

Report to:	Audit and Standards Committee
Date:	20 January 2020
Title:	Internal Audit report for the first two quarters of the financial year 2019-2020
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 first quarter of the financial year - 1st April 2019 to 30th September 2019
Officer recommendation(s):	That the information in this report be noted and members identify any further information requirements
Reasons for recommendations:	The remit of the Audit and Standards 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
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1.0 Introduction

- 1.1 A review of the work carried out by the Internal Audit and Counter Fraud teams is reported quarterly. The work of Internal Audit is compared to the annual audit plan which was agreed by the committee in March 2019. Significant risks and control issues are highlighted. At the end of the financial year the Chief Internal Auditor will state their opinion of the control environment of the authority based on this information.
- 1.2 In March 2019 the Audit and Governance Committee agreed the first annual audit plan to cover work across the two authorities.
- 1.3 As the majority of service areas now provide services to both authorities the results of work carried out by Internal Audit and Counter Fraud will be reported to both committees. However, when any findings relate specifically to one authority then this will be reported to the appropriate council's committee only.

2.0 Review of the work of Internal Audit carried out in the first two quarters of 2019-2020

2.1 A list of all the audit reports issued in final from 1st April 2019 to 30th September 2019 is as follows:

Benefits and CTR (18/19)	Substantial Assurance
Cash and Bank (18/19)	Substantial Assurance
Council Tax (18/19)	Full Assurance
NNDR (18/19)	Substantial Assurance
Treasury Management (18/19)	Substantial Assurance
Creditors (18/19)	Partial Assurance
Housing Rents (18/19)	Full Assurance
Payroll (18/19)	Substantial Assurance
IT (18/19)	Partial Assurance

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

2.2 Below are the descriptions of the levels of assurance referred to above.

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.

2.3. Appendix A is the list of all reports issued in final during the year which were given an assurance level below "Substantial". This list includes brief bullet points of the issues highlighted in the reviews which informed the assurance level given.

2.4 At the end of September two annual audit reports had not been fully completed. These were the reviews of Debtors and Main Accounting, both of which had been issued in draft and were awaiting responses to the recommendations made. This work on annual audits has been hindered this year by time being taken to train new staff in the audit section and there being changes in staff in the Finance department.

- 2.5 Work is now ongoing on other audits in the audit plan with work underway on Human Resources, Internet and Telephone Payments, Project Management and RIPA.
- 2.6 Work is also commencing on the project to review the work that feeds into the Housing Subsidy Claim. Fact finding and scoping have taken place and testing is about to commence. It is intended that this work will help to improve the work at the point of input so that fewer errors are made which will enable the auditing of the subsidy claim to be completed sooner each year.
- 2.7 A further piece of work is being carried out on the annual reviews for next year. In the past these have been focussed on carrying out work that the external auditors required the team to carry out. As this is no longer a requirement the scope of each is being reviewed to ensure that they cover the areas necessary to give assurance to the council's S.151 Officer. The timing of carrying out these reviews will also be considered.
- 2.8 The table below shows the work carried out by the Internal Audit team in the first half of the year by percentage across the main areas services.

	Percentage of days worked
Annual Audits	36%
Subsidy Claim and Project	50%
Central Systems	10%
Computer Systems	0%
Housing Services	1%
Consultancy and advice	3%
Totals	100%

- 2.9 As was reported briefly in the last report to this committee, a piece of work has been carried out on an issue with the Payroll system and transferring data to HMRC. This cannot be reported in full as the details of the work include information relating to individuals. However, a precis of the report is attached at Appendix B.
- 3.0 Counter Fraud**
- 3.1 The Fraud and Audit Liaison Officer has commenced studies for the Accredited Counter Fraud Specialist qualification which will further enable the team to expand joint corporate projects in new and emerging areas.
- 3.2 The team continue to target the high value and risk areas of tenancy housing while also undertaking other exercises as detailed below.
- 3.3 Housing Tenancy – The Counter Fraud team continue to work closely with colleagues in Homes First and Legal. There are currently 21 ongoing sublet/abandonment tenancy cases at various stages. Due to the significant work involved in preparing for a Right to Buy related fraud trial in December, the team's focus and efforts have been devoted to the preparation and requirements of our Legal team and barrister to bring this case to a successful outcome. However, a

separate civil case was brought against the same tenant which has resulted in the court awarding possession of the property – this will be included within the next quarter's figures.

