

Report to:	Audit and Governance Committee
Date:	3rd July 2023
Title:	Internal Audit and Counter Fraud Report for the financial year 2022-2023 – 1st April 2022 to 31st March 2023
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 2022-2023 – 1st April 2022 to 31st March 2023.
Officer recommendation(s):	That the information in this report be noted and Members identify any further information requirements. That Committee agree the approach to having an external assessment carried out.
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. The Public Sector Internal Audit Standards require an external assessment to be carried out.
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1 Introduction

- 1.1 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.
- 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 2022-23.

2 Review of the work of Internal Audit carried out in the financial year 2022-23

- 2.1 During the year 13 audits were carried out and issued in Final. Also, 31 follow up reviews were undertaken and reports issued detailing the updated position.
- 2.2 Appendix A lists all the audit reports issued during the year. The first table shows all the follow up reports issued and the second table is the list of all other

audit report issued. At the end of the year there were no outstanding draft reports.

- 2.3 At the last committee meeting, it was reported that there were a large number of recommendations outstanding after several follow ups had been undertaken. It was also reported that the Chief Executive had asked for managers to view the outstanding recommendations and to try to address them. Internal Audit was contacted by various managers about outstanding recommendations and the situation has now improved – but it still needs to be carefully monitored.
- 2.4 Appendix B is the list of all the audits that are still subject to follow up reviews. It shows the results of all the follow ups carried out and when the next follow up is due. When all recommendations have been addressed this will be reported once and then that audit will be removed from the list. This appendix shows the results of the request from the Chief Executive, with six audits closed as all the recommendations have been addressed.
- 2.5 Of the reviews in Appendix B where follow ups are overdue, the following is noted:
- Business Continuity Plans – progress is being made with only three areas outstanding.
 - Members Allowances – delayed because of other follow ups and need to ensure that there are enough claims to test
 - Film Liaison Unit – currently ongoing
 - Contract Management – currently ongoing
- 2.6 Appendix C has now been updated following the responses from management with regard to outstanding recommendations. Last quarter, before the report was taken to Corporate Management Team, this appendix included 12 audits with 33 outstanding recommendations. It now shows 6 of these audits with 16 outstanding recommendations still on the list, with one new audit, with 6 outstanding recommendations, added.
- 2.7 Whilst the number of outstanding recommendations has now greatly improved, this has only happened in the last quarter and the number of follow up reviews carried out during the year greatly impacted the ability to carry out new reviews
- 2.8 This has been exacerbated by having two new Auditors in the team who required training and having to chase information and responses from officers. The former will be less of a problem moving forward and the latter was improved by the message from the Chief Executive. One Auditor also caught Covid and has, unfortunately, suffered symptoms for a lengthy period. Thankfully the symptoms are now subsiding and they are back at work.
- 2.9 One member of the Audit team resigned in October. There have been two recruitment attempts but it has not been possible to fill the post. Another attempt will be made but other options are being considered.

3 Review of the work of Counter Fraud carried out in the financial year 2022-23

- 3.1 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 during and post Covid-19 restrictions has also been noted – this is partly explained by more people working from home but also the work to increase fraud awareness, particularly tenancy fraud.

