

**Report to:** **AUDIT AND STANDARDS COMMITTEE**

**Date:** **15 November 2021**

**Title:** **Internal Audit and Counter Fraud Report for the first half of the financial year 2021-2022.**

**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 - 1<sup>st</sup> April 2021 to 30<sup>th</sup> September 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 first half of the financial year 2021-22.

## 2 Review of the work of Internal Audit carried out in the first half of the financial year 2021-22

2.1 A list of all the audit reports (Final, Follow Up and Draft reports) issued from 1<sup>st</sup> April 2021 to 30<sup>th</sup> September 2021 is as follows:

AUDIT REVIEW	REPORT STAGE	DATE ISSUED	ASSURANCE LEVEL
Building Control	Final	14.04.21	Full
Council Tax	Final	16.04.21	Substantial
IR35	Final	01.05.21	No
Payroll	Final	02.06.21	Substantial
IR35	Follow Up	01.07.21	Minimal
Revs and Bens Computer System	Final	09.07.21	Full
Members Allowances	Final	14.07.21	Substantial
Procurement	Follow Up	26.07.21	Partial
Business Continuity Planning	Follow Up	19.08.21	Partial
Benefits	Final	24.08.21	Substantial
Arrears Collection	Follow Up	06.09.21	Partial
Creditors	Final	07.09.21	Partial
Implementation of Housing Software	Follow Up	10.09.21	Substantial
Leaseholder Management and Recharges	Follow Up	10.09.21	Partial
Rechargeable Repairs	Follow Up	20.09.21	Full
Fly Tipping	Follow Up	22.09.21	Partial
Debtors	Draft	22.09.21	N/A
Treasury Management	Draft	29.09.21	N/A

2.2 Please note that there are no assurance levels given for the draft reports as these have not yet been agreed. You will also note that some audit reviews appear twice; this is because the final report and a follow up have been issued within the same financial year.

2.3 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.

- 2.4 The appendices regarding follow up reviews and outstanding recommendations have been reviewed and a new style of reporting these has been adopted to facilitate understanding and to give all the information required. However, these can be amended further if the committee would prefer other information or a different layout.
- 2.5 Appendix A lists the reports issued in Final during 2020/21 where follow ups are still being carried out and all reports issued in Final during 2021/22 where recommendations were made. The table also shows the follow ups carried out and any outstanding recommendations. Once recommendations have been fully addressed, this will be reported once to committee and then the line for that audit will be removed before the next quarterly report. It should be noted that this table does not include annual audits. This is because any recommendations are followed up when the following year's review is carried out.
- 2.6 Please note that Members Allowances shows recommendations as outstanding only because too few claims had been made between the report and the follow up, so sufficient testing could not be carried out.
- 2.7 Where there are outstanding recommendations after a follow up has been carried out, the recommendations are summarised in Appendix B along with any managers' comments.
- 2.8 The team has been carrying a vacancy which had recently proved to be having an impact on the resilience of the team. Corporate Management Team agreed that the post could be filled and, as at the time of writing the interviews have taken place and the post offered to the preferred candidate.
- 2.9 Two members of the team have been undertaking the Institute of Internal Auditors, Internal Audit Practitioner apprenticeships. One is still ongoing as extra work had been required but is now progressing well with the rest of the course. The Audit Manager has taken the final exams and has just received confirmation that she has achieved a Distinction. The training company that provided the course have informed us that she is the first Internal Audit Practitioner learner ever to be awarded an overall Distinction by the Chartered Institute of Internal Auditors.
- 3 Review of the work of Counter Fraud carried out in the first half of the financial year 2021-22.**
- 3.1 Cases have continued to be built and monitored during the easing of lockdown restrictions, with the team responding to new and emerging fraud risks following the release of Covid-19 support packages to businesses and individuals.

