

Report to: Audit and Governance Committee

Date: 11 July 2024

Title: Internal Audit and Counter Fraud Report for the financial year 2023-2024 - 1st April 2023 to 31st March 2024

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 2023-2024 – 1st April 2023 to 31st March 2024.

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 across the financial year 2023-24.

2 Review of the work of Internal Audit carried out in the financial year 2023-24

- 2.1 During the year 18 follow up reports have been issued in final, with seven of these having been completed in the last quarter. One further follow up report is out in draft.
- 2.2 During the year 15 full audit reviews have been carried out with final reports issued, four of these in the last quarter. A further four have had a draft report issued.
- 2.3 Risk Management was shown as being in draft last quarter and it remains in draft. This is because the report had to be taken to Corporate Management

Team for consideration of one issue. The report was taken but the actual decision is still being awaited.

- 2.4 Appendix A lists all the audit reports issued during the year. The first table shows all the follow up reports issued, the second table is the list of all other audit report issued in final, and the last table lists the audit reports issued in draft and awaiting responses from managers.
- 2.5 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
- 2.6 A second table has been added to Appendix B. This table lists annual audits from 21/22 where a follow up has been undertaken as part of the work on the 22/23 annual audit reviews.
- 2.7 Appendix C is the list of all outstanding recommendations and includes the latest responses from managers. A second table has been added to show recommendations from previous annual audit reviews that remain outstanding.
- 2.8 The following should be noted when reviewing the appendices:

Arrears Collection

As reported previously, a Corporate Fair Debt Policy is due to be completed this financial year.

Construction Industry Scheme

The manager has reported that resourcing issues are preventing work on updating procedure notes as recommended.

Annual Audits

It has previously been explained that, traditionally, follow ups have not been carried out as the audit reviews are repeated every year. However, it was noted that some recommendations were being repeated each year. Therefore, these are now being handled differently and a list of outstanding recommendations is now being taken monthly to the Finance Department Managers' team meetings. It is hoped that this will result in the recommendations being addressed. It should be noted that the Debtors review previously came under Finance and the recommendations were therefore addressed to managers in that area. However, with the move of Debtors to Customer First, the report has now been passed to that section to work on. The table will be updated with responses from Customer First as they are received.

3 Review of the work of Counter Fraud carried out in 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 fraud prevention work with 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 28 ongoing sublet/abandonment tenancy cases at various stages. Two properties were returned to the council during the fourth quarter with two other properties, with involvement from the team, due to be returned to housing stock shortly. 25 cases were closed across

2023/24 with a total of six properties returned during the year, resulting in a net preventative saving of £558,000 to the authority.

- 3.3 Right To Buy - the fourth quarter has shown a marked increase in new applications from the previous quarters. It is also common for a high percentage of applications to be withdrawn during this period once the increase in discount, with effect from April 2024, is published. Seven 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. Six cases were closed during the fourth quarter following the applications being withdrawn. In total 20 applications have been cancelled during 2023/24 resulting in a combined net preventative saving of £1,832,000.
- 3.4 Housing Applications – the team continue to work with the Housing Allocations team following their review of the Housing Register in 2023/24 which removed 592 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. Two homeless placements were cancelled as a result of investigation by the team, which resulted in a preventative saving of £24,000 to the authority, based emergency placement costs.
- 3.6 Energy Rebate Schemes – the team are currently waiting on Government instructions to commence post assurance reviews of a selection of applications made following the closure of the latest Energy Rebate scheme.
- 3.7 Home Upgrade Grant – after the Government’s announcement to award a combined grant funding of £6,230,700 for home energy improvements to eligible homes within Lewes District, Eastbourne Borough, Hastings Borough, and Rother District Councils. The counter-fraud team have been working with the scheme leads to reduce the risk of fraud by implementing enhanced verification checks and officer training in fraud prevention.
- 3.8 Council Tax – 28 cases have been closed following investigation during the year as part of a review of Exemptions and Disregards, with a net recoverable income of £28,050.66 generated for the authority and a preventative saving of £12,371.20. A review of Council Tax exemptions/discounts is ongoing and includes work with the National Fraud Initiative matching data held between Council Tax Records and the Electoral Register. 1161 cases have been reviewed in this period with a net recoverable income of £83,684.28 generated from the removal of discounts along with a preventative saving of £126,201.74
- 3.9 Council Tax Reduction – 11 cases were investigated during 2023/24 resulting in a recoverable overpayment of £15,862.98 and a preventative saving of £3,476.16.
- 3.10 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 resource restrictions and pressing need to assess Universal Credit applications, the DWP have limited their capacity to investigate Housing Benefit. Over 2023/24, 82 cases were closed creating a recoverable overpayment £62,554.74 and a preventative saving of £8,424.64.

