

**Report to:** Audit and Standards Committee

**Date:** 26 July 2021

**Title:** Internal Audit and Counter Fraud Report for the financial year 2020-2021

**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 financial year - 1<sup>st</sup> April 2020 to 31<sup>st</sup> March 2021.

**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.
- 1.3 This report summarises the work carried out by Internal Audit and Counter Fraud across the financial year 2020-21 and includes the Chief Internal Auditor's opinion of the control environment which is based on the outcomes of this work.

## 2 Review of the work of Internal Audit carried out in the financial year 2020-21

2.1 A list of all the audit reports issued in final from 1<sup>st</sup> April 2020 to 31st March 2021 is as follows:

Name of Audit	Assurance Level
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
Implementation of Housing CX	Partial Assurance
Fly Tipping	Partial Assurance
Arrears Collection	Partial Assurance
Officers Expenses	Substantial Assurance
IR35	No Assurance
Members Allowances	Substantial 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 a 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 There are four reviews which are due for follow up. These became due at the time when the focus of work turns to completing the annual reviews. The follow ups will be undertaken as soon as possible after the annual reviews are completed.
- 2.5 Business Continuity Planning was given a “minimal” rating because, at the time of carrying out the review, business continuity plans were not generally found to be in place. However, this does not mean that the council did not respond well to the challenges of the pandemic.
- 2.6 The review of IR35 was given “no” assurance. IR35 refers to legislation designed to combat tax avoidance by workers, and those employing them, who are supplying their services to clients via an intermediary, such as a limited company, but who would be an employee if the intermediary was not used. “No” assurance was given as there was no evidence of a set procedure or relevant controls being in place.
- 2.7 Appendix B shows outstanding recommendations/actions. This list includes recommendations from audit reviews that remain outstanding after the first follow up has been completed. It also includes actions from other reports that have been brought to committee.
- 2.8 During the course of the financial year the council has been affected by the response to the ongoing Covid-19 pandemic and this was also felt on the Audit team. At the beginning of financial year some staff were redeployed temporarily. Once it became clear that the pandemic would be of a long duration, the staff were called back to continue with Audit work.
- 2.9 In December 2019 one member of the Audit team left and the post was advertised. However, the recruitment process was halted by the pandemic the following March. In July of 2020 another member of the team left. This left the team with only one Auditor, one Senior Auditor and the Audit Manager. In October 2020 the Corporate Management Team agreed that one of the vacant posts could be filled and the recruitment process began. The new Auditor began work at the end of January 2021.
- 2.10 With these constraints, the work of the audit team was affected. However, with the new way of arranging the audit plan for the year, the breadth of coverage

was maintained, even if fewer audits were undertaken than was planned. As the majority of Tourism functions were not carried out during the year, no audit reviews were carried out in this area.

2.11 During the year the team also continued to give advice to various departments on a variety of subjects. Members of the team have also been involved with various projects, usually by being members of meetings or project boards. Some of these include document management, Workplace 2021 and AI-Bots.

2.12 The table below shows the work carried out by the Internal Audit team showing the percentage of work carried out across the main areas of the council compared to that originally planned, as well as the comparison without Tourism

Area	Planned	Planned without Tourism	Actual
Regeneration	12%	13.5%	7.4%
Tourism and Enterprise	9%	0%	0.29%
Service Delivery	37%	40.5%	45.79%
Corporate Services	42%	46%	43.7%

In view of the constraints of this financial year, and this being the first year of working in this way, the results do demonstrate that this approach is working well.

2.13 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.

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. One of the officers has recently completed the IIA Certificate portion.

### **3 Review of the work of Counter Fraud carried out in the financial year 2020-21.**

3.1 The Counter Fraud Team was affected by the response to the Covid-19 pandemic. This resulted in periods of redeployment to support key priority areas. One member of staff caught Covid and was absent from work for some time.

3.2 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 for businesses and individuals.

- 3.3 Housing Tenancy – The team continues 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 35 ongoing sublet/abandonment tenancy cases at various stages. Possession of one property was granted pre-lockdown and is currently waiting a date from bailiffs to execute the warrant. One other case is with Legal pending recovery action. 11 other cases were closed during the year with no further action taken.
- 3.4 Right to Buy – There was an increase in applications in the third and fourth quarter, however with changing Covid-19 restrictions the safety of tenants and the Counter-Fraud team has taken priority and therefore verification visits have been severely affected. Work has also been focused on one prosecution case with the trial set for December 2021. There are 19 current applications being checked to prevent and detect fraud and protect the authority against money laundering. Residency checks are still outstanding for 11 cases which had been withdrawn during the verification process. 21 applications checks were completed within the year with seven withdrawn applications with a net saving to the authority of £575,300.
- 3.5 Housing Applications – The team are working directly with colleagues in Homes First to implement additional counter-fraud measures to ensure that the limited housing stock that is available will only be allocated to those in genuine need. A project has commenced in March 2021, with further details to follow in the new financial year.
- 3.6 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.
- 3.7 Small Business Grant Fund – Following on from the government’s announcement to support businesses through the Covid-19 pandemic, the 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 (BEIS). This work will involve reviewing a sample grant application in each scheme for evidence of fraud or non-compliance. Over 400 applications have currently been reviewed with the commencement of recovery action for any incorrectly awarded grants. Further schemes have been announced in January and March 2021 following the latest national lockdown measures - work is therefore ongoing with the post-verifications. Currently the focus of work is on completing the testing and sending the required returns to BEIS within the set timescales. However, a report will be written explaining the work undertaken and the results of the work.
- 3.8 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 business rate bills with a net income of £123,205. generated to the authority. 18 cases have been closed during the year with a number still under review.