- 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 39 ongoing sublet/abandonment tenancy cases at various stages. Six cases were closed with three properties successfully returned to the council, contributing a net saving figure of £279,000 (£93,000.00 per property as per National Fraud Initiative calculations).
- 3.3 Right to Buy – There continues to be a steady volume of applications since autumn 2020. 11 cases are currently being checked to prevent and detect fraud and protect the authority against money laundering. One application was stopped, resulting in a saving of £84,600 to the authority. 18 cases, which have either been approved for sale or have withdrawn, still require a home visit. However, with changing Covid-19 restrictions, the safety of tenants and staff has taken priority and therefore verification visits have been delayed. Work has also been focused on one prosecution case with the trial currently scheduled for December 2021.
- 3.4 Housing Applications – The team are working directly with colleagues in Homes First to implement additional counter-fraud measures to ensure the limited housing stock that is available will only be allocated to those in genuine need.
- 3.5 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 £130,428.28 generated to the authority. Eight cases have been closed during the year with a number still under review.
- 3.6 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 10 accounts with a net income of £4,045.04 generated and a preventative saving of £2,995.52 over this period.
- 3.7 Council Tax Reduction – Two cases were closed in this period with a recoverable overpayment of £1,445.48 from one claim. Two other cases are under investigation with one in conjunction with tenancy fraud investigations.
- 3.8 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 resources restrictions and pressing need to assess Universal Credit applications, the DWP have limited their capacity to investigated Housing Benefit, only 12 cases were closed during this period with one claim creating an overpayment of £3,276.91 and a weekly incorrect benefit figure of £3,371.20.
- 3.9 National Fraud Initiative - The 2020/21 exercise has now commenced with the first batch of 1378 cases to review, the team have processed 104 cases so far and investigating another 24. Five frauds were found with Covid business grants with a value of £43,000.00 – however, any monies recovered are returned directly to central government.

- 3.10 Data Protection Requests – The team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. During this period the team have dealt with 11 DPA requests from the Police and other authorities. In addition, 16 Gas Safety checks were completed on council properties where the tenant has not responded.
- 3.11 Three allegations were received from the general public were closed down due to either insufficient information/contact details or the matter did not relate to a council concern.
- 3.12 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 have been undertaking post verification work as requested by the Department for Business, Energy and Industrial Strategy and post verification work will carry on throughout this financial year.
- 3.13 A table showing the savings made by the Counter Fraud team in the first half of 2021-2022 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**

Appendix A – outstanding recommendations after follow up

Appendix B – summary of outstanding recommendations

Appendix C - Counter Fraud savings.

**10 Background papers**

Internal Audit reports issued throughout the year.

**APPENDIX A**

**OUTSTANDING RECOMMENDATIONS AFTER FOLLOW UP**

Audit	Original Assurance Level	Original no of risks			Follow up	Follow Up Assurance Level	Outstanding Risks			Next Follow Up Due
		High	Medium	Low			High	Medium	Low	
<b>REPORTS ISSUED 20/21</b>										
Procurement	Partial	0	11	0	First	Partial	0	9	0	Nov-21
Business Continuity Planning	Minimal	4	0	0	Second	Partial	2	0	0	Nov-21
Arrears Collection	Partial	2	2	3	First	Partial	2	1	3	Dec-21
Leaseholder Management and Recharges	Partial	0	3	0	First	Partial	0	2	0	Jan-22
Rechargeable Repairs	Partial	0	3	0	First	Full	0	0	0	N/A
Fly Tipping	Partial	0	7	0	First	Partial	0	7	0	Jan-22
<b>REPORTS ISSUED 21/22</b>										
Building Control	Full	0	0	1						Oct-21
IR35	No	8	6	0	First	Minimal	7	6	0	Oct-21
Members Allowances	Substantial	0	3	0	First	Substantial	0	3	0	Jan-22

