the position in the light of the updated economic position and budgetary changes already approved.
- 4.5 There have been some changes to individual counterparty credit ratings over the period. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

5. Treasury Management Activity

- 5.1 The chart below summarises the Council's investment position over the period 1 April to 31 December 2023. It shows the total sums invested each day split between Fixed Term investments and amounts held in Call accounts. The average is £11.3m comprising £6.7m Call and £4.6m Fixed.



5.2 Fixed Term Deposits pending maturity

The following table shows that no fixed term deposits held at 31 December 2023 although on average there was £3m for the third quarter. All the deposits made met the necessary criteria for a suitable counterparty, including the minimum rating required of long-term 'A'- (Fitch).

Counterparty	Date From	Date To	Days	Principal £	Rate %	Long Term Rating
Debt Management Office (DMO)	-	-	-	-	-	-

5.3 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured in quarter 3 in maturity date order. It is important to note that the table includes sums reinvested.

Counterparty	Date From	Date To	Days	Principal £	Rate %	Long Term Rating
Debt Management Office (DMO)	04/09/23	11/09/23	7	4,500,000	5.13%	*
DMO	08/09/23	12/09/23	4	3,800,000	5.13%	*
DMO	15/09/23	18/09/23	3	3,600,000	5.18%	*
DMO	02/10/23	18/10/23	16	3,200,000	5.17%	*
DMO	16/10/23	18/10/23	2	3,000,000	5.17%	*
DMO	06/10/23	19/10/23	13	1,500,000	5.17%	*
DMO	01/11/23	06/11/23	5	4,200,000	5.18%	*
DMO	10/11/23	17/11/23	7	2,000,000	5.17%	*
DMO	06/11/23	20/11/23	14	3,800,000	5.17%	*
DMO	15/11/23	20/11/23	5	2,000,000	5.17%	*
DMO	23/11/23	24/11/23	1	3,000,000	5.17%	*

DMO	27/11/23	01/12/23	4	2,000,000	5.17%	*
DMO	01/12/23	08/12/23	7	1,400,000	5.17%	*
DMO	15/12/23	18/12/23	3	5,800,000	5.19%	*
DMO	05/12/23	19/12/23	14	2,000,000	5.19%	*
DMO	08/12/23	21/12/23	13	1,500,000	5.19%	*
DMO	18/12/23	21/12/23	3	2,000,000	5.19%	*
DMO	21/12/23	28/12/23	7	1,500,000	5.19%	*

Note: * indicates UK Government body and therefore not subject to a credit rating.

The weighted average rate of interest earned on deposits held in the period 1 April to 31 December 2023 was 4.70% (4.49% Q2). The average bank base rate for the period was 4.95%. DMO deposits can fluctuate below the base rate.

5.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following liquidity accounts in the period covered by this report, with the average amount held being £2.23m (£2.57m Q2), generating interest of £144k.

Counterparty	Balance at 31/12/23 £000	Average Balance £000	Interest Rate %
Lloyds Bank Current Account	£2,181	£1,696	2.10%
Lloyds Bank Call Account	£1,510	£1,638	5.14%
Santander Business Reserve Account	£1,200	£3,347	3.36%

5.5 Money Market Funds

There were no funds Money Market Funds held at 31 December 2023, and there was no activity in the period.

5.6 Bond Funds, Multi-Asset Income Funds and Property Funds

There were no Short Dated Bond Funds, Multi-Asset Income Funds or Property Funds held at 31 December 2023, and there was no activity in the period.

6. Capital Position

6.1 This table shows the revised estimates for capital expenditure and the changes since the 2023/24 capital programme was agreed at the Budget. **Appendix B** provides further details.

	Original Budget £000	Revised Budget £000	Forecast Outturn £000
HRA	13,591	17,141	14,109
General Fund	28,010	20,811	13,339
Total Capital Expenditure	41,601	37,952	27,448

6.2 The original budget has been updated for carry over underspends from the previous financial year, supplementary budgets approved during the year and schemes now deferred and reprofiled to 2024/25. The Revised Budget has decreased to £37.95m. The latest Forecast Outturn for the year is £27.45m as there has been further deferral of schemes to 2024/25 and later years.

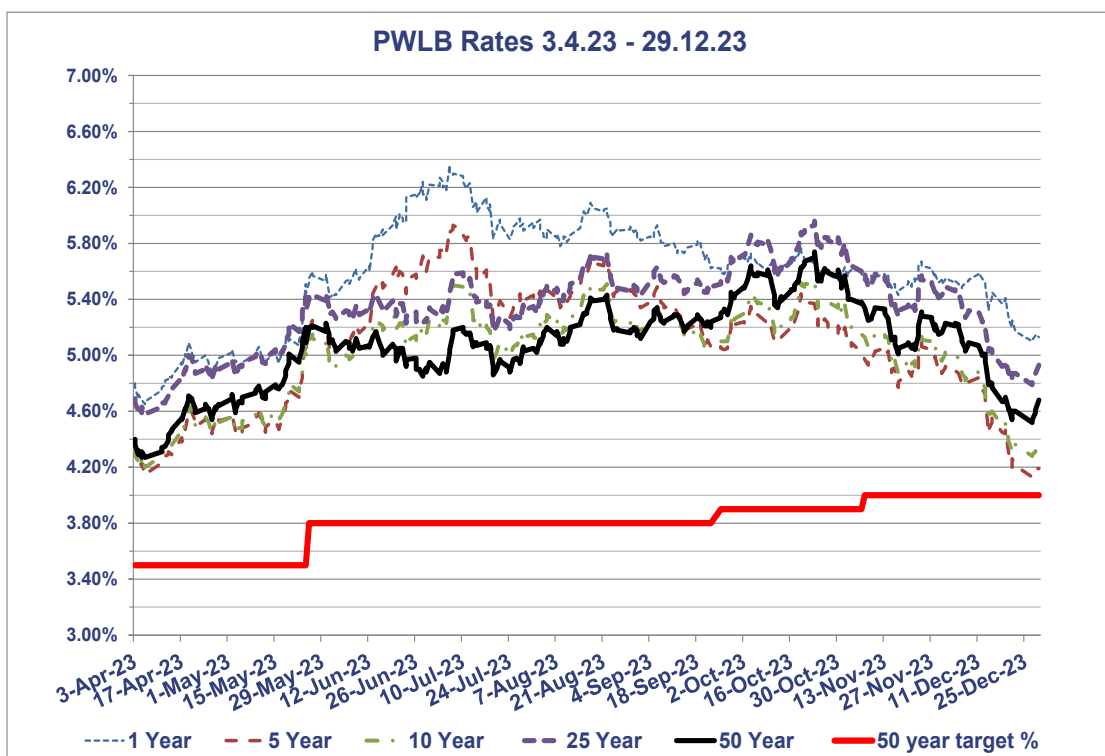
6.3 The financing of the capital programme has been updated in line with the changes in the table above (see Appendix B). The borrowing element will increase the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt, the Minimum Revenue Provision (MRP).

7. Borrowing

7.1 The Council’s capital financing requirement (CFR) for 2023/24 is forecast as £197.6m (GF £144.1m and HRA £53.5m). The CFR denotes the Council’s underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (i.e. internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

PWLB Rates

7.2 Gilt yields have endured a volatile nine months with yields rising significantly on the back of inflation concerns before retracing much of those increases in November and December. With the market now anticipating rate cuts by mid 2024, the short and medium parts of the curve are now close to where they started 2023/24, but the longer part of the curve is still a little higher. Currently there is 50 basis points difference between the 5 and 50 year parts of the curve.



- 7.3 Link's core debt management advice remains unaltered, to continue to reappraise any capital expenditure plans/profiles, and internally/temporarily borrow for any financing and re-financing. Only seek longer-dated debt if there is absolute certainty on the long-term rates and can conclude it is affordable, sustainable and prudent if funded at prevailing levels.

External Debt

- 7.4 The Council's long term borrowing at 31 December was £112.6m (£112.6m Q2) from the Public Works Loan Board (PWLB). Debt at the start of the year was £113.7m and £1.1m of loans have been repaid. A further £1.1m will mature in March 2024. The long term borrowing is at fixed rates of interest ranging from 1.6% to 5.0%. No new long term borrowing has been undertaken this year to-date. This is a prudent and cost-effective approach in the current economic climate but the position is continually monitored.
- 7.5 The table below details short term (less than one year) borrowing from other local authorities. As at 31 December 2023, £65m of loans were held (£67m at Q2). During the third quarter, £12m of loans matured and were repaid on time.

Lender	Principal £000	Date From	Date To	Days	Rate %
Loans held					
Tameside MBC	5,000	13 Feb 23	15 Jan 24	336	4.20%
West Midlands Combined Authority	5,000	27 Jul 23	29 Jan 24	186	4.10%
Warwickshire County Council	5,000	8 Feb 23	7 Feb 24	364	4.00%
Salford City Council	5,000	8 Feb 23	7 Feb 24	364	4.00%
West Yorkshire Combined Authority	5,000	9 May 23	9 Feb 24	276	4.25%
Wokingham BC	10,000	7 Jun 23	28 Mar 24	295	4.50%
West of England Combined Authority	10,000	28 Apr 23	26 Apr 24	364	4.85%
Bolton MBC	10,000	22 May 23	20 May 24	364	4.35%
West Yorkshire Combined Authority	10,000	23 Nov 23	8 Nov 24	351	5.60%
Loans repaid					
Barrow Borough Council	3,000	20 Jan 23	20 Nov 23	304	3.85%
Kent Police and Crime Commissioner	5,000	3 Aug 23	1 Dec 23	120	5.30%
Gwent Police	4,000	11 Apr 23	29 Dec 23	262	4.40%

8. Debt Rescheduling

- 8.1 Debt rescheduling opportunities have increased in the year where gilt yields, which underpin PWLB rates and market loans, have risen materially. The Council will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio. This is dependent on levels of investment balances. No debt rescheduling has currently been undertaken in the financial year.

9. Capital Financing Costs Summary

- 9.1 The table below summaries the General Fund (GF) interest payable, minimum revenue provision (MRP) and interest receivable forecast for the year.

General Fund	Original Budget £000	Forecast Outturn £000	Actual Q3 £000
Interest Payable - Borrowing	2,750	4,446	1,813
MRP	649	589	-
Interest Receivable – Treasury Investments	(99)	(385)	(293)
Interest Receivable – Loans	(1,299)	(1,328)	(88)
Net Interest Cost	2,001	3,322	1,432

- 9.2 The forecast outturn has increased by £1.3m to £3.3m. Interest payable includes a £1.4m increase on short term borrowing and £0.2m increase on interest payable by the general fund on HRA reserves and balances. The increase is due to a number of factors including base rates have risen to 5.25% (3.25% at the beginning of 2023), debt is now higher than the original estimated level due to the revenue budget overspend position, PWLB borrowing is prohibitive due to a 1% premium on rates arising from the capitalisation direction and also the shortage of cash available in the local authority lending market is continually driving up rates. Regarding the Q3 actual position, interest on PWLB loans is repayable in September 2023 and March 2024 and interest on short borrowing is due on maturity. MRP is calculated at the end of the financial year.
- 9.3 The table below summaries the Housing Revenue Account (HRA) interest payable and interest receivable forecast for the year.

HRA	Original Budget £000	Forecast Outturn £000	Actual Q3 £000
Interest Payable	1,781	1,596	798
Interest Receivable	(57)	(290)	-
Net Interest Cost	1,724	1,306	798

- 9.4 Interest receivable has increased due a change in which of the HRA reserves and balances interest is now paid on and also the base rate rises to 5.25%. The actual amounts are calculated at the end of the financial year.

10. Compliance with Treasury and Prudential Limits

- 10.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy Statement and Treasury Management Practices (TMPs).
- 10.2 The tables below show the Prudential and Treasury Indicators position comparing the Budget to the Forecast for the year.

