

Report to	AUDIT AND GOVERNANCE COMMITTEE
Date:	9th September 2020
Title:	Internal Audit Report for 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 year 1st April 2019 to 31st March 2020.
Officer recommendation(s):	That the information in this report be noted and members identify any further information requirements.
Reasons for recommendations:	The remit of the Audit and Governance Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk.
Contact:	Jackie Humphrey, Chief Internal Auditor, Telephone 01323 415925 or internally on extension 5925. E-mail address jackie.humphrey@lewes-eastbourne.gov.uk

1.0 Introduction

- 1.1 The work of Internal Audit is reported on a quarterly basis to demonstrate work carried out compared to the annual plan and to report on the findings of audit reports issued since the previous meeting of the committee. The annual audit plan for 2018/19 was agreed by the Audit and Governance Committee in March 2019.
- 1.2 The quarterly reports also summarise the work of the Counter Fraud team and the savings identified in the quarter.
- 1.3 This report summarises the work carried out by Internal Audit and Counter Fraud across the financial year 2019-20 and includes the Chief Internal Auditor's opinion on the control environment which is based on the outcomes of this work.

2.0 Review of work carried out by Internal Audit in the financial year 2019-2020.

- 2.1 A list of all the audit reports issued in final from 1st April 2019 to 31st March 2020 is as follows:

Benefits and CTR (18/19)	Substantial Assurance
Cash and Bank (18/19)	Substantial Assurance
Council Tax (18/19)	Substantial Assurance
Main Accounting (18/19)	Substantial Assurance
NNDR (18/19)	Substantial Assurance
Treasury Management (18/19)	Substantial Assurance
Creditors (18/19)	Partial Assurance
Housing Rents (18/19)	Partial Assurance
Payroll (18/19)	Substantial Assurance
IT (18/19)	Partial Assurance
Debtors (18/19)	Substantial Assurance
Internet and Telephone Payments	Partial Assurance
HR – Recruitment	Substantial Assurance
HR – Apprenticeships and staff retention	Substantial Assurance
Project Management	Substantial Assurance
Partnerships	Substantial Assurance
RIPA	Substantial Assurance

Levels of Assurance - Key

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.

- 2.2 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.
- 2.3 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.
- 2.4 The work of carrying out the 18/19 annual audits was hindered by training two new members of staff. However, all reviews had been completed by November. From

January 2020 work began on the annual audits for 19/20 and these should be completed in a more timely manner.

- 2.5 The scope of the annual audits for 19/20 has also been reviewed as they have not changed for some years. It is important that the working programmes for each audit are up to date and relevant to the work being audited as well as ensuring that controls are in place and working correctly.
- 2.6 At the time of writing, work is still ongoing on the project to review the work that feeds into the Housing Subsidy claim. The aim is to improve the work at the point of input so that fewer errors are made which will enable the subsidy claim to be completed in a more timely manner.
- 2.7 During the financial year one member of staff had an absence of 10 weeks and another member of staff transferred to the Finance section at the beginning of December. This vacancy was not filled at the time as it coincided with the absence of another member of staff and when work was being carried out on the annual reviews for 19/20 so it was not possible to provide training. The recruitment process began in March but was put on hold before interviewing took place as the Covid-19 lockdown was put in place.
- 2.8 The Covid-19 lockdown came into effect at the end of March 2020 and so had little effect on the work carried out in 19/20. Further information on how this has affected the work of the section will be given when the work carried out in 20/21 is reported to the next meeting of the committee.
- 2.8 The table below shows the work carried out by the Internal Audit team by percentage across the main areas services. The style of reporting of our work has changed so that it now reflects that the work is changeable and that the team are flexible and more responsive to requests for work which are made throughout the year.

Area	% of days on audits	% of days on advice/consultancy etc	% of total audit time
Annual audits	49.70	0	47.62
Claims	28.48	0	27.29
Corporate Services	11.22	65.3	13.05
Regeneration and Planning	6.05	1.05	6.33
Service Delivery	4.02	18.28	4.79
Tourism and Enterprise	0.53	9.65	0.92
TOTAL	100	100	100
% of total audit time	95.86	4.14	100

3.0 Counter Fraud

- 3.1. During the year the team lost an experienced criminal investigator who joined Homes First in September. The successful applicant for the post has 30 years' experience with the police and they joined the team in November.

