

<b>Report to</b>	<b>Audit and Governance Committee</b>
<b>Date:</b>	<b>24 July 2019</b>
<b>Title:</b>	<b>Internal Audit Report for the financial year 2018-2019.</b>
<b>Report Of:</b>	<b>Chief Internal Auditor</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To provide a summary of the activities of Internal Audit and Counter Fraud for the year 1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2019.</b>
<b>Officer recommendation(s):</b>	<b>That the information in this report be noted and members identify any further information requirements.</b>
<b>Reasons for recommendations:</b>	<b>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.</b>
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## **1.0 Introduction**

- 1.1 The work of Internal Audit is reported on a quarterly basis to demonstrate work carried out compared to the annual plan and to report on the findings of audit reports issued since the previous meeting of the committee.
- 1.2 The annual audit plan for 2018/19 was agreed by the Audit and Governance Committee in March 2018.

## **2.0 Review of work carried out in the financial year 2018-2019.**

- 2.1 A list of all the audit reports issued in final from 1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2019 is as follows:

*NB. These are the Assurance Levels given at the time of the initial report and do not reflect findings at follow up.*

Debtors (Annual 2017/18)	Performing Excellently
Housing Rents(Annual 2017/18)	Performing Well
Main Accounting (Annual 2017/18)	Performing Excellently
NNDR (Annual 2017/18)	Performing Excellently
Safeguarding	Performing Inadequately
Devolved Budgets	Performing Well
Contracts Monitoring	Performing Adequately
Corporate Credit Card Usage	Performing Excellently
Land Charges and Searches	Performing Well
Estates Management	Performing Well
Private Housing Grants	Performing Excellently
Car Parking	Performing Adequately
Cemeteries and Crematorium	Performing Well
Use of Council Vehicles	Performing Well
HMO Licensing	Performing Well
Estates (Block) Management	Performing Well
Theatres (Annual 2018-19)	Performing Excellently
Payroll (Annual 2018-19)	Performing Excellently

#### **Levels of Assurance - Key**

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

2.2 Appendix A shows the work carried out against the annual plan to the end of the financial year 2018-19. The following has been previously reported which has had a large impact on completion of the audit plan.

- An Auditor post has been vacant since the post holder left at the beginning of June 2018.
- One member of the team had 6 weeks of absence.
- The Audit Manager had two large projects which impacted on the completion of the audit plan.

In addition there are currently two annual reviews that have gone over time allocated. This is because this is the first time the review has been carried out across both authorities and Auditors are learning who they need to contact. This has also been impacted by the changes in Finance resulting from the JTP 3 changes.

2.3 Appendix B is the list of all reports issued in final during the year which were given an assurance level below “Performing Well”, with any issues highlighted in the reviews which informed the assurance level given.

2.4 The committee is reminded that these are the assurance levels that were given at

the time the final report was issued and do not reflect recommendations that have been addressed. In order to clarify this a column has been added to show the assurance level given in the latest follow up carried out.

### **3.0 Restructure and software.**

- 3.1 The managing of the restructure of the Audit and Counter Fraud teams took a significant amount of management time away from the audit plan at a time when there was already a vacancy in the Audit team. However, following the restructure the posts are now being filled. The Counter Fraud/Audit Liaison post was filled from mid May. Two internal appointments have been made which has created two further vacancies. The Audit Manager has become the Chief Internal Auditor and an Auditor was successful in their application for the Audit Manager post. One Auditor post has been filled at the beginning of June and the second post will be filled at the beginning of July. Once these posts have been filled the teams will be fully staffed and can concentrate on completing the audit plan for 2019-20.
- 3.2. Another significant amount of management time was taken away from the audit plan was in the set up and testing of the new audit software. The new software package for carrying out audit reviews is now completely set up and tested. Some staff are using the system to carry out some of the annual audit reviews for 2018-19. These staff will become familiar with the system and will train the other staff so that, in future, all audit reviews will be carried out using this software.

### **4.0 Counter Fraud**

- 4.1. The Counter Fraud Team (CFT) have continued the range of work commenced in 2017/18 with a steady flow of work in the existing areas of housing tenancy, Right to Buy, revenues and Council Tax. Projects, including a review of Council Tax discounts/exemptions and NDR, have brought successful outcomes which will be built on further with the joint Single Person Discount review and procurement of data matching software. The team are now also working under one management structure within Audit across Lewes and Eastbourne and this is expected to improve working practices and develop areas of counter fraud work further.
- 4.2 The team continue to work closely with Homes First, with a marked improvement in results in comparison to the previous year. A total of 33 subletting and abandonment allegations have been investigated, with 8 properties returned through either investigation or joint working activities, this has resulted in a net saving to the authority of £279,000 (any joint work has not been included as a financial figure). 14 other cases were investigated for various safeguarding, changes to housing and succession issues.
- 4.3 Right to Buy applications have gradually reduced from the second quarter onwards which has resulted in a smaller net saving than in the previous year. A total of 27 applications were received during the financial year, all of which were validated to prevent money laundering. Of these applications 17 were withdrawn as part of the CFT involvement, resulting in a saving of £1,293,108 to the authority and the prevention of losing these properties from the housing stock.
- 4.4 Work has also been undertaken with Homes First looking at a number of

potentially fraudulent homeless presentations as well as the implementation of using the National Anti-Fraud Network facilities for credit checks for all new applications as a preventative measure. It is planned for Housing Applications to be the first area subject to a linked approach using both Fraud and Audit teams together.