Prudential Indicators	2023/24 Budget	2023/24 Forecast
Authorised Limit for external debt	£241m	£243m
Operational Boundary for external debt	£219m	£232m
Capital Financing Requirement (CFR) - GF	£146m	£144m
Capital Financing Requirement (CFR) - HRA	£54m	£54m
Gross External debt – GF (including loans to Housing Companies £30m)	£118m	£129m
Gross External debt - HRA	£47m	£54m
Total Debt compared to CFR under / (over) borrowing	£35m	£15m
Proportion of GF Financing Costs to Net Revenue Stream	25.4%	30.1%
Proportion of HRA Financing Costs to Rental Income (including depreciation)	47.0%	45.1%
Proportion of net income from commercial and service investments to Net Revenue Stream	16.1%	12.1%

Note - Section 6 and Appendix B provide the requirements for a Capital Expenditure indicator.

Treasury Indicators	2023/24 Budget	2023/24 Forecast
Upper limit for principal sums invested for longer than 365 days	£2m	£2m
Maturity structure of fixed rate borrowing - upper limits		
Under 12 months	75%	75%
12 months to 2 years	75%	75%
2 years to 5 years	75%	75%
5 years to 10 years	75%	75%
10 years and above	75%	75%

Note – Paragraphs 10.7 to 10.9 and Appendix C provide the requirements for a Liability Benchmark indicator.

- 10.3 As at 31 December 2023, indicators are on target or remain within acceptable parameters with the exception of Gross External Debt and the Proportion of GF Financing Costs to Net Revenue Stream.
- 10.4 Gross External Debt (GF and HRA) is forecast at £183m, an increase of £18m on the estimated (February 2023) position of £165m but remains within the Council's Operational Debt Boundary. Linked to debt, is the Proportion of GF Financing Costs (gross of interest receivable) to Net Revenue Stream which has increased to 30.1%. Paragraph 9.2 above provides an explanation of why interest payable has increased and the table in paragraph 7.5 shows how variable interest rates on short term borrowing have increased. Higher rates are payable on replacement debt as existing debt matures.

- 10.5 The total Capital Financing Requirement (CFR) is forecast at £198m, £2m less than the original estimate of £200m.
- 10.6 Approved limits within the Annual Investment Strategy were not breached during the period ending 31 December 2023, except for the balance held with Lloyds Bank (the Council's own bank), which exceeded the £5m limit for 6 days during the third quarter (average 7.5 days Q1 and Q2). Exceptions normally occur where (i) other investments have been recalled back to Lloyds a day early in readiness for larger than usual outgoings the following day or (ii) other investments are received back too late in the day to reinvest so remain with Lloyds overnight.

Liability Benchmark

- 10.7 There is a requirement to provide a comparison of the existing loan portfolio against committed borrowing needs in order to understand future debt requirements. The chart covers the following four areas:
- i. Existing Loan Debt = current borrowing portfolio;
 - ii. Capital Financing Requirement (loans only);
 - iii. Net Loans Requirement = loan debt (less treasury management investments) forecast based on approved prudential borrowing and planned MRP;
 - iv. Liability Benchmark = Net Loans Requirement plus short term liquidity allowance.
- 10.8 **Appendix C** includes liability benchmark charts for both the General Fund and HRA. Only approved expenditure and financing budgets for the period to 2025/26 are to be included although the charts cover the full debt maturity profile and MRP to 2068/69.
- 10.9 The GF chart shows the CFR, Loan Debt Outstanding and Liability Benchmark reducing in line over time. The HRA chart shows the CFR and Liability Benchmark increasing and then levelling out as there are no MRP payments or capital receipts. The HRA PWLB Loan Debt reduces over time as debt matures. Any gaps between actual loan debt outstanding and the liability benchmark will need to be managed in the future.

11. Non-treasury investments

- 11.1 The non-treasury investment activity includes the Council provision of a financial guarantee through its subsidiary company, Investment Company Eastbourne Limited (ICE) Limited. The principal activity of the company is to guarantee an external financial liability with Canada Life and the future rental income of Infrastructure Investments Leicester Limited by virtue of contractual arrangement. In return for providing the above Guarantee (including rental guarantee) in 2018, ICE receives a £0.34m annual guarantee fee (indexed pa).

The ICE Board of Directors meet regularly and review key financial monitoring (including the guarantee fees payment schedule) in line with the agreed governance arrangements/agreement.

11.2 The Council provide loans to its two subsidiary companies Eastbourne Housing Investment Company Limited and South East Environmental Services Limited and Aspiration Homes LLP which is a joint venture with Lewes District Council. As at 31 March 2023, £28.8m of loans had been provided and a further £0.8m is forecast for 2023/24. Interest received on those loans is forecast at £1.3m in 2023/24.

12. Environmental, Social and Governance (ESG) Investment

12.1 The Cabinet at its meeting on 8 February 2023 approved the 2023/24 Treasury Management and Investment Strategy, which included Non-Specified investments such as ESG products that meet the Council's internal and external due diligence criteria.

12.2 While a wide range of ESG investments are currently limited, there are expectations to see more banks and funds providing specific products over the coming years. As this area continues to develop and become more prominent, the Council in conjunction with Link will continue to monitor ESG investment opportunities within the parameters of the Council's counterparty criteria and in compliance with the DLUHC Investment Guidance (i.e. prioritising security, liquidity before yield).

12.3 There were no green deposits held at 31 December 2023, and there was no activity in the period.

13. Financial Appraisal

13.1 All relevant implications are referred to in the above paragraphs.

14. Risk Management Implications

14.1 The risk management implication associated with this activity is explained in the approved Treasury Management Strategy. No additional implications have arisen during the period covered by this report.

15. Equality Analysis

15.1 This is a routine report for which a detailed Equality Analysis is not required to be undertaken.

16. Legal Implications

16.1 There are no legal implications from this report.

17. Environmental sustainability implications

17.1 This report notes the treasury management performance of the Council. There are no anticipated environmental implications from this report that would affect the Council's sustainability policy. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the treasury activities and highlights compliance with the Council's policies previously approved by members.

18. Appendices

Appendix A - Link Treasury Services - Economic Commentary

Appendix B – EBC Capital Programme 2023/24

Appendix C - Liability Benchmark

Appendix D – Glossary of Terms

19. Background Papers

Treasury Management and Prudential Indicators 2023/24, Capital Strategy & Investment Strategy (Cabinet 8/2/23)

Link Group – Economic commentary

Economics Update

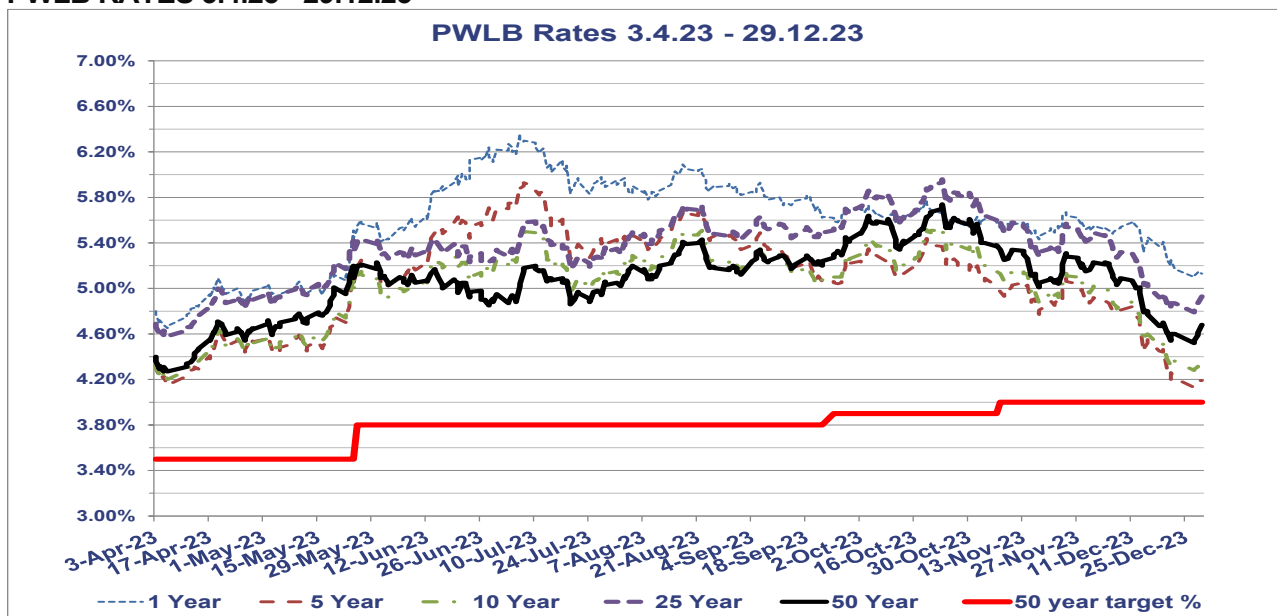
- The third quarter of 2023/24 saw:
 - A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
 - A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS “experimental” rate of unemployment has remained low at 4.2%;
 - CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
 - Core CPI inflation decreasing from April and May’s 31 years’ high of 7.1% to 5.1% in November, the lowest rate since January 2022;
 - The Bank of England holding rates at 5.25% in November and December;
 - A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.
- The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.
- However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December, from -24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.
- The 0.3% m/m fall in retail sales volumes in October means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.
- Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with only marginal falls showing year on year on the Halifax (-1%) and Nationwide (-1.8%) indices. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.

- Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.
- The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.
- The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.
- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.
- The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.
- Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest rates until H2 2024.
- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% at the time of writing, with further declines likely if the falling inflation story is maintained.

- Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from \$1.21 in November to \$1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.
- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

In the chart below, the rise in gilt yields across the curve in the first half of 2023/24, and therein PWLB rates, is clear to see, prior to the end of year rally based on a mix of supportive domestic and international factors.

PWLB RATES 3.4.23 - 29.12.23



MPC meetings 2nd November and 14th December 2023

- On 2nd November, the Bank of England's Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14th December reiterated that view. Both increases reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about "sticky" inflation remained in place.
- Nonetheless, with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.
- In addition, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has kept short-term rates in the range of 5.25%-5.50%, whilst the ECB has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