The Fraud and Audit Liaison Officer has completed her 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 work closely with colleagues in Homes First and Legal. There are currently six ongoing sublet/abandonment tenancy cases at various stages. Five properties have been returned during this financial year with a net preventative saving to the authority of £465,000 (based on NFI estimate of £93,000.00 valuation for each returned property). 24 cases were closed down in this period with no further action. A joint working project has also begun which is to include the team within the process for tenancy successions in order to verify any applications received. As part of the team's involvement, Homes First will now arrange for an application form to be completed to help prevent a false or fraudulent claim. Three cases are currently under review.
- 3.3 Right To Buy applications have decreased within this year which is unsurprising with the current financial uncertainty and, latterly, Covid-19. 39 cases were checked to prevent and detect fraud and protect each authority against money laundering. Of these applications, 21 were withdrawn after intervention by the team, resulting in a preventative saving of £1,600,000 to the authority.
- 3.4 A joint working campaign has begun with Homes First and Business Planning and Performance to develop a series of publicity articles via community posters, social media and local press to raise the awareness of social fraud. A fraud awareness poster has been designed and circulated throughout council noticeboards across Eastbourne and Lewes in early January 2020, with a plan to include further publicity within quarterly rent statements to all tenants shortly.
- 3.5 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. Four cases have already been investigated with one temporary accommodation placement and two homeless applications withdrawn with an estimated saving of £27,240 to the authority (based on an average B&B placement cost).
- 3.6 The detailed review of Council Tax Exemptions and Disregards has now finished. This involved looking at areas of weakness where reviews have not been completed for some time. Along with other referrals 83 cases have been investigated, of which 65 were found to be incorrect which has resulted in a net income of £64, 000 generated for collection. The team have now completed an exercise reviewing Council Tax Reduction (CTR) applications which have not been re-assessed for over two years; 109 cases have now been closed down with a net generator of £64,000 to the authority and a preventative saving of £16,000 for weekly incorrect reduction (WIB).
- 3.7 Due to other commitments the team have not been able to undertake a great deal of work on NNDR, with only two cases investigated with a net saving of £2896. However, with the Government funding to support businesses through Covid-19 it is expected the team will support colleagues

within the Business Rates team to verify and investigate high risk applications.

- 3.8 The team have worked closely with the Department for Work and Pensions (DWP) and the benefit section of the council. Due to resource restrictions and training needs the DWP have been unable to complete the same volume of cases as in previous years. This has resulted in the closure of 82 cases with an increase in recoverable Housing Benefit of £71,000 and a preventative saving of £43k. Joint working with the Case Management team has also increased the volume of referrals; there are around 100 outstanding cases with the DWP to consider.
- 3.9 Work for the National Fraud Initiative is nearly complete 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 – 1189 cases have been cleared so far with 15 awaiting further investigation with a current value of £18k found in errors (Housing Benefit).
- 3.10 The team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. In this period the team have dealt with 64 Data Protection Act requests from the Police and other authorities. In addition 11 Houses of Multiple Occupation verification checks were completed in the 4th quarter.
- 3.11 Appendix B shows the savings identified by the Counter Fraud team during the financial year.

4.0 Managing the Risk of Fraud and Corruption

- 4.1. 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
- 4.2. 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.

5.0 Annual Governance Statement and Opinion of the Chief Internal Auditor

- 5.1 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.

- 5.2 Owing to training new auditors to carry out annual audits and with one auditor leaving the team in December, the breadth of audit coverage was limited and the full audit plan was not completed.
- 5.3 During the year it was noted over several audits that documents/data are not being deleted/stored in accordance with the Retention and Disposal Schedule. In carrying out the Housing Rents annual review it was noted that there were issues in obtaining reports from the Housing software. Both of these issues are addressed in the Annual Governance Statement and the covering report.
- 5.4 Considering the findings, and caveated by 5.2 and 5.3 above, it is the opinion of the Internal Chief Internal Auditor that internal controls in processes and IT systems, which were audited, across the authority were found to be generally sound.
- 5.5 This opinion feeds into the Annual Governance Statement which will be reported to the next meeting of this committee.

6.0 Conforming with the Public Sector Internal Audit Standards

- 6.1 The Public Sector Internal Audit Standards came into effect from 1st April 2013 and the work of the Internal Audit section is assessed for compliance against these standards annually.
- 6.2 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.
- 6.3 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.
- 6.4 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.
- 6.5 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.
- 6.6. The Internal Audit team has maintained its independence throughout 2019/20 in accordance with the Audit Charter.

7.0 Financial appraisal

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

8.0 Legal implications

- 8.1 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 06.08.20

Legal ref: 0099415-EBC-OD

9.0 Risk management implications

- 9.1 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.

10.0 Equality analysis

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

11.0 Appendices

Appendix A – Reports issued with assurance levels below “Substantial”
Appendix B – Counter Fraud work and savings.

.

12.0 Background papers

Audit reports issued throughout the year.
Self assessment against Public Sector Internal Audit Standards