

Report to:	Audit and Standards Committee
Date:	4th July 2022
Title:	Internal Audit and Counter Fraud Report for the financial year 2021-2022 – 1st April 2021 to 31st March 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 financial year 2021-2022 – 1st April 2021 to 31st March 2022.
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 2021-22.
- 2 Review of the work of Internal Audit carried out in the financial year 2021-22**
- 2.1 During the last quarter of the year, six reports were issued in final and one in draft. Four follow-up reports were also issued. Across the whole financial year, the team issued a total of 25 final reports and 19 follow-up reports.
- 2.2 A list showing all the reports issued during the year, along with assurance levels given, can be found at Appendix A. This list also shows audit reviews carried out in the last financial year where follow-ups are still being carried out. Lines greyed out are showing that follow-ups are not being carried out.
- 2.3 Where there are outstanding recommendations after a follow-up has been carried out, these are listed at Appendix B. This table also gives the feedback from managers made at the last follow-up review.

2.4 There are six audit reviews which have outstanding recommendations following two follow-ups and one following three follow-ups. A summary of these follows but full details are contained in Appendix B.

Business Continuity Planning – Third follow-up:

- At the time of writing this report the fourth follow-up was being undertaken. The outstanding recommendations appear to have been addressed.

Procurement – Second follow-up:

- Work is reported as ongoing and a third follow-up is ongoing.

Members Allowances – Second follow-up:

- Owing to Covid restrictions few claims have been presented so there has been little, or nothing, to test at follow-up. A third follow-up will be carried out in June.

Arrears Collection – Second follow-up:

- The third follow up is ongoing. Also, the committee has requested the Chief Finance Officer and the Director of Service Delivery to attend this meeting and explain the overall position regarding the council's approach to arrears collection.

Implementation of Housing Software – Second follow-up:

- There is one recommendation outstanding and this is around report writing. It was reported that it had not been possible to recruit to this role.

Leaseholder Management and Recharges – Second follow-up:

- There is one recommendation outstanding though work to address it is reported as ongoing – this is to update the Leaseholder Handbook.

Fly-Tipping – Second follow-up:

- At the time of the second follow up there were four recommendations outstanding but all were in the process of being addressed.

2.5 At the beginning of the financial year the work of the team was impacted by carrying a vacancy and the absence of a team member for an extended period. This highlighted the lack of resilience within the team. The request to fill the vacant post was therefore agreed and recruitment was carried out in October, with the new Auditor taking up the post on 10th January 2022.

2.6 At the same time the structure of the Internal Audit team was reviewed following the checking of the Benefits Subsidy Claim work being handed back to Customer First. This work was a substantial part of the Senior Auditor role. The review was undertaken to ensure the internal audit service had the appropriate structure and resources to effectively deliver the internal audit remit in line with the Public Sector Internal Audit Standards. The outcome of the review was that, due to the substantial part of the Senior Auditor role being lost, the post was no longer required and resources could be better deployed to provide more cost-effective auditing hours, whilst delivering a more resilient and professional service.

2.7 Following consultation, this was agreed, and the new structure came into effect on 1st January 2022. The new structure did away with the Senior Auditor post and replaced it with a new Auditor post. A recruitment exercise for the newly formed Auditor post was conducted in March with interviews taking place on 1st April. The new starter began with the team on 9th May 2022.

2.8 Now the team is fully resourced, after initial training has been completed, further reviews of ways of working will be carried out. This will be carried out to ensure

that the ways that audits are planned, carried out and reported are up-to-date, professional and provide the best service possible.

3 Review of the work of Counter Fraud carried out in 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 The team continues to target the high risk and value areas of tenancy housing while also undertaking other exercises as detailed below. An increase in fraud referrals and information from the public has been noted during and post Covid-19 restrictions – this is partly explained by more people working from home but also the work to increase fraud awareness, particularly tenancy fraud.

3.3 Crown Court Prosecution – A trial at Chichester Crown Court was heard in December 2021 where a former Lewes District Council tenant was found guilty of two counts of fraud for two separate Right to Buy applications. The sentence hearing was delayed until April 2022 where the judge handed down two 24-month prison sentences for each offence to run concurrently. These are suspended for 24 months. The former tenant was also required to complete 40 hours of unpaid work within 12 months, pay a victim surcharge order and prosecution costs of £15,887.

The Counter-Fraud, Legal, and Homes First teams put a significant amount of work into this case which is only the second ever Right To Buy criminal prosecution made by the council.

The property has already been returned to the council following a successful civil court case in 2021 and has been allocated to a family with a genuine housing need.

3.4 Right to Buy – There continues to be a steady volume of applications which increased in the 4th quarter following a mailout to all residents detailing their Right To Buy entitlement. Eight cases are currently being checked to prevent and detect fraud and protect the authority against money laundering. Three applications were stopped during the year resulting in a saving of £253,800 with another four applications withdrawn in the beginning of April 2022. 29 cases which have either been approved for sale or have withdrawn still require a home visit, the delay with these visits is due to changing Covid-19 safety requirements for tenants and staff.

3.5 Fraud Squad TV series - The BBC showed a repeat of the 'Fraud Squad' series in December 2021, the programme aims to highlight Local Authority efforts to prevent, pursue and prosecute offences. One of our investigations, involving a woman who admitted a charge of fraud by false representation by pretending to live in a three-bedroomed council property and claiming a £80,000 Right to Buy discount, was selected as part of this series.