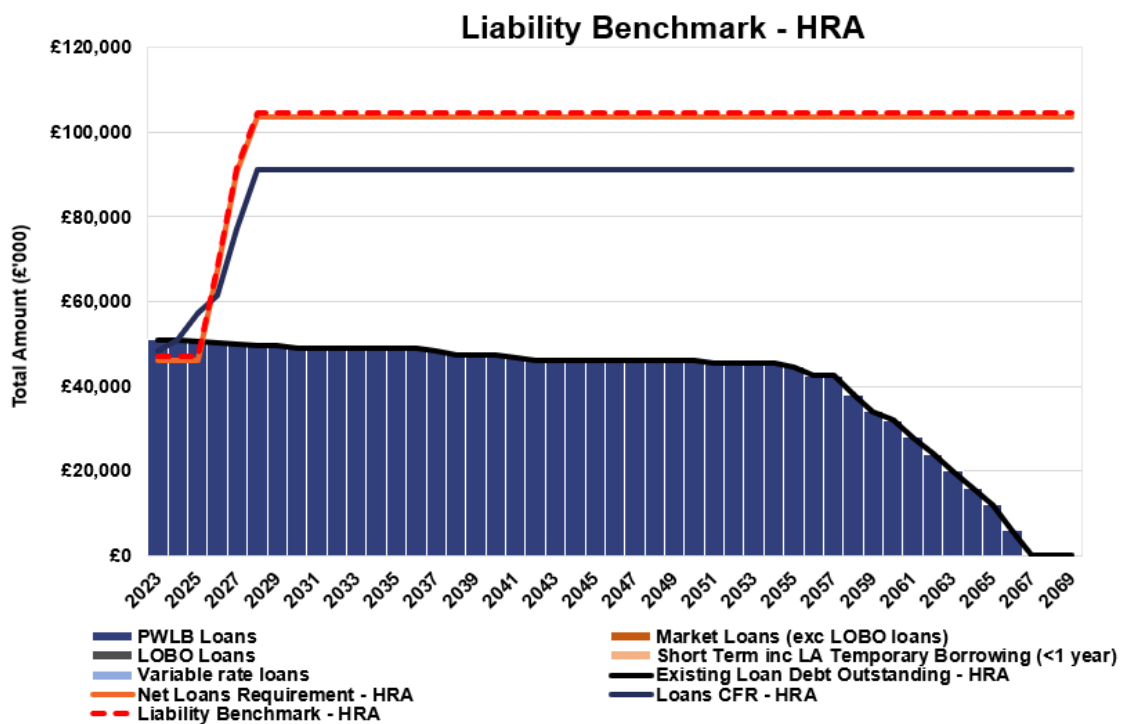
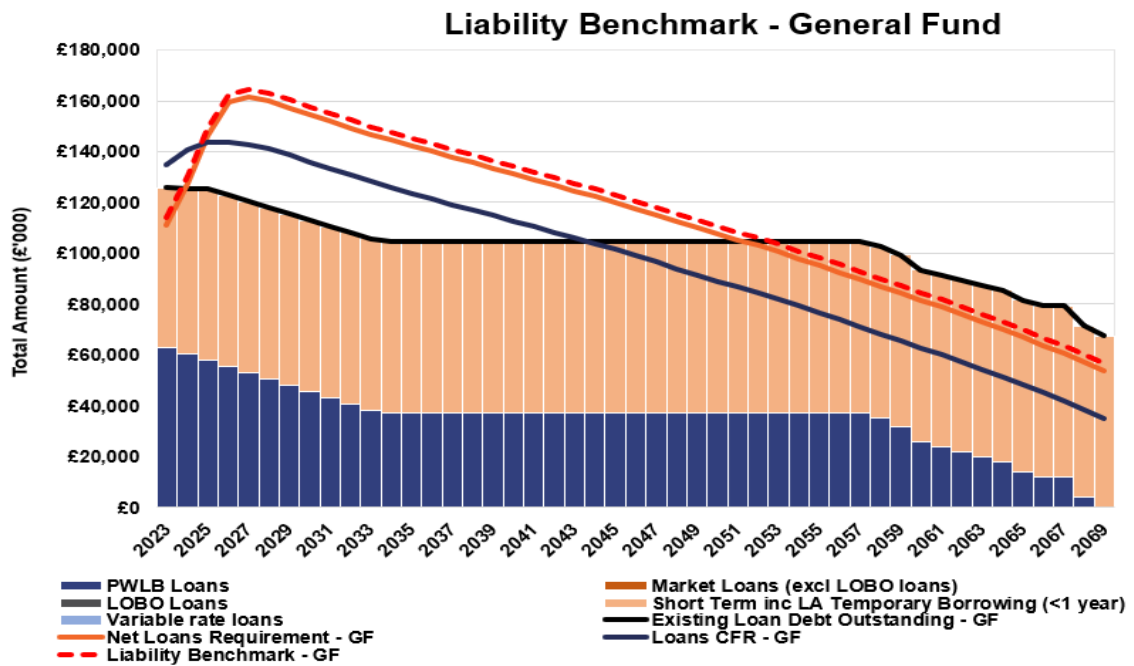
Appendix B

Capital Programme 2023/24	Original Budget £000	Revised Budget £000	Forecast Outturn (at Q3) £000
HOUSING REVENUE ACCOUNT (HRA)			
Construction of New Dwellings	8,141	10,811	8,709
Improvement to Stock	5,000	5,880	4,950
Adaptations for Disabled Tenants	450	450	450
Total HRA	13,591	17,141	14,109
GENERAL FUND (GF)			
Housing Grants	1,200	2,247	2,247
Loans to Housing Companies	751	890	864
Regeneration	19,237	10,798	4,776
Asset Management	3,660	2,133	1,602
Service Delivery	2,592	3,266	2,683
Information Technology	170	263	228
Digital Transformation	-	1,214	939
Corporate	400	-	-
Total General Fund	28,010	20,811	13,339
Total Capital Expenditure	41,601	37,952	27,448

HRA Financing			
Capital Receipts	3,318	1,666	1,666
Grants & Contributions	1,200	2,986	2,986
Major Repairs Reserve	5,450	6,330	5,400
Revenue	-	4,079	4,057
Borrowing Need	3,623	2,580	-
Total HRA	13,591	17,141	14,109

GF Financing			
Capital Receipts	250	92	50
Grants & Contributions	20,036	12,970	6,285
Revenue	50	-	-
Borrowing Need	7,674	7,749	7,004
Total GF	28,010	20,811	13,339

Liability Benchmark Charts



GLOSSARY

Local Authority Treasury Management Terms

Term	Description
Bond	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets.
Borrowing	Usually refers to the stock of outstanding loans owed, and bonds issued.
Capital Financing Requirement (CFR)	A council's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with capital expenditure and decreases with capital finance and Minimum Revenue Provision (MRP).
CIPFA	The Chartered Institute of Public Finance and Accountancy (CIPFA) is a UK-based international accountancy membership and standard-setting body.
Cost of Carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.
Counterparty Limit	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
CPI	Consumer Price Index - the main measure of inflation for macroeconomic purposes.
Deposit	A regulated placing of cash with a financial institution.
Dividend	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
DLUHC	Department for Levelling Up, Housing and Communities supports communities across the UK to thrive.
DMO	Debt Management Office is an executive agency of HM Treasury responsible for debt and cash management for the UK Government lending to local authorities and managing certain public funds.
Equity	An investment which usually confers ownership and voting rights.
FTSE	Financial Times Stock Exchange – an important indicator of the health of the UK stock market and economy. The FTSE100 is an index made up of shares from the biggest 100 companies by market capitalisation.
GDP	Gross Domestic Product is the total monetary or market value of all the finished goods and services produced within a country in a specific time period.
Income Return	Return on investment from dividends, interest and rent but excluding capital gains and losses.
Gilts	A gilt is a UK government liability denominated in sterling, issued by HM Treasury and listed on the stock exchange.

Term	Description
LIBID and LIBOR	London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than LIBOR. London interbank offer rate - the benchmark interest rate at which banks offer to lend cash to other banks. Published every London working day at 11am for various currencies and terms. No longer in use, see SONIA below.
LOBO	Lender's Option Borrower's option.
MMF	A Money Market Fund is a type of mutual fund that invests in cash, cash equivalents and short term debt securities.
MPC	The Bank of England's Monetary Policy Committee (MPC) are responsible for making decisions about the bank rate.
Minimum Revenue Provision (MRP)	Minimum Revenue Provision (MRP) is the charge to revenue made in respect of paying off the principal sum of the borrowing undertaken to finance the capital programme.
OBR	The Office for Budget Responsibility gives independent and authoritative analysis of the UK's public finances. OBR is an executive non-departmental public body, sponsored by HM Treasury.
PMI	Purchasing Managers' Index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors. Market conditions can be expanding, staying the same or contracting.
PWLB	Public Works Loan Board is a statutory body operating within the Debt Management Office (DMO) that lends money from the National Loans Fund to councils and other prescribed bodies and collects the repayments.
Quantitative Easing (QE)	Process by which central banks directly increase the quantity of money in the economy to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money.
SONIA	Sterling overnight interest average – a benchmark interest rate for overnight deposits.
TMSS	Treasury Management Strategy Statement.

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Report to:	AUDIT AND GOVERNANCE COMMITTEE
Date:	11th MARCH 2024
Title:	Draft Internal Audit Plan for 2024/25
Report of:	Chief Internal Auditor
Ward(s):	All
Purpose of report:	To propose an Internal Audit Plan for 2024/25
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 Internal 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 Internal 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 As has been the practice since 2020-21, an indicative Internal Audit plan has been produced. This practice was brought in to allow a more flexible approach to auditing. The plan appended to this report is the work that Internal Audit will carry out if no other work is requested. Over recent years, senior managers have become more willing to approach Internal Audit to request reviews in their areas, where they may have concerns.
- 2.2 It is important that Internal Audit adds value to the council and ensures 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.

Department	No of areas	% of total
Regeneration	11	7%
Tourism and Enterprise	18	12%
Service Delivery	58	39%
Corporate Services	63	42%
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 Internal 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 Internal Audit Plan for 2024/25.

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. The calculation can be found at Appendix A.

4.2 It should also be noted that Internal Audit has been requested to provide a service for the Tourism Local Authority Controlled Company (LACC). The Chief Internal Auditor has been informed that this will probably be in place by 1st April 2024. It has been agreed that 16 days of audit time will be purchased by the LACC and these days would need to be removed from the time available for the councils’ audit plan. However, it would also affect percentage split of work as at least one area would be removed from the audit universe. It should also be considered that there are other changes underway which, when they occur, will have a greater effect on the Internal Audit Plan and could mean that, overall, there are more days available to the plan. Therefore, the indicative plan is set without any of the changes taken into account. When a better idea is known of whether and when these changes will take effect, the committee will be updated on how these affect the plan.

4.3 There are 12 “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. Again, with the Tourism LACC, this will reduce to 11 after the next financial year.

- 4.4 For 2024/25 the Internal Audit team will be fully staffed. This has allowed for more audit days being available for the plan. As an additional benefit the Chief Internal Auditor will be able to hand back the carrying out of Eastbourne Homes Ltd audits to the Internal Audit team. The time freed up by this will allow for other work to be carried out.
- 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:

Total days available		318 audit days
Regeneration	7%	22 audit days
Tourism and Enterprise	12%	38 audit days
Service Delivery	39%	124 audit days
Corporate Services	42%	134 audit days

- 4.6 To begin considering what should be included in the Internal Audit Plan, a list of suggestions made during the previous year is considered. Then the Audit Universe is considered, to identify areas that have not been audited for some time.
- 4.7 When deciding on which audit reviews to add to the list, consideration is given to current issues facing the council. For the coming year, particular attention was given to areas that fitted into the themes of income generation, expenditure and sustainability.
- 4.8 Finally, the list of suggested reviews is compared to the Strategic Risk Register to ensure that areas of risk had been considered in the plan.
- 4.9 As mentioned at 4.4, time has been freed up for the Chief Internal Auditor. In putting together the indicative Internal Audit Plan, areas were identified that required some review but were not traditional reviews looking at controls alone. These have been listed at the bottom of the plan as these will be carried out by the Chief Internal Auditor, and possibly the Audit Manager, but will not take time out of the Internal Audit Plan to be carried out by the Internal Auditors.
- 4.10 The draft indicative Internal Audit Plan can be found at Appendix B.
- 4.11 This draft indicative plan has been taken to Corporate Management Team for consideration.
- 4.12 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, if and when other work is requested, it will be carried out within the time allocated for that department and will mean that one of the audits already in the plan will have to be dropped. 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.

