

**Report to:** Audit and Standards Committee

**Date:** 8<sup>th</sup> March 2021

**Title:** Internal Audit and Counter Fraud report for the first three quarters of the financial year 2020-2021 to the end of December 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 three quarters of the financial year - 1<sup>st</sup> April 2020 to 31<sup>st</sup> December 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 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 Introduction**

- 1.1 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.
- 1.2 The quarterly report includes a review of work undertaken by Internal Audit and Counter Fraud. 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 work.

## **2 Review of the work of Internal Audit carried out in the first three quarters of 2020-21.**

- 2.1 A list of all the audit reports issued in final from 1<sup>st</sup> April 2020 to 31<sup>st</sup> December 2020 is as follows:

| <b>Name of Audit</b>                       | <b>Assurance Level</b> |
|--|------------------------|
| Benefits and Council Tax Reduction (19/20) | Substantial Assurance  |
| Main Accounting (19/20)                    | Partial Assurance      |
| Treasury Management (19/20)                | Substantial Assurance  |
| Payroll (19/20)                            | Partial Assurance      |
| Council Tax (19/20)                        | Substantial Assurance  |
| National Non-Domestic Rates (19/20)        | Substantial Assurance  |
| Cash and Bank (19/20)                      | Partial Assurance      |
| Debtors (19/20)                            | Partial Assurance      |
| Housing Rents (19/20)                      | Partial Assurance      |
| Creditors (19/20)                          | Partial Assurance      |
| Information Technology (19/20)             | Partial Assurance      |
| Voids Management                           | Substantial Assurance  |
| Rechargeable Repairs                       | Partial Assurance      |
| Leaseholder Management and Recharges       | Partial Assurance      |
| Business Continuity Planning               | Minimal Assurance      |
| Procurement                                | 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.

| <b>Assurance Level</b> | <b>Description</b>   |
|------------------------|--|
| 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 During this period the following draft reports have been issued and will be reported in future reports once agreed by the relevant manager.

Implementation of the Cx Housing System  
Arrears Collection  
Officers Expenses  
IR35

- 2.4 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.
- 2.5 Corporate Management Team have recently expressed concern about the Minimal assurance rating that was given to the audit review of Business Continuity Planning. They wish it to be made clear that the council responded and adapted to the Covid restrictions and demands in a very prompt and efficient manner. While the Audit team have not yet reviewed these responses, it is clear that this is indeed the case. However, the audit was undertaken to ensure that the council had Business Continuity Plans in place. It was found that the plans and activities for Business Continuity Plan arrangements for the council were outsourced to East Sussex County Council but that this work was on hold because of the pressure of work around Covid. Some Business Continuity Plans were written purely in response to the pandemic but had not been in place before this and they appear to be specifically related to the Covid response. Therefore the assurance level given was “minimal” because the process of having Business Continuity Plans in place, and kept up to date, was not in place. This should be seen as a separate issue to the response of the council to the Covid pandemic which appears to have been timely and effective.
- 2.6 During this quarter the team has also continued to give advice to various departments on a variety of subjects. Members of the team are also involved with various projects usually being members of meetings or project boards. Some of these include Document Management, Workplace 2021 and AI – Bots.
- 2.7 The Internal Audit team is currently carrying two vacancies. Corporate Management Team agreed that one of the posts could be filled and a recruitment process has been carried out. Interviews were undertaken in December and the successful applicant will commence work with the council on 18<sup>th</sup> January.
- 2.8 Two members of the team are undertaking the Internal Audit Practitioner Apprenticeship funded through the government’s Apprenticeship Scheme. The apprenticeship is devised by the Chartered Institute of Internal Auditors (Chartered IIA) which is the recognised professional body for internal auditing in the UK and Ireland. The apprentices are members of the Chartered IIA. As part of the apprenticeship they will complete the:
- IIA Certificate in Internal Audit and Business Risk
  - Certified Internal Auditor (CIA) – Part 1 – Essentials of Internal Auditing
- Completion of the IIA Certificate leads to the IACert designation, and completion of CIA Part 1 leads to the award of the Internal Audit Practitioner designation.
- 2.9 For the audit plan this financial year, the number of audit days available were allocated to departments based on the size of the departments as a percentage of the organisation. A suggested plan of audits was proposed for the year based on these percentages. The intention was to enable the plan to be flexible. For example, if a piece of work was requested which was not in the plan then it could be carried out within that percentage allocation by dropping one of the

planned audits in that area. In this way an adequate breadth of coverage could be ensured which is essential for the “opinion of the Chief Internal Auditor on the control environment” which has to be made at the end of the financial year.

2.10 This flexibility has proved invaluable this year with the effects of the response to the Covid-19 pandemic having a major impact on the work of the council. Most notably with Tourism and Enterprise being seriously impacted and with events cancelled and venues closed, the work on auditing these areas will not be taking place this financial year.