- 4.5 A detailed review of Council Tax Exemptions and Disregards has been undertaken which looked at areas of weakness or where reviews have not been completed for some time. This work has highlighted 97 Council Tax cases requiring further investigation and resulted in amendments to 84 of these accounts creating in excess of £126,000 in cash income. The CFT are due to commence a joint working operation with the revenue Specialist Advisors and Datatank reviewing high risk Single Person Discounts. This is expected to become a regular source of referrals and may result in the introduction of the Council Tax Penalty of £70 for undeclared changes in circumstances.
- 4.6 The CFT are continuing a review of Small Business Rate Relief cases, in particular limited companies that may run other businesses in this area or other boroughs. This activity has generated 11 cases for review which has resulted in adjustments of £38,000 in cash income. Further activities are now planned using data matching exercises through the National Fraud Initiative and the application of data analytical software with our neighbouring authorities
- 4.7 The team are continuing to review Council Tax Reduction (CTR) applications which have not been re-assessed for over 2 years; this has resulted in finding over £90,000 in CTR overpayments with a net cashable increase in Council Tax liability. There has also been a consistent level of Housing Benefit activity through our Single Point of Contact (SPOC) work with the DWP's Housing Benefit Matching Service (HBMS). This has resulted in combined recoverable overpayments of £170,000.
- 4.8 The work on investigating the data matches supplied by the National Fraud Initiative for 2017-18 has now completed with a net finding of £5,000 in errors. Work has now started on the 2019/20 reports. Owing to the limited results coming out of previous exercises testing is commencing on just 10% of cases. The results of this initial testing will be reviewed and if it is felt that the results are reasonable further testing will be carried out. To date 498 cases have been cleared with 31 awaiting further investigation.
- 4.9. Appendix C shows the savings identified by the Counter Fraud team during the financial year.

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

- 5.1. CIPFA suggests it is good practice to make a statement on the adequacy of an authority's counter fraud arrangements in the annual governance report. CIPFA has published a Code of Practice on Managing the Risk of Fraud and Corruption which contains five principles:
- Acknowledge responsibility
  - Identify risks
  - Develop a strategy

- Provide resources
- Take action

5.2. Having considered all the principles the Chief Internal Auditor is satisfied that the Council meets these by having fully resourced Counter-Fraud and Audit teams who review the risks across the authority and direct their work as appropriate. It is therefore considered that the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud and uphold its zero tolerance policy.

## **6.0 Annual Governance Statement and Opinion of the Chief Internal Auditor**

6.1 The work referred to in this report has been used as the basis for the opinion of the overall effectiveness and adequacy of the internal control environment along with other ad hoc work undertaken by the auditors.

6.2 Owing to an Auditor vacancy being carried through the year the breadth of audit coverage was limited and the full audit plan was not completed.

6.3 Considering the findings, and caveated by 6.2 above, it is the opinion of the Internal Chief Internal Auditor that internal controls in processes and IT systems across the authority were found to be generally sound.

6.4 There is an exception to this opinion in respect of the new Housing Management software. This is specifically dealt with in the Annual Governance Statement

6.5 This opinion feeds into the Annual Governance Statement which is reported separately to this committee.

## **7.0 Conforming with the Public Sector Internal Audit Standards**

7.1 The Public Sector Internal Audit Standards came into effect from 1<sup>st</sup> April 2013 and the work of the Internal Audit section is assessed for compliance against these standards annually.

7.2 A checklist for compliance has been completed and it is found that the Internal Audit function is “generally conforming” to the standards. Conformance remains at about 99% of the points listed in the standards.

7.3 There are two areas of only partial compliance. These are where the Audit Manager’s annual appraisal is expected to have the input of the Chief Executive and the Chair of the Audit Committee. It has been agreed that although these two posts are not specifically asked to contribute they are both able to give feedback on the work of the Manager throughout the year through various meetings.

7.4 It is the opinion of the Internal Audit Manager that the Council’s Internal Audit Service generally conforms with the Public Sector Internal Audit Standards (PSIAS) which came into effect from 1 April 2013.

7.5 The standards require an external review to be carried out at least every five years. A review of the audit function was carried out as a peer review by other

members of the Sussex Audit Group in 2016. The results of this review were fully reported to the Audit and Governance Committee at the September 16 meeting. The report from the reviewers stated that the audit function at Eastbourne generally conforms with the standards.

- 7.6. The Internal Audit team has maintained its independence throughout 2018/19 in accordance with the Audit Charter.

## **8.0 Financial appraisal**

- 8.1 There are no financial implications arising from this report.

## **9.0 Legal implications**

- 9.1 This report demonstrates compliance with regulation 5 of The Accounts and Audit Regulations 2015, which requires Eastbourne Borough 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.

*Lawyer consulted 13.06.19*

*Legal ref: 008345-EBC-OD*

## **10.0 Risk management implications**

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

## **11.0 Equality analysis**

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

## **12.0 Appendices**

Appendix 1 – Work against plan

Appendix 2 – Reports issued with assurance levels below “Well”

Appendix 3 – Counter Fraud work and savings.

## **13.0 Background papers**

- 13.1 Audit reports issued throughout the year.