- 4.13 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 Internal Audit Plan for 2024/2025

10. Background Papers

- 10.1 Audit universe

Jackie Humphrey
Chief Internal Auditor

	Audit Manager	Auditor	Auditor	Auditor	Auditor
Total days	254	254	254	254	254
Non charge	211	144	92	92	92
Actual days	43	110	162	162	162
Gross total	639				
Less EHL	36				
Less SEESL	5				
Total audit days available	598				
Annual audits			205		
Follow ups of audits from previous years			75		
Total			280		
Available for operational audits			318		

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	No of areas		% of universe		Actual days	Rounded days
Regeneration	11		7		22.26	22
Tourism and Enterprise	18		12		38.16	38
Service Delivery	58		39		124.00	124
Corporate Services	63		42		133.58	134

Total days	318	318
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INTERNAL AUDIT DRAFT PLAN 2023/24

Regeneration and Planning	Newhaven Business Centre (Lewes)	8	23
	Leasing and Licensing	15	
Tourism and Enterprise	Destination Management	15	38
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	Council Art and Artefacts	8	
Service Delivery	Penalty Charge Notices	15	120
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	Rechargeable Repairs	15	
	Rent and Deposit Loans	10	
	Leasehold Management - extensions, variations	15	
	Licences	15	
	Allotments	10	
	Allocations	15	
Coastal Protection	15		
Corporate Services	Succession Planning	10	138
	Operational Risk Registers	15	
	ICT Asset Management	8	
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	Devolved Budgets	10	
	Insurances	15	
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	Telephones	15	
	Security of Data Movement	10	
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Projects for Chief Internal Auditor/Audit Manager

Authorised Signatory List

Commonality of councils that failed/lessons to be learned

Policy on strategies, policies, procedures

Governance of companies

Sustainability and Growth project - meeting objectives

Complete update of the Audit Universe

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Report to:	AUDIT AND GOVERNANCE COMMITTEE
Date:	11th March 2024
Title:	Internal Audit and Counter Fraud Report for the three quarters of the financial year 2023-2024 – 1st April 2023 to 31st December 2023.
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 the three quarters of the financial year 2023-2024 – 1st April 2023 to 31st December 2023.
Officer recommendation(s):	That the information in this report be noted and members identify any further information requirements. The committee is requested to consider and approve the Audit Charter.
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

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 during the first three quarters of the financial year 2023-24.

2 Review of the work of Internal Audit carried out in the third quarter of the financial year 2023-24.

- 2.1 During this quarter, four follow ups reports have been issued in final and a further six have been issued in draft. Eight audit reviews have been issued in final with a further three issued in draft.
- 2.2 As explained at the last committee meeting, rather than carrying out full review of the 12 annual audits every year, half will have a full review and the other half a lighter touch review. The following year, the ones that received a light touch review will be given a full review. A light touch review consists of reviewing the

key controls in the area and also a follow up of the recommendations made the previous year – a report will be issued for each part of the light touch review.

- 2.3 Historically the assurance level given to reviews of annual audits (mainly financial systems) have been reported, but not the recommendations made. With the change in how annual audits are carried out, including follow ups, this now allows for greater transparency with outstanding recommendations being reported.
- 2.4 It is now intended to make a list of recommendations from annual audits that can be regularly reviewed. For example, discussing the list of recommendations related to Finance at monthly department management team meetings.
- 2.5 Appendix A lists all the audit reports issued during the year. The first table shows all the follow up reports that have been issued and the second table is the list of all other audit reports issued.
- 2.6 Appendix B is the list of all the audits that are still subject to follow up reviews. It shows the results of all the follow ups carried out and when the next follow up is due. When all recommendations have been addressed this will be reported once and then that audit will be removed from the list. Currently, annual audits have not been added to this list as how follow ups will be carried has not yet been decided.
- 2.7 Appendix C is a list of all outstanding recommendations and includes the latest responses from managers. A second table has been added to show outstanding recommendations related to annual audits. The exact layout of this table has yet to be finalised which is why it currently appears to be partially completed.
- 2.8 Of the reviews in Appendix B and C, the following is noted:

Business Continuity Plans – Only Tourism plans are outstanding. The Senior Events and Seafront Manager has been contacted with regard to plans in his area and these have not yet been completed though he has contacted the Regulatory Services Lead for assistance.

Following comments made at the November Audit and Governance Committee meeting, the Director of Tourism, Culture and Organisational Development was contacted for comment regarding other areas of Tourism. No response was received.

Sovereign Centre – the Director of Tourism, Culture and Organisational Development has confirmed that there is a delay with the transfer of the business. Therefore, the Operations Manager has been contacted to provide an update on the recommendations made in the audit review.

Arrears Collection – as previously explained, arrears collection services are being centralised under Customer First. The outstanding recommendation is regarding writing an overarching strategy/policy and was addressed to the Deputy Chief Finance Officer. With this current change, the Lead for Income Maximisation and Welfare was contacted about this recommendation. He has explained that this has already been included in the Income Maximisation and Welfare priorities for 2024/25. He added that the aim is to start work on a Corporate Fair Debt Policy in 2024/25 with a view to it coming into effect in 2025/26, possibly sooner.

- 2.9 As has been previously explained, the team were carrying a vacancy which impacted on the work produced. Last quarter it was reported that the post had been filled, with training ongoing. It is believed that the output of the team in the

quarter being reported shows that the team are now performing efficiently and more attention can now be given to other areas of performance such as using data analytics and improving reporting.

3 Review of the work of Counter Fraud carried out in the third quarter of the financial year 2023-24

- 3.1 The team continue to target the high risk and value areas impacting the council, in particular Tenancy and Revenue fraud. The team have also undertaken post assurance work on Energy Grants and begun assisting with multiple agencies in tackling Modern Slavery offences within the community.
- 3.2 Housing Tenancy – The team continue to work closely with colleagues in Homes First and Legal Services. There are currently 40 ongoing sublet/abandonment tenancy investigations at various stages. Two cases were closed following the return of both properties with a net value to the authority of £186,000. 11 other investigations were closed during this quarter with no further action.
- 3.3 Right To Buy - The third quarter has shown a marked decrease in new applications from previous quarters. 11 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. Three cases were closed during this period following the applications being withdrawn, resulting in a combined net preventative saving of £262,000. One other application is now closed following completion of the property purchase.
- 3.4 Housing Applications – the team continue to work with the Housing Allocations team following their review of the Housing Register in 2023/24 which removed 710 applications either due to withdrawal or no response. A new review will commence within the year with any highlighted fraud cases passed to the team to investigate.
- 3.5 Housing Options/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. This included providing refresher training to staff around credit checks and land registry systems to verify and reduce error and fraud.
- 3.6 Rent in Advance Loans debt recovery - the team have also been looking into 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 £2,799.22 during this period which otherwise might have been written off.
- 3.7 Energy Rebate Schemes - the Counter Fraud team are currently waiting on Government instructions to commence post assurance reviews of a selection of applications made following the closure of the latest Energy Rebate scheme.
- 3.8 Home Upgrade Grant – after the government’s announcement to award a combined grant funding of £6,230,700 for home energy improvements to eligible homes within Eastbourne Borough, Hastings Borough, Lewes District and Rother District Councils, the team have been working with the scheme leads to reduce the risk of fraud by implementing enhanced verification checks and officer training in fraud prevention.
- 3.9 Council Tax – following the implementation work on the new Revenues and Benefit system during this quarter, no reviews or amendments to accounts were possible while the system migration work was ongoing. As a result, a proportion of accounts/claims where the Counter Fraud team have highlighted that

amendments are required are waiting to be assessed. Six cases have been closed following an investigation during the quarter as part of a review of Single Person Discounts, Exemptions and Disregards with a net recoverable income of £12,138.19 generated for the authority and a preventative saving of £3,678.40. A review of Council Tax exemptions/disregards is ongoing and includes work with the National Fraud Initiative (NFI) matching data held between Council Tax Records and Electoral Register. 155 cases have been reviewed in this period with a net recoverable income of £3,820.83 generated along with a preventative saving of £8,193.28 (these figures are included within National Fraud Initiative savings in the table at Appendix D).

- 3.10 Council Tax Reduction – nine cases have been closed in this quarter generating a total recoverable income of £4,468.51 and a preventative saving of £3965.76.
- 3.11 National Non-Domestic Rates - one case was investigated during this period with no further action.
- 3.12 Housing Benefit – the team continue to work closely with the Department for Work and Pensions (DWP) and colleagues in the benefit section. Due to resource restrictions and a pressing need to assess Universal Credit applications, the DWP have limited their capacity to investigate Housing Benefit. Over this period, 23 cases were closed generating a recoverable Housing Benefit overpayment of £7,363.69 and a (WIB) preventative saving of £5,495.68.
- 3.13 Administrative penalties – only a small number of Administrative Penalties for historic Housing Benefit fraud cases remain outstanding. A figure of £47.57 was recovered during this period.
- 3.14 National Fraud Initiative (NFI) – the 2023/24 is already underway with the team concentrating on discrepancies on the Council Tax side as detailed above.
- 3.15 Data Protection Requests – the team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. During the quarter the team dealt with 17 data protection requests from the Police and other authorities. In addition, one fit and proper person check was completed for a new House in Multiple Occupation licence. Three gas safety checks for council properties were completed where a safeguarding concern or possible abandonment risk was identified.
- 3.16 Modern Slavery – the team have joined working operations with multiple Government Agencies and Sussex Police in tackling potential Modern Slavery offences across the town. The council has assisted in providing information in support of eight investigations within this quarter.
- 3.17 Fraud awareness – the team have delivered fraud awareness training throughout the organisation with bespoke sessions delivered to teams within Housing, Customer Service, Council Tax and Finance. An awareness session for the Customer Service Fraud champions, Housing Needs officers and Home Upgrade Grant team were delivered during this quarter.
- 3.18 A table showing the savings made by the Counter Fraud team in the three quarters of 2023-2024 can be found at Appendix D.

4 Governance of Companies

- 4.1 The Chief Financial Officer has requested that the Audit and Governance Committee be given updates of assurance on the financial and governance arrangements of the companies.

- 4.2 It has been arranged that the Boards of the companies adding an agenda item to their quarterly meetings to consider the financial and governance arrangements and to make a statement on this. These statements will be reported to this committee. It should be noted that because of the dates of the Board meetings and the reporting schedule for this committee, there will be timing differences. However, all statements received in the quarter being reported on will be included in the report.
- 4.3 A standard statement to be used, if the relevant Board considers the arrangements to be in order, has been agreed. Boards are expected to clarify any concerns of which they are aware.
- 4.4 The following is a table showing the date of meetings where the governance statement was considered:

Company	Quarter One	Quarter Two	Quarter Three
Eastbourne Homes Ltd	27.07.23	21.09.23	14.12.23
South East Environmental Services Ltd	07.06.23	20.09.23	13.12.23
Aspiration Homes LLP	13.07.23	Meeting cancelled	No update
Cloud ConnX	19.06.23	Meeting cancelled	Postponed
Investment Company Eastbourne	Meeting cancelled	26.09.23	04.12.23
Eastbourne Housing Investment Company Ltd	12.07.23	11.09.23	No update

- 4.5 All the above meetings returned the same statement.

“Having examined all the reports brought to the meeting the Board considers that the company is compliant with its financial and governance arrangements”.

5. Review of Internal Audit Charter

- 5.1 An internal audit charter is a formal document that defines internal audit’s purpose, authority, responsibility, and position within an organisation. It describes the nature of services the function will provide but also establishes the internal audit activity’s position within the organisation, including the Chief Internal Auditor’s reporting lines and the rights of access to records, personnel and property.
- 5.2 The Chief Internal Auditor is responsible for reviewing the charter and keeping it up to date with any changes being discussed with the Corporate Management team and brought to the Audit and Governance Committee for approval.
- 5.3 The charter was due for review, and work had already commenced on this piece of work, when the external peer review was carried out in September 2023. The report issued at the end of the review noted that the charter did not cover all areas as per the Public Sector Internal Audit Standards. It recommended that the charter be amended accordingly. However, the report did not note which of the standards it was felt had not been covered but did mention that “the charter does not state that the standards are mandatory and that Internal Audit must comply with them”.
- 5.4 The Internal Audit Charter has therefore been completely rewritten to ensure that all the elements of the Public Sector Internal Audit Standards are covered.

5.5 The committee is requested to consider and approve the Audit Charter (Appendix E)

6 Financial appraisal

6.1 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 D.

7 Legal implications

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

8 Risk management implications

8.1 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.