**APPENDIX B**

**SUMMARY OF OUTSTANDING RECOMMENDATIONS**

<b>AUDIT REPORT</b>	<b>SUMMARY OF RECOMMENDATIONS</b>	<b>CLIENT COMMENTS</b>
Procurement	<ul style="list-style-type: none"> <li>• A strategy and forward plan are required</li> <li>• Use of corporate contracts must be utilised</li> <li>• The financial system must be used more efficiently for raising purchase orders and identifying contract opportunities</li> </ul>	The Strategic Procurement Manager is working toward addressing the outstanding recommendations.
Business Continuity Plans	<ul style="list-style-type: none"> <li>• Business Continuity Plans need to be put into place and monitored.</li> </ul>	It is reported that progress has been hampered by the response to the Covid pandemic. East Sussex County Council have now drafted an over-arching business continuity plan for the council.
Arrears Collection	<ul style="list-style-type: none"> <li>• Processes for dealing with arrears must be adhered to and monitored</li> <li>• Processes should be aligned across departments</li> </ul>	Managers report that consideration is being given to the recommendations made.
Leaseholder Management and Recharges	<ul style="list-style-type: none"> <li>• The Leaseholder Handbook requires updating and placing on the website</li> </ul>	Work is ongoing to update the handbook.
Fly Tipping	<ul style="list-style-type: none"> <li>• Policy and procedures need to be written and/or updated</li> <li>• Evidence must be stored centrally</li> <li>• Fly tipping campaigns should be carried out</li> </ul>	Due to a restructure in the area it is reported that no progress has been made on addressing the recommendations.

AUDIT REPORT	SUMMARY OF RECOMMENDATIONS	CLIENT COMMENTS
IR35	<ul style="list-style-type: none"> <li>• All areas of the process require review and for procedures to be written</li> <li>• The status of current “consultants” must be checked</li> <li>• A centralised list of determinations should be held.</li> </ul>	<p>The Assistant Director for HR and Transformation provided this update for the work on the recommendations re IR35:</p> <p>“Outline next step:</p> <ul style="list-style-type: none"> <li>- A new IR35 procedure has been drafted with appropriate guidance notes and forms e.g. Status Determination Statement</li> <li>- Investigation has also been undertaken into existing arrangements with individuals and regarding the process with Matrix</li> <li>- A meeting of the Working Group will review the draft policy and new proposed procedure</li> <li>- Following this, a report will be taken to CMT by the end of September</li> </ul> <p>Go Live for new process – 1 October”</p>
Members’ Allowances	<ul style="list-style-type: none"> <li>• Claim forms should contain all necessary information</li> <li>• Expenditure should be correctly coded</li> </ul>	<p>At follow up, there were not enough claims made between the audit and the review to allow adequate testing to be carried out.</p>

**APPENDIX C**

**COUNTER-FRAUD SAVINGS**

	QUARTER ONE		QUARTER TWO		QUARTER THREE		QUARTER FOUR		YEAR TOTAL	
	Income	Savings	Income	Savings	Income	Savings	Income	Savings	Income	Savings
<b>Tenancy Housing</b>										
Recovery of council properties		£93,000.00		£279,000.00					£0.00	£372,000.00
RTB value saved through intervention				£84,600.00					£0.00	£84,600.00
Housing intervention/fraud									£0.00	£0.00
<b>Revenues</b>										
NNDR	£63,582.19		£130,428.28						£194,010.47	£0.00
Council Tax	£4,170.46		£4,045.04						£8,215.50	£0.00
Value of ongoing CT increase per week		£17,836.16		£2,995.52					£0.00	£20,831.68
Council Tax Penalties									£0.00	£0.00
<b>CTR &amp; Housing Benefit</b>										
SPOC Cases									£0.00	£0.00
Council Tax Reduction			£1,445.48						£1,445.48	£0.00
CTR weekly incorrect benefit (WIB)									£0.00	£0.00
Housing Benefit			£3,276.91						£3,276.91	£0.00
HB weekly incorrect benefit (WIB)				£3,371.20					£0.00	£3,371.20
Income from Adpen collection									£0.00	£0.00
<b>NFI</b>										
Number of open matches									£0.00	£0.00
Number of closed matches			£43,000.00						£43,000.00	£0.00
Awaiting Processing									£0.00	£0.00
Overpayments identified									£0.00	£0.00
Weekly incorrect benefit identified									£0.00	£0.00
<b>OTHER INVESTIGATIONS</b>										
Procurement									£0.00	£0.00
Internal									£0.00	£0.00
DPA									£0.00	£0.00
Income from court costs									£0.00	£0.00
<b>TOTALS</b>	<b>£67,752.65</b>	<b>£110,836.16</b>	<b>£182,195.71</b>	<b>£369,966.72</b>	<b>£0.00</b>	<b>£0.00</b>	<b>£0.00</b>	<b>£0.00</b>	<b>£249,948.36</b>	<b>£480,802.88</b>