- 3.4 Right To Buy (RTB) applications have decreased within this quarter which is unsurprising with the current financial uncertainty. Eight cases have been verified to prevent the council being a victim to money laundering with 1 case withdrawn providing a net saving of £82,800 to the authority. A total of 22 other former and current RTB cases are being monitored for potential social housing fraud. One of these cases is due to be heard at Crown Court in December (as mentioned in 3.3) and another is currently in the process of being investigated under RIPA authorisation.
- 3.5 Tenancy Fraud Awareness – a joint working campaign has begun with Homes First and the Planning and Performance team to develop a series of publicity articles via community posters, social media and local press to raise the awareness of social fraud with the public. It is expected this campaign will commence in November and run into the new-year with the Counter Fraud Team hotline monitoring and taking all allegations.
- 3.6 Housing Tenancy Successions – a joint working project has begun with the Counter Fraud team verifying any applications received for tenancy succession. In order for the Counter Fraud team to work on these cases, Homes First will now arrange for an application form to be completed which will also help prevent a false or fraudulent claim. Two cases have so far been passed to the Counter Fraud team to check.
- 3.7 Housing Options – Work has also been undertaken with Homes First looking at a number of potentially fraudulent homeless presentations. Use is also being made of the National Anti-Fraud Network facilities to conduct credit checks for all new applications as a preventative measure.
- 3.8 Council Tax – An extract of Council Tax exemptions and disregards has been produced which will be used to consider areas of weakness and risk where reviews have not been completed for some time. It is anticipated this item of work will commence within the next quarter. The Counter Fraud team have also been included in a test trial of Datatank smart referrals as part of the authority's Single Person Discount review. Depending on the success of this trial, East Sussex County Council may consider funding a wider exercise across the rest of the county.
- 3.9 NNDR – Due to other commitments the team have not been able to undertake further work in this area. However, the Fraud and Audit Liaison Officer has started a project and will begin reviewing Small Business Relief applications across both authorities in the next two quarters.
- 3.10 Housing Benefit – The team have worked closely with the Department for Work and Pensions (DWP) and our colleagues in the benefit section, unfortunately due to resources restrictions and training needs, the DWP have been unable to complete the same volume of cases as in previous quarters. This has resulted in

the closure of just six cases. Joint working with the Case Management team has also increased the volume of referrals; there are around 73 outstanding cases with the DWP to consider.

- 3.11 National Fraud Initiative – Work continues on the 2018/19 extract using a test sample of 10% of cases, this has been brought about due to the limited results found in previous activities – 475 cases have been cleared so far with 41 awaiting further investigation. No additional financial savings have been found at this time.
- 3.12 Data Protection Requests (DPA) – the team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. In this period the Fraud and Audit Liaison Officer has dealt with four DPA requests from the Police and 10 from other authorities.
- 3.13 A table showing the savings made by the Counter Fraud team in the first half of the year 2019-2020 can be found at Appendix C.

4.0 Financial appraisal

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

Details of savings generated by the Counter Fraud team are included in Appendix C.

5.0 Legal implications

- 5.1 This report demonstrates compliance with regulation 5 of The Accounts and Audit Regulations 2015, which requires Lewes District 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 23.10.19

Legal ref: 008672-EBC-OD

6.0 Risk management implications

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

7.0 Equality analysis

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

8.0 Appendices

Appendix A - list of all reports issued in final during the year which were given an assurance level below "Substantial" with any issues highlighted in the reviews which informed the assurance level given.

Appendix B - Precis of the report on Payroll - HMRC Data Transfer

Appendix C - Counter Fraud work and savings

9.0 Background papers

9.1 Audit reports issued throughout the year.