9 Equality analysis

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

10 Environmental sustainability implications

10.1 Not applicable

11 Appendices

11.1 Appendix A – List of reports issued during the year
Appendix B – Position of audits requiring follow up
Appendix C - Recommendations outstanding after follow-ups
Appendix D – Counter Fraud savings.
Appendix E – Internal Audit Charter

LIST OF ALL REPORTS ISSUED DURING THE YEAR 2023-24**Follow Up Reports Issued in Current Year**

AUDIT	FOLLOW UP	DATE FOLLOW UP ISSUED	ASSURANCE LEVEL	
Business Continuity Plans	Sixth	10.05.23	Substantial	See Appendix B and C for details
Members Allowances	Fourth	19.05.23	Full	All recommendations addressed
Contract Management	First	05.06.23	Substantial	All recommendations addressed
Film Liaison Unit	Second	29.06.23	Substantial	See third follow up
Rent Sense	Third	30.06.23	Substantial	See fourth follow up
Love Clean Streets	Fourth	18.08.23	Substantial	All recommendations addressed
Construction Industry Scheme	Second	23.08.23	Substantial	See Appendix B and C for details
Theatres (21/22)		05.10.23	Substantial	See Appendix B and C for details
Film Liaison Unit	Third	01.11.23	Full	All recommendations addressed
Rent Sense	Fourth	13.11.23	Substantial	All recommendations addressed
Complaints	First	06.12.23	Partial	See Appendix B and C for details

Audit Reports Issued in Current Year

AUDIT	FINAL DATE	FINAL ASSURANCE LEVEL	FIRST FOLLOW-DUE
Casual Workers	03.05.23	Partial	Ongoing
Housing Rents – annual 2022-23	18.07.23	Substantial	With next review
Complaints	16.08.23	Partial	Completed
Benefits – annual 2022-23	04.10.23	Substantial	With next review
Theatres – annual 2022-23 – light touch	05.10.23	Partial	With next review
Cyber Security	05.10.23	Full	No recommendations
Cloud Computing	06.10.23	Full	No recommendations
Managerial Responsibilities Training	23.10.23	Partial	February 2024
Council Tax – annual 2022-23	06.12.23	Substantial	No recommendations
NNDR – annual 2022-23	06.12.23	Substantial	With next review
Payroll – annual 2022-23	15.12.23	Substantial	With next review

Draft Reports Issued in the Current Year That Are Awaiting Responses

AUDIT	DATE DRAFT ISSUED
Cash and Bank – follow up of 21/22 recommendations	14.12.23
Construction Industry Scheme – third follow up	14.12.23
Debtors – follow up of 21/22 recommendations	14.12.23
Main Accounting – follow up of 21/22 recommendations	19.12.23

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

Main Accounting – annual 22/23 – light touch	19.12.23
Treasury Management – follow up of 21/22 recommendations	19.12.23
Casual Workers – first follow up	19.12.23
Debtors – annual 22/23	19.12.23
Risk Management	20.12.23

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.

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

POSITION OF AUDITS REQUIRING FOLLOW UP

AUDIT	FINAL DATE		FIRST FOLLOW-UP DATE		SECOND FOLLOW-UP DATE		THIRD FOLLOW-UP DATE		FOURTH FOLLOW UP DATE		FIFTH FOLLOW UP DATE		SIXTH FOLLOW UP
	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	FOURTH FOLLOW UP DATE	FOURTH FOLLOW UP ASSURANCE LEVEL	FIFTH FOLLOW UP DATE	FIFTH FOLLOW UP ASSURANCE LEVEL	
Business Continuity Plans	Nov 20	Minimal	May 21	Partial	Aug 21	Partial	Dec 21	Partial	May 22	Substantial	Dec 22	Partial	May 23 / July 23 / Jan 24-Substantial
Arrears Collection	Jan 21	Partial	Sep 21	Partial	Jan 22	Partial	May 22	Substantial	Nov 22	Substantial	Jan 24	Substantial	Jun 24
Film Liaison Unit	Jan 22	Minimal	Sep 22	Minimal	June 23	Substantial	Nov 23	Full					
Construction Industry Scheme	Feb 22	Partial	Feb 23	Partial	Aug 23	Substantial	Dec 23	In draft					
Sovereign Centre	Aug 22	Partial	Dec 22	Ongoing									
Rent Sense	Sep 22	Partial	Nov 22	Substantial	Feb 23	Substantial	Jun 23	Substantial	Nov 23	Substantial			
Casual Workers	Apl 23	Partial	Dec 23	In draft									
Complaints	Aug 23	Partial	Dec 23	Partial	Apl 24								
Managerial Responsibilities Training	Oct 23	Partial	Feb 24										

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ANNUAL AUDITS

AUDIT	TYPE	ASSURANCE LEVEL	OUTSTANDING RECOMMENDATIONS		
			HIGH	MEDIUM	LOW
Theatres (21/22)	Follow Up	Substantial	2	3	0
Theatres (22/23)	Light Touch	Partial	0	1	0
Housing Rents (22/23)	Full	Substantial	1	4	0
Benefits (22/23)	Full	Substantial	0	1	0
NNDR (22/23)	Full	Substantial	0	0	1
Payroll (22/23)	Full	Substantial	3	6	2

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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
Business Continuity Planning November 2020	Minimal	4	0	0	Dec 23	Sixth +	Substantial	1	0	0	Feb 23	Business Continuity Plans for every department must be completed and adopted as soon as possible. (6 months)	<p><u>AUDIT COMMENT</u></p> <p>Only Tourism BCPs are outstanding.</p> <p>The Senior Events and Seafront Manager has been contacted with regard to BCPs in his area and these have not yet been completed.</p> <p>Following comments made at the November Audit and Governance Committee meeting, the Director of Tourism, Culture and Organisational Development was contacted for comment regarding other areas of Tourism. No response was received.</p>

Appendix C – 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>Arrears Collection</p> <p>January 2021</p>	Partial	2	2	3	07.11.22	Fourth	Substantial	0	0	1	Jan 24	<p>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.</p> <p>(3 months)</p>	<p><u>AUDIT COMMENT</u></p> <p>Centralised debt collection is due to begin in February 2024. The Lead for Income Maximisation and Welfare has confirmed that writing a Corporate Fair Debt Policy is on the priorities list for 2024/25</p>

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

REPORTS ISSUED 22/23

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
Construction Industry Scheme February 2022	Partial	0	6	0	28.09.23	Second	Substantial	0	2	0	In draft	Procedures for CIS payments must be written up and regularly updated as directives from HMRC change. (6 months)	<p>First follow up Procedures for CIS payments will be developed and regularly updated in line with the HMRC changes.</p> <p>Second follow up The Systems and Transactional Manager confirmed that procedure notes for CIS have not been written. Resourcing issues are currently impacting on the team's ability to undertake this work and therefore an estimated date for completion was not possible. It was suggested that it may require outside help in order</p>
												When a new supplier is set up on the system, a visual refence (screenshot or HMRC document) must be saved to the supplier's file to establish the supplier's starting tax status. (6 months)	<p>First follow up Auditor took 14 samples of new suppliers set up on CAFi in 2021/22 and only one had saved HMRC screenshot. The new Creditor Team Leader agreed that a reminder will be sent to relevant staff.</p> <p>Second follow up 10 most recent new suppliers were taken as samples. 6 had verification screenshots on file. The Systems and Transactional Manager confirmed that the lack of procedures is probably</p>

Appendix C – 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
													impacting on the consistency of this process. A reminder has been sent to the team.
Complaints August 2023	Partial	9	7	0	06.12.23	First	Partial	9	7	0	Mar 24	An aligned complaint management policy for defining and handling customer complaints must be drafted, implemented, and regularly reviewed. It must meet all complaint management requirements to avoid the need for separate supplementary polices. (6 months)	Head of Business Planning and Performance The draft Complaint Management policy is now written, and we are due to take this for formal sign off by members at February [2024] Cabinet.
												An aligned complaint management procedure for handling customer complaints and the associated record-keeping requirements must be drafted, implemented, and regularly reviewed. It must meet all complaint management requirements to avoid the need for separate supplementary procedures. (6 months)	Head of Customer First Once the policy has been agreed this will be developed. Target completion date March 2024.
												All council-wide complaint management documents and user guides must be reviewed, updated, and implemented to address inconsistencies and omissions. All documents must have	Head of Customer First Once policy has been agreed this will be developed. Target completion date March 2024.

Appendix C – 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
												quality assurance cover sheets. (6 months)	
Complaints August 2023 continued	Partial	9	7	0	06.12.23	First	Partial	9	7	0	Mar 24	The support available to those who may otherwise struggle to make a written complaint must be widely and consistently communicated. (3 months)	Head of Customer First The Contact Centre have been reminded as to how they can take complaints verbally. No customer comms has been issued but we can include this when we launch the updated policy. Website is being updated as part of new website project. Target completion date for this action March 2024.
												Consideration must be given to procuring a dedicated complaint management system that meets all complaint management, recording and reporting needs. (6 months)	Head of Customer First Being considered by accelerating change steering group. No current update but will be discussed in January 2024.
												Complaints management system templates must support good documentation and record keeping practices. (3 months)	Head of Customer First Work not yet started will be started once policy is agreed. Target date for work to start March 2024

Appendix C – 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
Complaints August 2023 continued	Partial	9	7	0	06.12.23	First	Partial	9	7	0	Mar 24	<p>Complaints must be handled in line with the documented complaints procedures and the complaint management system must be used as it is intended to be used. Mandatory training programmes must be devised and implemented for both managers responsible for implementing and overseeing the complaints management process, and staff assigned to investigate, respond to, and record complaints.</p> <p>All staff handling complaints, including all frontline staff, must complete the online Customer Complaints Procedure training course on the councils' online learning portal, Online Learning in Lewes and Eastbourne (OLLE).</p> <p>(6 months)</p>	<p>Head of Customer First</p> <p>The OLLE training has been reviewed and is being amended. CMT have been asked to consider making the training mandatory. This has been included in the policy that will go to Cabinet in Feb 24.</p>
												<p>All records supporting a complaint request / complaint must be appropriately stored and retained together. An explanatory file note must be left on the original complaint file for aborted and cancelled complaints.</p> <p>(6 months)</p>	<p>Head of Customer First</p> <p>Will be part of the training package.</p>

Appendix C – 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
Complaints August 2023 continued	Partial	9	7	0	06.12.23	First	Partial	9	7	0	Mar 24	A process must be implemented to ensure complaints are resolved and closed in a timely manner. (3 months)	Head of Customer First Work not yet started. Target for starting in Jan 24.
												The complaint alert notification email distribution list must be kept up to date. Change requests to the distribution list must be submitted and processed in a timely manner. The process for updating the distribution list must be reviewed, updated, and implemented. (1 month)	Head of Customer First and Customer First Resolution Team Specialist Advisor (Complaints and Improvement) Specialist Advisor is working with service areas and ICT to update the lists. Going forward service areas will be required to keep us updated on changes.
												Information on the complaints management process detailed on The Hub and external website, must be reviewed and updated, and aligned with guidance. (1 month)	Audit comment Complaints process contact details on The Hub have been updated. Information on external website not yet updated.
												Staff must receive alerts when complaints they have been assigned are approaching their target resolution dates and when they have reached their target resolution dates. (6 months)	Head of Customer First Work not yet started will be started once policy is agreed. Target date for work to start March 2024.