- 3.9 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 57 accounts with a net income of £124,915 generated over current and past financial years.
- 3.10 Council Tax Reduction - Nine cases have been closed in this period with a new income of £2,679 created along with a preventative saving figure of £1,824 for the year. Two further cases are under investigation in conjunction with tenancy fraud investigations.
- 3.11 Housing Benefit – The team continue to work closely with the Department for Work and Pensions (DWP) and the council's benefit section. Due to resource limitations and pressing need to assess Universal Credit applications, the DWP have limited their capacity to investigate Housing Benefit. However, 45 cases have been closed during the year with an increase in recoverable Housing Benefit overpayment of £64,624 and a preventative saving of £25,757.
- 3.12 National Fraud Initiative – The team have provided the mandatory datasets for the 2020/21 exercise. The first batch released with 1378 cases to review. No financial gains have been found to date.
- 3.13 Data Protection Requests – The team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. During the year the team have dealt with 34 data protection requests from the Police and other authorities.
- 3.14 Other work – 60 residency checks were carried out on council properties where no response had been received to requests to carry out gas safety checks. 59 allegations were received from the general public during the year which were closed down due to either insufficient information/contact details or the matter did not relate to a council concern.
- 3.15 A table showing the savings made by the Counter Fraud team in the year 2020-2021 can be found at Appendix C.
- 3.16 The BBC have produced a new “Fraud Squad” series. This was due for screening from mid-May. The Lewes fraud team are the subject of one of the episodes which features the Right to Buy fraud case which has been previously reported to this committee. It is hoped that this publicity will help to underline the council's stance of zero tolerance to fraud.

#### **4 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 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 As stated earlier in this report, the response to Covid-19 has had an effect on the work of the Internal Audit team. Some staff were temporarily redeployed at the start of the financial year, before being pulled back to carry out audit reviews. The team also carried one vacancy throughout the year and a second vacancy for approximately six months. However, it was possible to ensure a fairly reasonable breadth of coverage.

5.3 The response to Covid-19 also had an effect on the audit reviews themselves. The Tourism section was virtually shut down for a large portion of the financial year, so no reviews were carried out in this area. In other areas some aspects of work were stopped or curtailed; for example, the chasing of arrears. Where this was the case, testing could not be carried out if the work had not been undertaken.

5.4 There was some relaxation of controls owing to the response to the Covid-19 pandemic. However, the controls in the main financial areas are audited annually and these controls are currently being tested. No significant issues have been identified.

5.5 In 18-19 and 19-20 the new housing software system was shown as a significant governance issue. Originally this was owing to issues with the implementation and later it was due to the impact on the accounts of these issues. Significant progress has been made to ensure these issues were addressed. However, at the time of drafting the reports for this committee, other issues with data from the system, that were affecting the accounts, were raised by Finance. Further investigation and testing is required to determine whether these issues are with the system itself or with the way data is being input by users. It was not possible to complete this work in time for the July committee meeting but this is dealt with in the Annual Governance Statement report.

- 5.6 Considering the findings of the work of Audit throughout the year, and caveated by 5.2, 5.3 and 5.4 above, it is the opinion of the Chief Internal Auditor that internal controls in processes and IT systems across the authority were found to be generally sound.
- 5.5 This opinion feeds into the Annual Governance Statement which is the subject of a separate report to this committee.

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

- 6.1 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.
- 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 Chief Internal Auditor’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 Chief Internal Auditor 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 2018. The results of this review were fully reported to the Audit and Standards Committee at the September 18 meeting. The report from the reviewers stated that the audit function at Lewes generally conforms to the standards set out in the PSIAS.
- 6.6. The Internal Audit team has maintained its independence throughout 2020/2021 in accordance with the Audit Charter.

## **7 Financial appraisal**

- 7.1 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.

## **8 Legal implications**

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



## **9 Risk management implications**

- 9.1 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.

## **10 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 Environmental sustainability implications**

- 11.1 Not applicable.

## **12 Appendices**

- 12.1 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.
- 12.2 Appendix B – Outstanding recommendations/actions.
- 12.3 Appendix C – Counter Fraud work and savings.

## **13 Background papers**

Internal Audit reports issued throughout the year.