

**Report to:** AUDIT AND GOVERNANCE COMMITTEE

**Date:** 28<sup>th</sup> November 2023

**Title:** Internal Audit and Counter Fraud Report for the second quarter of the financial year 2023-2024 – 1<sup>st</sup> April 2023 to 30<sup>th</sup> September 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 second quarter of the financial year 2023-2024 – 1<sup>st</sup> April 2023 to 30<sup>th</sup> September 2023.

**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 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.

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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 during the second quarter of the financial year 2023-24.

## **2 Review of the work of Internal Audit carried out in the second quarter of the financial year 2023-24**

- 2.1 During the quarter, work has continued on carrying out the annual reviews. Two reports were issued in final and another three in draft. Three further annual reviews are now at the stage of the fieldwork having been completed and draft reports are being written and checked. Work is beginning on five other annual reviews.
- 2.2 As explained at the last committee meeting, rather than carrying out full review of the 12 annual audits every year, half will have a full review and the other half a lighter touch review. The following year, the ones that received a light touch review will be given a full review. A light touch review consists of reviewing the

key controls in the area and also, a follow up of the recommendations made the previous year.

- 2.3 Appendix A lists all the audit reports issued during the quarter. The first table shows all the follow up reports issued and the second table is the list of all other audit reports issued.
- 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.
- 2.5 Appendix C is a list of all outstanding recommendations and includes the latest responses from managers.
- 2.6 Of the reviews in Appendix B and C, the following is noted:

Business Continuity Plans – The Director of Tourism, Culture and Organisational Development was asked for an update on the scope of the proposed Local Authority Controlled Company (LACC). The response received was that the LACC would cover the Congress and Devonshire Park theatres. It was added that the rest of the Devonshire Quarter (conferences, catering, Terrace Bar café, Stage Door pub and racquets court) is being considered for leasing out, with a six week “expression of interest” process beginning on the 25<sup>th</sup> October. It was also explained that a plan covering the Tourist Information Centres and the Heritage Centre has been completed and another, to cover Events and Seafront Services, will be completed in the next few weeks.

Sovereign Centre – a business case to support a move to outsourcing is currently being written. If outsourced, no plan will be required.

Arrears Collection – consideration is currently being given to centralising arrears collection services. Therefore, the outstanding recommendation will be followed up once a decision has been made.

- 2.7 As has been previously reported, the vacancy in the team has been successfully filled and the new member of the team is now undergoing on-the-job training and an external “Introduction to Internal Audit” course has also been booked.
- 2.8 However, the team was carrying this vacancy for half of the current year, and this has impacted on the number of audits the team have been able to carry out. Added to this there was a three-week absence of another member of the team owing to a family bereavement.
- 2.9 It has previously been explained that the aspiration for the team is to have all auditors trained to a similar standard. One auditor is undertaking IT Audit and IT Risk training as well as having completed a free course on risk management provided by the Open University. Another auditor has completed a course on Data Analytics provided by the Institute of Internal Auditors (IIA). The Audit Manager is studying for an Operational/Departmental Manager Apprenticeship and is attending a CIPFA course leading to a certificate in Data Science. The Audit Manager and an auditor are members of the core group running and championing the IIA’s Local Authority Data Analytics Working Group.

### **3 Review of the work of Counter Fraud carried out in the second quarter of the financial year 2023-24**

- 3.1 The team continues to target the high risk and value areas impacting the council, in particular Tenancy and Revenue fraud. The team have also undertaken post

assurance work on Energy Grants and begun assisting with multiple agencies in tackling Modern Slavery offences within our community.

- 3.2 Housing Tenancy – The team continue to work closely with colleagues in Homes First and Legal Services. There are currently 36 ongoing sublet/abandonment tenancy cases at various stages. One property was returned with a net value to the authority of £93,000 and an additional case led by Homes First, and supported by the Counter Fraud team, resulted in the tenant handing the property back. 10 other cases were closed during this quarter with no further action.
- 3.3 Right To Buy - After a quiet period at the start of the year, there has been an increase in applications from April 2023. This is, in part, related to the increase in the maximum discount which following the consumer price index now stands at £96,000. 15 cases are currently either being checked to prevent and detect fraud, and protect the authority against money laundering, or waiting for a home visit to verify residential status. One application was withdrawn during this period following verification checks, resulting in a net preventative saving of £96,325 (including property survey costs).
- 3.4 Housing Applications – the team continues to work with the Housing Allocations team following their review of the Housing Register in 2023/24 which removed 710 applications either due to withdrawal or no response. A new review will commence within the year with any highlighted fraud cases passed to the Counter Fraud team to investigate.
- 3.5 Housing Options/Homeless Placement – 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. This included providing refresher training to staff around credit checks and land registry systems to verify and reduce error and fraud. One homeless placement was cancelled following an investigation by the Counter Fraud team creating a net preventative saving of £12,000.
- 3.6 Energy Rebate Schemes - Following the closure of the latest Energy Rebate Scheme, the Counter Fraud team have commenced post assurance review of all the applications made and will liaise with the Government in their fraud and error reporting and payment verification work.
- 3.7 Council Tax – 11 cases have been investigated during the quarter as part of a review of Single Person Discounts, Exemptions and Disregards with a net recoverable income of £5,398.04 generated for the authority and a preventative saving of £4,296.64. One case was also discovered where a liable party was incorrectly paying Council Tax while resident in a care home. Intervention by the Counter Fraud team has resulted in an exemption being placed on this account, with a credit repayable to the former resident. A review of Council Tax exemptions/disregards is ongoing and includes work with the National Fraud Initiative (NFI) matching data held between Council Tax Records and Electoral Register. 201 cases have been reviewed in this period with a net recoverable income of £10,809.08 generated along with a preventative saving of £11,558.14.
- 3.8 Council Tax Reduction – 23 cases have been closed in this quarter generating a total recoverable income of £5,297.69 and a preventative saving of £6,609.60.
- 3.9 National Non-Domestic Rates - 13 cases were investigated during this period following discrepancies found with previously claimed Covid-19 business grants. One case led to the removal of a Small Business Rate Relief creating a total recoverable income of £15,210.97.