Appendix C – 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
Complaints August 2023 Continued	Partial	9	7	0	06.12.23	First	Partial	9	7	0	Mar 24	Customers must be signposted to where they can provide feedback on the way in which their complaint was handled. That feedback must be logged and reviewed, and lessons learnt disseminated and implemented across the councils. (6 months)	Head of Customer First Work not yet started will be started once policy is agreed. Target date for work to start March 2024.
												Root cause analysis of complaints, and systems and processes to disseminate and implement lessons learnt from root cause analysis, must be extended across the councils. (3 months)	Head of Customer First This is happening within Customer First as a proof of concept and will be rolled out wider as part of the training and comms plan. Seeking support from other service areas. Target for completion by March 2024.
												Reports must be designed to meet all complaint reporting needs. (6 months)	Head of Customer First Work not yet started will be started once policy is agreed. Target date for work to start March 2024.
												All service areas must be responsible for monitoring and recording their own complaints data in a standardised format for timely submission to Customer First to meet PI reporting requirements. (6 months)	Head of Customer First The complaints data is taken from D360 so directly linked to 2.4 and 2.7.

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

ANNUAL AUDITS

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	Update
Theatres (21/22) Follow Up October 2023	Partial (June 22)	6	5	2	04.10.23	First	Substantial	2	3	0		Assessment of the building's security risks should be carried out. (3 months)	Ongoing Whilst security has been increased with additional CCTV and door entry security, there is more that can be carried out.
												Staff security must be comprehensively assessed, with consideration given to increased security presence, training and security measures such as a panic button and increased CCTV coverage. (3 months)	Ongoing Measures have been taken to improve security, but further action needs to be taken.
												Procedures must be written for all Box Office related duties and processes. (6-12 months)	Ongoing Whilst there are basic 'opening and closing' procedures for cash handling attached to the wall in the room where the safe is kept, and the Emergency Procedures document covers some aspects relating to Box Office duties, there are not detailed written procedures for Box Office staff to follow.

Appendix C – 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	Update
Theatres (21/22) Follow Up October 2023 continued	Partial (June 22)	6	5	2	04.10.23	First	Substantial	2	3	0		Security measures and procedures for the cash office, including functions relating to the safe and banking of monies collected, must be written. (6-12 months)	Outstanding
												Solutions for creating a buffer, such as a glass screen in between the doors and the desk, either at ground level or at desk level should be explored. (6 months)	Ongoing
Housing Rents (22/23) July 2023	Substantial											Outstanding from 2021/22 There must be a review of the users and their permissions for the Housing CX system. To ensure that the users and their permissions are up to date and accurate. This requires IT, HR to work together to find a solution, with input from Finance and Customer First. (3 months)	Head of IT Agreed Head of HR Agreed Deputy Chief Finance Officer Agreed Head of Customer First Agreed

Appendix C – 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	Update
Payroll (22/23) December 2023	Substantial											<p>2026/17 Outstanding Recommendation</p> <p>An authorised signatories list detailing officers' authorisation rights in respect of Payroll payments or changes to Payroll records, must be drawn up and maintained up to date and in accordance with the various Financial Procedure Rules.</p> <p>(6 months)</p>	<p>Audit Comment</p> <p>No further follow up of this recommendation will be undertaken however a full audit review of authorised signatories across the councils will be undertaken as part of the Audit Plan for 2024/25</p>
												<p>2020/21 Outstanding Recommendation</p> <p>All discretionary pay awards must detail an explanation for why the award is being made.</p> <p>(6 months)</p>	<p>2020/21 and 2021/22 Client Comment</p> <p>HR Business Partners will ensure that payroll are provided with a summary of the additional duties that are being undertaken, how the payment for these has been calculated and the period to which the payment relates, to the best of the information provided to us at the time.</p> <p>HR will also check any calculations provided by managers.</p> <p>2022/23 Head of HR</p> <p>HR will remind managers of the requirement for this.</p>

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Appendix D – Quarterly report on Audit and Counter Fraud work

INCOME AND SAVINGS ACROSS THE FINANCIAL YEAR 2023-24

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	0	0	0	£279,000
Right To Buy value saved through intervention	0	£192,650.00	0	£96,325.00	0	£262,000	0	0	0	£550,975
Housing intervention/fraud	0	0	0	£12,000.00	0	0	0	0	0	£12,000
Rent in advance loan debt recovery	£2,673.43	0	£2,426.41	0	£2,799.22	0			£7,899.06	
Revenues										
National Non Domestic Rates	0	0	£15,210.97	0	0	0	0	0	£15,210.97	0
Council Tax	£10,957.79	0	£5,398.04	0	£12,138.19	0	0	0	£28,494.02	0
Value of ongoing Council Tax increase per week	0	£4,068.48	0	£4,296.64	0	£3,678.40	0	0	0	£12,043.52
Council Tax Penalties	0	0	0	0	0	0	0	0	0	0
CTR & Housing Benefit										
Council Tax Reduction	£11,017.64	0	£5,297.69	0	£4,468.51	0	0	0	£20,783.84	0
Council Tax Reduction weekly incorrect benefit	0	£9,412.80	0	£6,609.60	0	£3,965.76	0	0	0	£19,988.16
Housing Benefit	£21,771.63	0	£37,199.95	0	£7,363.69	0	0	0	£66,335.27	0
Housing Benefit weekly incorrect benefit	0	£11,992.64	0	£17,696.32	0	£5,495.68	0	0	0	£35,184.64
Income from Administrative penalty collection	£100.57	0	£73.56	0	£47.57	0	0	0	£221.70	0
National Fraud Initiative										
Overpayments identified	£17,145.29	0	£10,809.08	0	£3,820.83	0	0	0	£31,775.20	0
Weekly incorrect benefit identified	0	£19,751.42	0	£11,558.14	0	£8,193.28	0	0	0	£39,502.84
TOTALS	£63,666.35	£237,875.34	£76,415.70	£241,485.70	£30,638.01	£469,333.12	0	0	£170,720.06	£948,694.16
Cost of Counter Fraud team	£28,918.02		£27,015.84		£36,601.65				£92,535.51	
% total of income and savings	9.59%		8.50%		£7.32%				8.27%	

Appendix D – Quarterly report on Audit and Counter Fraud work

Explanation of Savings Recorded	
Tenancy Housing	
Recovery of council properties	Value of £93k per returned property based on NFI estimate
Right To Buy value saved through intervention	Value based on the discount saved for each withdrawn application (varies)
Housing intervention/fraud	Value based on an estimate of emergency placement costs £12k or removal from housing waiting list £3,400
Revenues	
National Non Domestic Rates	Value based on the outstanding liable bills now due following Counter-Fraud intervention
Council Tax	Value based on the outstanding liable bills now due following Counter-Fraud intervention
Value of ongoing Council Tax increase per week	Estimate of the amount saved based on a calculation of the length of undetected fraud - 32 weeks
Council Tax Penalties	Value of £70 or £280 penalty added to Council Tax Bill where discount/exemption fraud is found
CTR & Housing Benefit	
Council Tax Reduction	Value based on the re-assessment of entitlement following Counter-Fraud intervention
Council Tax Reduction weekly incorrect benefit	Weekly incorrect benefit - estimate of the amount saved based on the length of undetected fraud - 32 weeks
Housing Benefit	Value based on the re-assessment of entitlement following Counter-Fraud intervention
Housing Benefit weekly incorrect benefit	Weekly incorrect benefit - estimate of the amount saved based on the length of undetected fraud - 32 weeks
Income from Administrative penalty collection	The amount collected from Administrative Penalties following Dep for Work and Pension investigation
NFI	
Overpayments identified	Value of any overpayments detected in this quarter
Weekly incorrect benefit identified	Weekly incorrect benefit - estimate of the amount saved based on the length of undetected fraud - 32 weeks

STRONGER together



Lewes District Council



Working in partnership with Eastbourne Homes

Document name:	Internal Audit Charter
Document type:	Charter
Authority(ies) covered:	Aligned
Responsible (Executive Lead):	Chief Finance Officer
Accountable (Operational Lead):	Chief Internal Auditor
Version (e.g. first draft, final report):	Final
Approved by:	
Date of publication:	
Revision due:	
Final Equality and Fairness Analysis (EaFA) report approved by:	Not applicable
Date final EaFA report approved:	Not applicable

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1. Introduction

- 1.1 The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

2. Definition of Internal Audit

- 2.1 The definition of Internal Audit specified by the Chartered Institute of Internal Auditors (IIA) and adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA) reads as follows:

“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

3. Requirement for Internal Audit

- 3.1 There is a statutory requirement for Lewes District and Eastbourne Borough Councils to provide an Internal Audit Service. This is stated in Regulation 5 (1) of the Accounts and Audit Regulations 2015 which requires that “a relevant authority must undertake an effective Internal Audit to evaluate the effectiveness of risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

4. Public Sector Internal Audit Standards

- 4.1 The Relevant Internal Audit Standard Setters (including HM Treasury and the Chartered Institute of Public Finance and Accountancy) have adopted a common set of Public Sector Internal Audit Standards (the standards) from 1 April 2017. The standards cover the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). It also includes additional requirements and interpretations for the UK public sector.
- 4.2 It is a mandatory requirement that Internal Audit fully complies with the standards.

5. The Mission of Internal Audit

- 5.1 The standards include the following wording for the mission of Internal Audit:
- To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”*

6. Core Principles for the Professional Practice of Internal Auditing

- 6.1 The Standards state that all the following Core Principles should be present and operating effectively for an Internal Audit function to be considered effective:

- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive, and future-focused
- Promotes organisational improvement.

7. Code of Ethics

- 7.1 The standards also require that internal auditors must conform to the code of ethics set out in the standards. These have been put into another document (Code of Ethics for Internal Auditors) that internal auditors within the team for Lewes District and Eastbourne Borough Councils must read and abide by, alongside the councils' code of conduct for all employees.
- 7.2 The councils' Code of Ethics for Internal Auditors covers: the IIA's Code of Ethics, rules of conduct, due professional care, working relationships and the Seven Principles of Public Life.

8. Definition of Chief Audit Executive (CAE), Board and Senior Management

- 8.1 The standards refer to these terms throughout and it is expected that the Audit Charter will define these for the councils.
- 8.2 Chief Audit Executive: this is the position held by the Chief Internal Auditor.
- 8.3 Board: this is filled by the Audit and Governance Committees of both councils.
- 8.4 Senior Management: this is covered by the councils' Corporate Management Team.

9. Role and Mandate

- 9.1 Internal Audit is an independent and objective, assurance and consulting activity forming part of the system of governance and internal control.
- 9.2 The primary role of Internal Audit is to help the Corporate Management Team (CMT) and the committees to protect the assets, reputation and sustainability of the councils. Internal Audit will achieve this through assessing whether all significant risks are identified and appropriately reported to CMT and the committees, assessing whether they are adequately controlled and by assisting senior management to improve the effectiveness of governance, risk management and internal controls.

- 9.3 It assists the councils in accomplishing their objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of their risk management, control and governance processes.

10. Scope and Objectives of Internal Audit

8.5 The main objectives of the Internal Audit Service are to:

- independently review and appraise the effectiveness of the councils' risk management, control and governance processes
- recommend improvements in controls etc to aid the achievement of corporate objectives
- contribute to, and support, the objectives of the Section 151 Officer by promoting the need for sound financial systems and systems of controls
- support the Monitoring Officer in the discharge of their responsibilities for maintaining high standards of governance, conduct and ethical behaviour
- advise on risk, control and governance issues in respect of new activities, major system changes and other areas of concern, and to facilitate good practice in managing risks
- work in partnership with the External Auditors
- investigate allegations of internal fraud or irregularity, identify fraud as a consequence of its work, and act as a visible deterrent to potential wrongdoers
- carry out sufficient breadth of work on which the Chief Internal Auditor can base their opinion of the effectiveness of the control environment, as set out in the Accounts and Audit (England) Regulations 2011.