2.11 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 compared to that planned for the whole.

| Area                   | Planned | Actual |
|------------------------|---------|--------|
| Regeneration           | 12%     | 3.32%  |
| Tourism and Enterprise | 9%      | 0.31%  |
| Service Delivery       | 37%     | 45.79% |
| Corporate Services     | 42%     | 50.58% |

2.12 A small amount of work was carried out under Tourism in preparation for a review that did not then take place. The percentages should be nearer to the planned figures in the next report after other audits have been completed.

2.13 Appendix B shows outstanding recommendations/actions. This list includes recommendations from audit reviews that remain outstanding after the first follow up has been completed plus actions from other reports that have been brought to committee.

### **3 Review of the work of Counter Fraud carried out in the first three quarters of 2020-21.**

3.1 The Counter Fraud Team have taken a flexible and creative approach in dealing with the existing, and new, fraud investigations under government guidelines and restrictions. Cases have continued to be built and monitored during the lockdown period, with the team responding to new and emerging fraud risks following the release of Covid-19 support packages to businesses and individuals. The team continues to target the high risk and value areas of tenancy housing while also undertaking other exercises as detailed below. However, due to the effects of Covid-19, this has had a direct impact on work which is explained in more detail under each sub section.

3.2 Housing Tenancy – The team continue to work closely with colleagues in Homes First and Legal to build on the existing investigations and find possible solutions in response to Covid-19 restrictions and the backlog HM Courts are currently facing. There are 27 ongoing sublet/abandonment tenancy cases at various stages. Possession for one property was granted pre-lockdown and is currently waiting a date from bailiffs to execute the warrant. Another case is with Legal pending recovery action.

- 3.3 Right to Buy – There has been an increase in applications in the third quarter. However with changing Covid-19 restrictions the safety of tenants and members of the team is a priority and therefore verification visits have been severely affected. Work has also been focused on one prosecution case with its initial hearing held during the quarter. The trial is currently set for December 2021. There are 16 current applications being checked to prevent and detect fraud and protect the authority against money laundering. Residency checks are still outstanding for 9 cases which had been withdrawn before the checks were arranged.
- 3.4 Housing Options – Access for Homes First caseworkers and specialists to use HM Land Registry and the National Anti-Fraud Network facilities for credit checks has been rolled out to help verify applications and prevent fraud. Planned work on Housing Allocations and Applications has been put on hold due to other work commitments.
- 3.5 Small Business Grant Fund – Following on from the government’s announcement to support businesses through the Covid-19 pandemic, the Counter Fraud Team have been working closely with the revenues specialists to prevent and investigate fraudulent applications. The team are currently undertaking post verification work as requested by the Department for Business, Energy and Industrial Strategy. This work will involve reviewing a sample of grant applications in each scheme for evidence of fraud or non-compliance. Over 150 applications have currently been reviewed with the commencement of recovery action for any incorrectly awarded grants. Further schemes have been announced in January 2021 following the latest national lockdown measures and it is therefore expected that post verification work will carry on into the new financial year.
- 3.6 NNDR – As part of the review of Small Business Grant Fund applications discrepancies of Small Business Rate Relief and liable rate payer have been found. This has resulted in changes to two business rate bills with a net income of £20,858 generated to the authority.
- 3.7 Council Tax – A review of Council Tax Exemptions has found several discrepancies where a change of circumstances has not been reported to the authority. This has resulted in the rebilling of 37 accounts with a net income of £100,389.46 generated over current and past financial years. Further checks will be undertaken.
- 3.8 Council Tax Reduction – Two cases have been closed in this period with a further two under investigation in conjunction with a tenancy fraud investigation.
- 3.9 Housing Benefit – The team continue to work closely with the Department for Work and Pensions (DWP) and our colleagues in the benefit section. Due to resource restrictions and pressing need to assess Universal Credit applications, the DWP have limited their capacity to investigated Housing Benefit. Two cases have been closed in this period with an increase in recoverable Housing Benefit of £199.02.

- 3.10 National Fraud Initiative –Mandatory datasets for the 2020/21 exercise have been provided for the initiative with the first set of results expected to be received in early February 2021.
- 3.11 Data Protection (DPA) and other service requests – the team take an active role in supporting colleagues in other organisations to prevent fraud and detect criminal activity. In this period, there were nine DPA requests from the Police and other authorities. In addition, 13 checks were completed where Property Services were unable to undertake gas safety reviews.
- 3.12 A table showing the savings made by the Counter Fraud team in the first three quarters of the year 2020-2021 can be found at Appendix C.

## **4 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 Legal implications**

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

## **6 Risk management implications**

- 6.1 If the Council does not have an effective 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.

## **7 Equality analysis**

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

## **8 Environmental sustainability implications**

- 8.1 Not applicable.

## **9 Appendices**

- 9.1 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.
- 9.2 Appendix B – Outstanding recommendations/actions
- 9.3 Appendix C – Counter Fraud work and savings

## **10 Background papers**

10.1 Internal Audit reports issued throughout the year.