- 3.2 Crown Court prosecutions – 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, this is 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.
- In an additional case, a father and daughter who attempted to dishonestly buy a council property in Lewes through the Right to Buy scheme pleaded guilty to two counts of false misrepresentation at Lewes Crown Court in December 2022. They were both handed 10-month prison sentences (suspended for 20 months) and ordered to pay £3000 costs to the council and 200 hours of unpaid work.
- A considerable amount of work was undertaken in the investigation and legal process of this case with the Judge Van der Zwart adding at the sentencing hearing in January 2023 “It’s a testament to the diligence of the local authority enquiry team that they uncovered your dishonesty”.
- 3.3 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 the backlog of cases generated and delayed by Covid-19 restrictions. There are 44 ongoing sublet/abandonment tenancy cases at various stages. Four properties were returned to the council during the year generating a saving of £372,000. Five other investigations were closed with no further action.
- 3.4 Right To Buy - There continues to be a steady volume of cases throughout the year. Four cases are currently either being checked to prevent and detect fraud and protect the authority against money laundering with 26 previously withdrawn applications still requiring a home visit to verify residential status. 14 applications were withdrawn during this year resulting in a net preventative saving of £1,202,200. 13 other applications were verified for sale.
- 3.5 Housing Applications/Homeless Placement – the team worked closely with the Housing Allocations team to incorporate additional counter-fraud measures when undertaking reviews of Applications on the Housing Register. This intervention is a result of concern around unreported changes in circumstances prior to allocation of a council property. In June 2022, all households were contacted as part of the review, this activity has now been concluded which has resulted in the removal of 592 applications either due to withdrawal or no response. The National Fraud Initiative (NFI) estimate the average cost of a fraudulent housing application to a local authority at £4283 per application, the combined preventive saving figure for this exercise stands at over £2,500,000.
- 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. Additional counter-fraud training was delivered during this period to new triage officers undertaken pre-assessment of any new presentations for housing assistance.
- 3.7 Council Tax – 51 cases have been investigated during the year where discounts/exemptions were incorrectly being claimed. This activity has resulted in Council Tax rebilling with a net recoverable income of £113,851.03 generated for the authority and a preventative saving of £47,390.08. A review of Council Tax exemptions/disregards is ongoing and includes work with National Fraud

Initiative matching data held between Council Tax Records and Electoral roll, a further 5 cases have been reviewed with a net recoverable income of £5,498.65 generated along with a preventative saving of £16,355.68 (these figures are included within NFI savings below).

- 3.8 Council Tax Reduction – Five cases have been reviewed in this period generating a total overpayment of £1,484.54 and a preventative saving of £959.68. Three other cases are currently under investigation.
- 3.9 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 investigated Housing Benefit. However, this has begun to change with 41 cases closed in the year generating recoverable overpayment of £753.80 and a weekly incorrect saving of £110.40.
- 3.10 National Fraud Initiative – The final 82 cases from the 2021/22 exercise have now been closed with no further action. The data collection for the 2022/23 exercise has now been completed, with the first batch of high risk cases currently under investigation. 80 cases have been reviewed so far with no further action required.
- 3.11 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 36 requests from the Police and other authorities. 20 Gas safety checks were also completed where the housing tenant had failed to engage with the annual compliance reviews.
- 3.12 Following on from the government’s announcement to support businesses through the Covid-19 pandemic, the team have been undertaking post verification checks to include evidence sampling of random cases selected by the Department for Business, Energy and Industrial Standards (BEIS). BEIS have confirmed all sample evidence has been received for the 10 different schemes and further checks are now being made by BEIS and the National Audit Office with the outcome expected in 2023.
- 3.13 Six payments of the £150 support paid to the liable Council Taxpayer to assist with the increase in energy bills have been found to have been received in error, recovery work on these payments is ongoing.
- 3.14 A table showing the savings made by the Counter Fraud team in 2022-2023 can be found at Appendix D.

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 98% of the points listed in the standards.
- 5.3 There are two areas of non-compliance. These are both to do with meeting, and co-ordinating activities, with the external auditors. However, since Deloitte took over as the external auditors, they have not interacted regularly with Internal Audit, though they do meet with the Director of Finance and Performance (Chief Finance Officer – S. 151 Officer) and Deputy Chief Finance Officer
- 5.4 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 Director of Finance and Performance (Chief Finance Officer – S. 151 Officer).
- 5.5 The standards require an external review to be carried out at least every five years. A review of the audit function was carried out by a peer review by other members of the Sussex Audit Group 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 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. If the committee agrees, the assessment will be carried out in the financial year 2023-24. 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, during the majority of the year, a number of recommendations remained outstanding after following up reviews. However, during the last quarter there was a drive to address recommendations and the number of those outstanding was greatly reduced.

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 that were outstanding during the year and there being three reviews where there are recommendations outstanding after three to five follow ups.

- 6.3 The Chief Internal Auditor has some concerns about risk management at the operational level and whether thorough business case/background information for projects is being given to committees to make informed decisions. Work will be carried out to look into these areas thoroughly in 2023/24 and the findings will inform the audit opinion for that year.

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 D.

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 reports issued during the year

12.2 Appendix B – Position of audits requiring follow-up

12.3 Appendix C – Recommendations outstanding after follow-ups

12.4 Appendix D – Counter Fraud savings