10.2 The Internal Audit remit extends to the entire control environment of the councils.

11. Rights of Access

11.1 The rights of access for the Internal Audit Service are provided for by the Accounts and Audit Regulations 2015. Regulation 5 (2) states that:

- (1) *A relevant authority must 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.*
- (2) *Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—*
 - (a) *make available such documents and records; and*
 - (b) *supply such information and explanations;*
as are considered necessary by those conducting the internal audit.
- (3) *In this regulation “documents and records” includes information recorded in an electronic form*

11.2 The Public Sector Internal Audit Standards make clear that restrictions of access to records, personnel and properties would constitute an impairment to independence and objectivity. Any such perceived impairment will be reported to the Audit and Governance committees.

12. Position Within the Organisation

12.1 The Chief Internal Auditor reports functionally to the Director of Finance and Performance (Chief Finance Officer and Section 151 Officer).

12.2 The Chief Internal Auditor also has right of access directly to the Chief Executive, the Chairs of the Audit Committees, the Head of Legal Services and the Monitoring Officer should this be deemed necessary.

12.3 Meetings are held with the Chairs and Deputy Chairs of the Audit Committees ahead of the quarterly meetings.

12.4 The Chief Internal Auditor will communicate with, and report quarterly to, the audit committees.

13. Independence and Objectivity

13.1 The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessarily independent and objective service.

13.2 Internal auditors will have no direct operational responsibility or authority over any of the activities audited. They will therefore not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair an internal auditor's judgement.

13.3 Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors must not allow themselves to be unduly influenced, by their own interests or by others, in forming judgements.

13.4 The Chief Internal Auditor will confirm to the audit committees, at least annually, the organisational independence of the internal audit activity.

14. Avoidance of Conflicts of Interest

14.1 The Code of Ethics set out in the Public Sector Internal Audit Standards lay down that internal auditors: *“shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment.”*

14.2 Internal Auditors are not permitted to assess specific operations for which they were previously responsible, for a period of at least 12 months.

14.3 In exceptional circumstances (e.g. during the Covid 19 pandemic) Internal Auditors may be required to undertake non audit duties. Where this occurs, the work carried out will be subject to Audit reviews as usual but the Auditor carrying out, or who had carried out, the work, will not carry out the Audit review.

14.4 Where the Chief Internal Auditor or Audit Manager are expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards

must be put in place. Currently, the Chief Internal Auditor manages the Counter Fraud team and administers the Strategic Risk Register. To safeguard independence, any audit review of Counter Fraud and Risk Management is not overseen or reviewed by the Chief Internal Auditor, but passed directly to the Director of Finance and Performance/s. 151 officer.

14.5 If any Internal Auditor considers that there is, or is perceived to be, a conflict of interest, this must be reported to the Audit Manager. This will be recorded and, if considered appropriate, an alternative auditor will be allocated to the work being undertaken.

14.6 If the Audit Manager considers that there is, or is perceived to be, a conflict of interest, then they must inform the Chief Internal Auditor so appropriate action can be taken.

14.7 If the Chief Internal Auditor considers that there is, or is perceived to be, a conflict of interest, this must be reported directly to the Director of Finance and Performance Management (Chief Finance Officer and s.151 Officer).

14.8 The Chief Internal Auditor will report any instances of perceived impairment in the quarterly reports which are seen by both the Corporate Management Team and the Audit and Governance Committees. The committees should approve and periodically review any safeguards put in place to limit impairments to independence and objectivity.

15. Chief Internal Auditor – Other Responsibilities

15.1 The Chief Internal Auditor has other responsibilities beyond managing the Internal Audit function. These are:

- Counter-Fraud – the Chief Internal Auditor is also responsible for managing the Counter-Fraud team. There are clear cross-overs of work between the two teams as Internal Audit look to see if controls are in place and working and Counter-Fraud may identify fraud or error that shows that controls are not in place or working.
- Strategic Risk Register – the Chief Internal Auditor administers the Strategic Risk Register and takes it to the Corporate Management Team quarterly for review/update.
- Companies – the Internal Audit team provide a service for some council companies. The Chief Internal Auditor attends relevant meetings of these companies. This is dealt with further at paragraph 21.

16. Areas of Work

16.1 The main areas of work for Internal Audit are covered by the following:

- Assurance work
- Consultancy/Real-time assurance
- Special investigations (Fraud)

Assurance Work

16.2 The main purpose of Internal Audit is to independently review and appraise the councils' key risk management, control and governance processes and to provide assurance on their effectiveness.

16.3 Internal Audit uses a risk-based approach to evaluate a broad range of activities including an annual review of the key financial systems. These reviews seek to provide reasonable assurance that corporate objectives will be achieved, with particular reference to:

- the reliability and integrity of financial and operational information
- the effectiveness and efficiency of systems and processes
- safeguarding of assets and interests from losses of all kinds, including those arising from fraud, irregularity and corruption
- compliance with laws, regulations, policies, procedures and contracts
- the economic and efficient use of resources (value for money)
- effective monitoring systems and optimum use of performance management information.

16.4 Reasonable assurance is a caveat to the work of Internal Audit. It is rarely possible to test 100% of an area under review. Therefore the assurance that Internal Audit can give must be caveated by the fact that it is given only on the work that has been tested. For this reason, the following paragraph is added to all audit reports:

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.

Consultancy/Real-Time Assurance

16.5 Internal Audit give advice on risk, control and governance issues in areas of concern, new activities or system changes. This work can take many forms, from just giving a piece of advice in response to a specific question to undertaking a review. However, when undertaking a review, consideration must be given to whether this piece of work actually now constitutes an audit review.

16.6 Where an Internal Auditor is asked to sit on a project group put in place for implementing a new process or system, this will be dealt with as "real-time assurance". If the Auditor feels that they need to comment or make recommendations, they can do so at the meeting. However, a form should also be completed and passed to the project leaders. This records the

reasons why the comment/recommendation was made and the details of the comment/recommendation. A copy of the form is also kept on the Audit files and these will be referred to at the end of the project.

Special Investigations

- 16.7 Internal Audit will sometimes be asked to undertake work that is outside of the audit plan and is not consultancy work. This can be a piece of work to investigate issues in an area, or to carry out an investigation that will be used in a disciplinary investigation, or to investigate what may be possible fraudulent activity, which may also lead to a disciplinary investigation. These will be carried out in consultation with the Chief Internal Auditor, or Audit Manager in the absence of the Chief Internal Auditor.
- 16.8 The Anti-Fraud and Corruption Strategy covers the role of Internal Audit and Counter-Fraud within the councils. The strategy states that Internal Audit must be informed of all suspected incidences of fraud.

17. Internal Audit Plan

- 17.1 Annually, the Chief Internal Auditor and Audit Manager will calculate the level of resource in the Internal Audit team which will be available for carrying out audit reviews.
- 17.2 Annually, a draft indicative audit plan will be produced for the year. This plan will be produced by considering areas of high risk, other areas of concern and aligning to the councils' objectives.
- 17.3 The plan is called "indicative" as this is the work that will be carried out if no other work is requested of the Internal Audit team. This approach means that the team can be flexible in addressing the dynamic environment.
- 17.4 The draft indicative audit plan is taken to both the Corporate Management Team and the Audit and Governance Committees for consultation/agreement.

18. Audit Work

- 18.1 All work carried out on audit reviews is supervised and a quality assessment is carried out of each to ensure that the work meets the Public Sector Internal Audit Standards.
- 18.2 The results of audit reviews will be formally reported to relevant managers, senior managers, Corporate Management Team and the Audit and Governance Committees.
- 18.3 Follow up reviews will be carried out to ensure that recommendations are addressed.

19. Reporting and Monitoring

- 19.1 The last quarterly report of the financial year will also contain elements that summarise the work of the whole year.
- 19.2 The Chief Internal Auditor will provide their opinion on the control environment based on the work of Internal Audit during the financial year. The statement will also be used in the Annual Governance Statement.

19.3 As part of the Quality and Improvement Programme, an annual self-assessment against the Public Sector Internal Audit Standards will be carried out and reported to the Corporate Management Team and the Audit and Governance Committees in the last reports of the year.

19.4 The Public Sector Internal Audit Standards also require an external assessment to be carried out at least once every five years. This will be commissioned by the Chief Internal Auditor and the results will be reported to the Corporate Management Team and the Audit and Governance Committees.

20. Resourcing

20.1 The Public Sector Internal Audit Standards state that the Chief Audit Executive (Chief Internal Auditor) must ensure that the internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

20.2 Appropriate

The Chief Internal Auditor is a Chartered Member of the Institute of Internal Auditors (CMIIA) and has over 30 years' experience of working for the councils, 20 of which are in Internal Audit.

The Audit Manager has undertaken the Internal Audit Practitioner Apprenticeship, achieving the IIA Certificate in Internal Audit and Business Risk (IACert). The Audit Manager has worked in the councils' Internal Audit team for over nine years.

The remainder of the Internal Audit team is made up of staff with varying experience in both the public and private sectors. Each were appointed based on transferrable skills. All new auditors are given full training and support to carry out audit reviews in line with the standards. Training plans are in place for the team as it is the ambition to ensure that all the team are trained to a consistent level, with staff encouraged to study for professional qualifications.

20.3 Sufficient

The Chief Internal Auditor believes that the number of posts in Internal Audit is sufficient to enable a breadth of work to be carried out upon which the opinion of the control environment can be based.

However, absences or leavers will affect the resource levels. Where this has an impact on work, this will be reported to the Chief Finance Officer, Corporate Management Team and Audit and Governance Committees. Where resource issues affect the work of the team during the year, this will also be reported in the Annual Governance Statement as a caveat to the opinion on the control environment.

20.4 Effectively Deployed

Every effort is made to allocate audits to an Auditor with the relevant knowledge and experience. However, this has to be weighed against the standard that assurance engagements and other audit responsibilities should

be rotated periodically within the Internal Audit team. Where there may be a lack of knowledge or experience, the Auditor will be fully supported.

21. Assurances to Parties Outside of the Councils

21.1 The Internal Audit team has been commissioned to provide an internal audit service for two companies set up by Eastbourne Borough Council: Eastbourne Homes Limited and South East Environmental Services Limited.

21.2 Eastbourne Homes Limited

Internal Audit provide 36 days of audit time. The audits to be undertaken during the year are agreed by the Audit and Risk Committee. When reviews are completed the reports are shared with the relevant manager and Director, and are sent to the Audit and Risk Committee of Eastbourne Homes Limited. The Chief Internal Auditor reports quarterly to the Audit and Risk Committee.

21.3 South East Environmental Services Limited

Internal Audit carry out one audit review a year. The audit to be undertaken during the year is agreed by the Board of South East Environmental Services Limited. When the review is completed the report is shared with the relevant manager and Director, and sent to the Board. The Chief Internal Auditor reports quarterly to the Board.

22. Responsibilities of Managers and Internal Audit

22.1 Managers have the responsibility to establish systems of internal control to ensure that activities are carried out appropriately. Internal Audit is part of the control environment and will test controls, but this does not relieve managers of their responsibility for maintaining effective risk management, controls and governance processes.

23. Relationships with Elected Members

23.1 The Chief Internal Auditor must establish and maintain good working relationships with Members by regularly attending the Audit and Governance Committees of both councils and responding to any issues raised.

23.2 The Chief Internal Auditor will report to the Corporate Management Team and the Audit and Governance Committees of each council. The programme of reports is listed below.