- 3.10 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. Over this period, 42 cases were closed generating a recoverable Housing Benefit overpayment of £37,199.95 and a (WIB) preventative saving of £17,696.32.
- 3.11 Housing debtors – The team continue to look at debt avoidance where loans have been made to assist with securing housing and have remained outstanding following existing debt recovery methods of contact. This activity has recouped £2,426.41 during this period which otherwise might have been written off.
- 3.12 National Fraud Initiative (NFI) – The 2023/24 is already underway with the team concentrating on discrepancies on the Council Tax side as detailed above.
- 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 quarter the team dealt with 22 DPA requests from the Police and other authorities. In addition, one fit and proper person check was completed for a new House in Multiple Occupancy licence. Eight housing enquiries were recorded during this period along with 12 queries relating to Housing Benefit and Council Tax reduction.
- 3.14 Modern Slavery – the team have joined working operations with multiple Government Agencies and Sussex Police in tackling potential Modern Slavery offences across the town. The council has assisted in providing information in support of eight investigations within this quarter.
- 3.15 Fraud awareness – the team have delivered fraud awareness training throughout the organisation with bespoke sessions delivered to teams within Housing, Customer Service, Council Tax and Finance. An awareness session for the team assessing welfare grants and benefits is due to be arranged within the 3<sup>rd</sup> quarter.
- 3.16 A table showing the savings made by the Counter Fraud team in the first half of 2023-2024 can be found at Appendix D.

#### **4 Governance of Companies**

- 4.1 The Chief Financial Officer has requested that the Audit and Governance Committee be given updates of assurance on the financial and governance arrangements of the companies.
- 4.2 It has been arranged that the Boards of the companies add an agenda item to their quarterly meetings to consider the financial and governance arrangements and to make a statement on this. These statements will be reported to this committee. It should be noted that because of the dates of the Board meetings and the reporting schedule for this committee, there will be timing differences. However, all statements received in the quarter being reported on will be included in the report.
- 4.3 A standard statement to be used, if the relevant Board considers the arrangements to be in order, has been agreed. Boards are expected to clarify any concerns of which they are aware.

- 4.4 The following is a table showing the date of meetings where the governance statement was considered:

<b>Company</b>	<b>Quarter One</b>	<b>Quarter Two</b>
Eastbourne Homes Ltd	27.07.23	21.09.23
South East Environmental Services Ltd	07.06.23	20.09.23
Aspiration Homes LLP	13.07.23	Meeting cancelled
Cloud ConnX	19.06.23	Meeting October
Investment Company Eastbourne	Meeting cancelled	26.09.23
Eastbourne Housing Investment Company Ltd	12.07.23	11.09.23

- 4.5 All the above meetings returned the same statement.

“Having examined all the reports brought to the meeting the Board considers that the company is compliant with its financial and governance arrangements”.

## **5 Update on IT Security**

- 5.1 At the last committee meeting an update on IT security was requested. The Head of ICT was asked for a response which is quoted below

- 5.2 “I can confirm that not much has changed. We are constantly monitoring the threat from Russia and other countries and making sure that our backups and resilience are kept up to date and monitored. Since the last update, we have been audited by Internal Audit on Cloud and Cyber Security which we have passed with full assurance. We have also had an external scan by the Cyber Centre of Excellence for Public Services which the council passed with a score of 3 out of 5, which is a great result as most councils in the UK scored 1 out of 5. We have also deployed Zero Day Trust software to all our servers and are currently looking at a Password Manager for the whole estate”.

- 5.3 Two clarifications need to be made in terms of the reference above to the work of Internal Audit. Firstly, the work on Cloud Computing and Cyber Security has been reported as two separate reports. Secondly, this quarterly report covers the work of Internal Audit up to the end of September. These two reports were issued at the beginning of October and so will be formally reported in the next quarterly report. However, it can be confirmed that both were given full assurance with no recommendations made.

## **6 Financial appraisal**

- 6.1 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.

## **7 Legal implications**

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

## **8 Risk management implications**

- 8.1 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.

## **9 Equality analysis**

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

## **10 Environmental sustainability implications**

10.1 Not applicable

## **11 Appendices**

11.1 Appendix A – List of reports issued during the year

Appendix B – Position of audits requiring follow up

Appendix C - Recommendations outstanding after follow-ups

Appendix D – Counter Fraud savings.