3.6 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 H.M. Courts are currently facing. There are 47 ongoing sublet/abandonment tenancy cases at various stages. 10 cases were closed during this period with the successful return of four properties resulting in a net saving to the authority of £372,000.

- 3.7 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. Two cases were closed during this period.
- 3.8 Housing Options – Access for Homes First caseworkers and specialists to use H.M. Land Registry and the National Anti-Fraud Network facilities for credit checks has been rolled out to help verify applications and prevent fraud.
- 3.9 National Non-Domestic Rates – 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 £252,255 generated to the authority. 17 cases have been closed during the year with a number still under review.
- 3.10 Council Tax – 51 cases have been investigated where discounts/exemptions were being claimed which have resulted in rebilling with a net recoverable income of £117,815 generated for the authority and a preventative saving of £56,302. A review of Council Tax exemptions/disregards continues.
- 3.11 Council Tax Reduction – Eight cases were closed in this period with a recoverable overpayment of £3,068 with a preventative saving of £3,047.
- 3.12 Housing Benefit – The team continue to work closely with the Department for Work and Pensions (DWP) and colleagues in the benefit section. Due to resource restrictions and pressing need to assess Universal Credit applications, the DWP have limited their capacity to investigate Housing Benefit. However, this has begun to change with 42 cases closed in this period generating recoverable Housing Benefit overpayments of £60,533 and a preventative saving of £11,694.
- 3.13 National Fraud Initiative — The 2020/21 exercise is ongoing with the team currently prioritising data matching for the Covid-19 business grants. 23 cases were closed during this period with 5 incorrectly paid grant found to the value of £50,000 (any monies recovered are transferred back to Central Government). One Council Tax Reduction fraud was found to the value of £3,400.52.
- 3.14 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 Data Protection access requests from the Police and other authorities. In addition, 10 Gas Safety checks were completed on council properties where the tenant has not responded.
- 3.15 Covid -19 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 continuing undertaking post verification work as requested by the Department for Business, Energy and Industrial Strategy. This includes sample checking on each of the grant schemes and reviewing applications where only one grant has been applied for as this has been identified as an area of higher risk of fraud. A report providing an update on this work will be provided separately.

3.16 A table showing the savings made by the Counter Fraud team in 2021-2022 can be found at Appendix C.

4 Managing the Risk of Fraud and Corruption

4.1 Cipfa suggests that 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 Conforming with the Public Sector Internal Audit Standards

5.1 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.

5.2 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.

5.3 There are two areas of partial compliance. These are both to do with the Chief Internal Auditor's annual appraisal having 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 Chief Internal Auditor throughout the year through various meetings or be comment to the Chief Finance Officer.

5.4 The standards require an external review to be carried out at least every five years. A review of the audit function was carried out by a peer review by other members of the Sussex Audit Group in 2016. The resultant report stated that the audit function generally conforms with the standards – this was reported to the committee at the September 2016 meeting. Whilst the peer review for Eastbourne was carried out in 2016, the review for Lewes was carried out in 2018. As the Audit team now covers both authorities, the next review is about due. The Sussex Audit Group has experienced a number of Heads of Audit retiring or leaving and some authorities have chosen to have their internal audit provided by the private sector or partnerships. If the external review were to be carried out by a private sector provider, this would cost anything from around £9,000. However, a meeting has recently been held with the audit functions from Wealden, Rother and Hastings who are all in the same position. All have agreed that they would be willing to participate in a reciprocal peer review, with cost being just in terms of the time of the relevantly qualified person in the department. It is suggested that the reciprocal peer review is the most cost-effective method. Also, the review would be carried out by auditors working in the public sector who understand specific issues/requirements relating to the

public sector. All four authorities are required to obtain the approval of their committees so the reviews will not commence until later in the year. It is recommended that this committee agrees to this approach.

6 Opinion on the control environment.

6.1 As stated earlier in this report, the work of the Internal Audit team was impacted by carrying a vacancy and the absence of a team member for an extended period of time at the beginning of the year. Later in the year, the restructure in the team led to a vacancy while a new position was filled. This impacted the audit plan and reduced the number of audits that could be undertaken during the year. However, it is considered that there were still a reasonable number of reviews carried out across the authority and did not significantly limit the scope of the work.

6.2 The Chief Internal Auditor is required to give an opinion of the overall adequacy and effectiveness of the control environment. The control environment is considered in three ways: the production of the Annual Governance Statement the effectiveness of Internal Audit, and the results of the work of Internal Audit.

Annual Governance Statement: see separate report being brought to this committee meeting.

Effectiveness of Internal Audit: Section 5 of this report covers the self-assessment against the Public Sector Internal Audit Standards and shows that this work is carried out in accordance with the standards.

The work of Internal Audit: It has been noted that a number of recommendations remain outstanding after following up reviews. Many of these are being affected by ongoing lack of resources. This appears to have been caused by the response to the Covid-19 pandemic, changes in staffing, and an inability to be able to fill vacancies in some areas.

While the governance framework is in place and working and Internal Audit are carrying out their work in accordance with standards, the opinion on the control environment has to be caveated by the number of outstanding recommendations.

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 – Audit reports issued and follow-ups

12.2 Appendix B – Recommendations outstanding after follow-ups

12.3 Appendix C – Counter Fraud savings