Month	Corporate Management Team	Committees
March	Third quarter report Draft Audit Plan Consideration of the Strategic Risk Register	Third quarter report Draft Audit Plan Strategic Risk Register (if changes agreed by CMT)
June	Annual report/fourth quarter	Annual report/fourth quarter

APPENDIX E – Internal Audit Charter

	Annual Governance Statement Consideration of the Strategic Risk Register	Annual Governance Statement Strategic Risk Register (if changes agreed by CMT)
September	First quarter report Consideration of the Strategic Risk Register	First quarter report Strategic Risk Register (if changes agreed by CMT)
December	Second quarter report Consideration of the Strategic Risk Register	Second quarter report Strategic Risk Register (if changes agreed by CMT)

24. Review of the Charter

24.1 The charter will be reviewed annually and will be presented to the committees when changes are made.

Report to:	AUDIT AND GOVERNANCE COMMITTEE
Date:	11th March 2024
Title:	Data Analytics Strategy for Internal Audit
Report of:	Chief Internal Auditor
Ward(s):	All
Purpose of report:	To present a new Data Analytics Strategy for Internal Audit
Officer recommendation(s):	That the Data Analytics Strategy for Internal Audit be noted.
Reasons for recommendations:	The strategy is brought to committee to raise awareness of the proposed use of data analytics by Internal Audit
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 Traditionally, internal audit testing has been by way of taking a sample of data. This has tended to be a very small percentage of the total and, for this reason, the overall assurance level given has to be qualified by the fact that only a small sample has been tested.
- 1.2 The council, and the data it holds, has become more complex over time and current testing methodology does not allow for full oversight of the data held.
- 1.3 There is now a drive in the profession to use data analysis techniques to carry out the testing. This will allow internal audit to make full use of data analytics to focus on areas or transactions where controls appear to not exist or are not operating effectively.

2 What Is Data Analysis?

- 2.1 Data analysis is a process of using data currently held with the goal of discovering useful information, suggesting conclusions and supporting decision making.
- 2.2 It involves certain technologies, skill sets and processes to extract and utilise information from electronic data held across the councils.

3 Why Use Data Analytics?

- 3.1 The use of data analytics in the internal audit profession has risen with the increase in data volumes. It allows for the whole population to be investigated and can reveal trends and anomalies. Data analytics can help internal audit become more efficient and effective and provide more meaningful insight.
- 3.2 The International Standards for the Professional Practice of Internal Auditing (IPPF 1220.A2) states "In exercising due professional care, internal auditors must consider the use of technology-based audit and other data analysis techniques".
- 3.3 There are advantages to using data analytics in internal audit and these include:

- full data testing
- more efficient testing
- reperformance of calculations or comparisons
- more insights by identifying outliers/unexpected results
- faster assurance
- enables internal audit and management to have a better understanding over business areas

3.4 However, there is only so much progress that internal audit can make if the council has poor data governance and systems. In these circumstances, weaknesses will be identified and reported to help drive the council in the right direction with regard to data governance.

4 Current Position

4.1 The Internal Audit team is now in a good position to begin looking into how data analytics can be effectively used when carrying out audit reviews.

4.2 As a start, the Audit Manager is a core member of the Institute of Internal Auditors' Local Authority Data Working Group, as a sub-group of the overall working group. The aim of the group is to help all internal audit teams in the sector toward making greater use of data analytics.

4.3 There is currently little data analytics knowledge in the internal audit team. There are relatively new members of the team who are learning and developing their audit skills, but there is an ambition to move to using data analytics whilst also delivering the audit plan.

5 Moving Forward

5.1 The Data Strategy and Action Plan are the first steps in moving in this direction. It considers what skills and knowledge need to be developed, how data analytics can be used in current audit reviews and how, as a starting point, Excel can be better utilised.

5.2 The strategy and action plan will be reviewed annually.

6 Financial appraisal

6.1 There are no financial implications relating to expenditure arising from this report.

7 Legal implications

7.1 This report is for noting only and therefore the Legal Services team has not been required to comment.

8 Risk management implications

8.1 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.

9 Equality analysis

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

10 Environmental sustainability implications

10.1 Not applicable

11 Appendices

11.1 Appendix A – Data Analytics Strategy

Appendix B – Data Analytics Action Plan

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STRONGER together



Lewes District Council



Working in partnership with **Eastbourne Homes**

DATA ANALYTICS

STRATEGY FOR

INTERNAL AUDIT



INTRODUCTION

The volume of data collected, processed and held by local authorities is significant and increasing. Increasingly, processes are also becoming more data driven, more automated and there is less human involvement in decision making, resulting in a reliance on data quality in decision making.

Internal Audit therefore needs to adapt, change and embrace new ways of providing assurance, moving with the councils and supporting them by adding value through data driven assurance practices.

We have an opportunity to achieve this through the use of data analytics to assist in the identification of risks and provision of insight into the organisations. Whilst it is management's responsibility to ensure that risks are appropriately mitigated, Internal Audit can focus its use of data analytics to identify areas or transactions where controls do not exist or are not operating effectively.

Internal Audit aims to support the organisations in making better, more accurate decisions through delivery of this type of assurance, driving change and mitigating risks of poor decision making through improving reliability of data.

This strategy outlines how it is intended to use data analytics to complement and enhance the work and output of Internal Audit.

VISION

Strengthening Internal Audit's impact in adding value to the organisations by creating data analytic excellence across the team.

MISSION

To develop the effective utilisation of data analysis tools to interrogate the councils' data and thereby provide valuable insight and assurance to stakeholders.

WHY USE DATA ANALYTICS

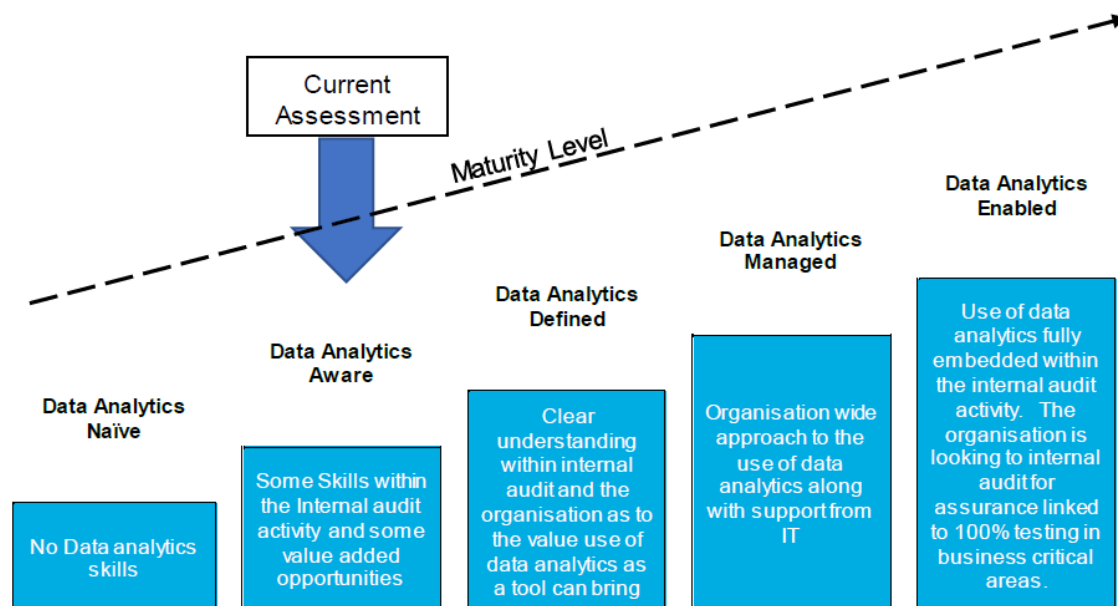
Data, held on various systems, is not currently scrutinised to exploit its full potential: data analytics helps address this.

Efficiency and Effectiveness	Increased Assurance	Gain New Insights
<ul style="list-style-type: none"> • Ensure the most efficient, effective use of Internal Audit resources • Use currently held data more efficiently • Less manual testing • Whole population testing • Delivering impact through visual reporting 	<ul style="list-style-type: none"> • Wider coverage allows greater assurance • The possibility of future continuous monitoring/testing of key controls and the ability to inform system owners promptly to implement corrections and not just when an audit review is being carried out • The possibility of real time auditing highlighting error, anomalies and control failures at the earliest opportunity 	<ul style="list-style-type: none"> • Identifying trends and outliers • Identifying unexpected outcomes • Identifying areas of potential fraudulent or unusual activity

DATA MATURITY

The diagram below is a recognised scale for assessing maturity of an audit function to data analytics*. Whilst the ultimate goal is to reach the upper end of the scale (Enabled), it is recognised that incremental steps will need to be taken to embed data analytics within the systems and processes that are currently in place.

Data Analytics Maturity Model;



Based on the above maturity levels, the Internal Audit function can currently be assessed as 'Aware'. Internal Audit wishes to strive to move up this scale and improve internal practices, moving towards "Enabled".

* IIA Definition of the path to maturity

HOW WILL PROGRESS BE MADE

We will increase our use of data analytics to support the effective and efficient delivery of assurance.

As a small Internal Audit team, we will move forward gradually, ensuring that we consolidate our knowledge at all stages. We will also ensure that we build resilience in this knowledge across the team.

We will ensure that all Internal Audit staff are appropriately trained in the effective design, development and implementation of data analytical techniques, querying and manipulating data and validating hypotheses, initially using the analytical tools already available in Excel.

Communication and interpersonal skills will also be developed to articulate and visualise the insights gained from data analytics.

We will consider the use of data analytics as part of all audits.

OBJECTIVES

Objective	Outcome
To broaden Internal Audit's understanding of, and access to, where data is held across the councils and partner organisations.	Data is accessible and reliable.
To build expertise in the discipline of data analytics to provide added value to Internal Audit insights and recommendations, adding value across our partner organisations.	Expertise developed within Internal Audit in the effective use, management and communication of data analytics.
To increase the delivery of assurance through data analytics and drive efficiency throughout the audit lifecycle.	Greater audit coverage is provided.
To utilise data analytics to enhance data matching capabilities to help identify and combat fraud and irregularity.	Fraudulent activity is identified and deterred across the organisations in accordance with zero tolerance policies.
To utilise data analytics to enhance strategic intelligence / risk assessment to inform the Internal Audit Plan and ensure the most effective use of audit resource.	Efficient, effective use of Internal Audit resource through strategic assessment and analysis.
To embed data analytics as part of the standard audit process.	A sustained approach to data analytics through the standard Internal Audit toolkit.
To support management (where relevant) auditing against risk 'hot spots' across the organisation.	Use of 'real time' auditing to enable the highlighting of errors, anomalies and control failure at the earliest opportunity.

ANNUAL ACTION PLAN

Actions to develop work in line with this strategy will be by way of an annual action plan.

DATA STRATEGY ACTION PLAN – 2024-25

“Building the foundation of data analytics in Internal Audit”

ACTION	STEPS
Review competences and skills gap	Carry out a review of current competencies within the Internal Audit team and record skills gap for each member of staff and the team as a whole.
Identify training requirements	Identify training and development to fill the skills gap.
Identify training providers	Research training providers for data analytics (with particular emphasis on Internal Audit); the type, frequency and cost of the training.
Consider resource implications	Consider budget and resource implications Consider a consultancy review of current practices in Internal Audit to suggest actions to improve use of Data Analytics.
Draw up a training plan	Draw up a training plan based on training requirements, providers and resource implications.
Map data sources	Identify data sources and obtain appropriate read-only access for Internal Audit. Discuss with other Heads of Service/Managers/BAU as appropriate

APPENDIX B: Data Analytics Strategy for Internal Audit – Action Plan

<p>Map data sources to annual audits</p>	<p>Review annual audit controls to identify opportunities to use data analytics. Understand the data outputs by seeking advice from appropriate systems administrators.</p>
<p>Map data analytics activities across the councils and build necessary relationships</p>	<p>Discuss with other officers/managers/heads of service to identify other data analytic activities (or staff with experience) that Internal Audit can use/place reliance on or can request assistance.</p>
<p>Utilise Excel for data analytics</p>	<p>Utilise data analytics for testing as identified within the annual audits. Consider the use of data analytics as part of all audits using a collaborative approach via monthly data analytic team meetings.</p>
<p>Consider reporting format to management with regard to the output from data analysis techniques</p>	<p>Investigate using Excel to produce charts and graphs that can be used to visualise outcomes from data analytics as well as other information from audit reports e.g. number of recommendations and their risk level.</p>