- 3.11 National Fraud Initiative – the 2023/24 review is already underway with the team concentrating on discrepancies on the Council Tax side as detailed above. 213 other data matches were reviewed during the year with no further action taken.
- 3.12 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 dealt with 35 requests from the Police and other authorities. 75 gas and electric safety checks for council properties were completed where a safeguarding concern or possible abandonment risk was identified.
- 3.13 Modern Slavery – the team have joined working operations with multiple government agencies and Sussex Police in tackling potential Modern Slavery offences across the district. The council has assisted in providing information in support of three investigations within 2023/24.
- 3.14 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 Customer Service Fraud Champions, Housing Needs officers and Home Upgrade Grant team were delivered during this quarter. Work has started on an online fraud awareness course for all council employees.
- 3.15 A table showing the savings made by the Counter Fraud team in 2023-2024 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. Organisational Independence

- 5.1 The Internal Audit function maintains independence by ensuring that staff carry out no other duties. If an auditor is appointed from another function, that auditor will not be allowed to carry out an audit of that area for at least six months
- 5.2 The Chief Internal Auditor is responsible for ensuring that the Strategic Risk Register is updated and has overall responsibility for the Counter Fraud function. Therefore, any audit review of risk management or Counter Fraud is dealt with by the Audit Manager and the report will be issued in their name.

- 5.3 Any issues of impairment would be raised with the Director of Finance and Performance (Chief Finance Officer – s. 151 officer) and the Audit and Governance Committee.
- 5.4 Independence and objectivity are covered in the Internal Audit Charter which has been agreed with the Audit and Governance Committee.

6 Conforming with the Public Sector Internal Audit Standards

- 6.1 The Public Sector Internal Audit Standards (the standards) came into effect from 1st 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 98% of the points listed in the standards.
- 6.3 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.
- 6.4 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 provide comment to the Director of Finance and Performance (Chief Finance Officer – S. 151 Officer).
- 6.5 The standards require an external review to be carried out at least every five years. Wealden, Rother and Chichester District Councils, along with Eastbourne/Lewes, agreed to carry out reciprocal external assessments in 2023/24. The external review for Lewes and Eastbourne was carried out in the summer and reported to the Audit and Governance Committee in November. The review supported the results of the self-assessment, in that the Internal Audit function generally conforms with the standards. Recommendations were made which are mostly addressed. The addition of the paragraph “Organisational Independence” in this report addresses two of these recommendations. Two other recommendations are still to be addressed. One was that the Chief Internal Auditor should have periodic meetings with the external auditors – this will be actioned with the new external auditors. The other was around the consideration of risks with regard to providing assurance for council owned companies – consideration is being given to writing audit charters for each company using Internal Audit, which will address these risks.
- 6.6 The Public Sector Internal Audit Standards are largely based on the Global Institute of Internal Auditors’ “Global Internal Audit Standards”. The Global Standards have recently been updated and have added more standards to be met. However, it is the Public Sector Internal Audit Standards that are mandatory for councils in the UK. The UK Public Sector Internal Audit Standards Advisory Board is now reviewing the new global standards to determine the implication for the Public Sector Internal Audit Standards. Any changes in these will be subject to consultation and appropriate transitional arrangements. Further information will be provided once it is issued.

7 Opinion on the control environment.

7.1 The Internal Audit team was carrying a vacancy for five months of the year. The post was filled in September and the team have been able to catch up on work and it is felt that it has still been possible to undertake an adequate breadth of coverage.

7.2 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 7 of this report covers the self-assessment against the mandatory Public Sector Internal Audit Standards and shows that this work is carried out in accordance with the standards.

The work of Internal Audit: as mentioned at 2.8 of this report, follow ups have traditionally not been carried out on annual audits as they are repeated every year. However, it has been noted that there were some recommendations being repeated. These are now being reported to the Finance Department Managers' team meetings monthly, and quarterly to the Audit and Governance Committee.

While the governance framework is in place and working, and Internal Audit are carrying out their work in accordance with the Public Sector Internal Audit Standards, the opinion on the control environment has to be caveated by the repeated recommendations on annual audit reviews.

7.3 As reported last year, the Chief Internal Auditor has some concerns about risk management at the departmental/operational level. One review of the overall framework has been carried out during the year and the report is currently out in draft, awaiting agreement of the recommendations made.

8 Financial appraisal

8.1 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.

9 Legal implications

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

10 Risk management implications

10.1 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.

11 Equality analysis

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

12 Environmental sustainability implications

12.1 Not applicable.

13 Appendices

13.1 Appendix A - List of reports issued during the year

13.2 Appendix B - Position of audits requiring follow-up

13.3 Appendix C - Recommendations outstanding after follow-ups

13.4 Appendix D - Counter Fraud savings

14 Background papers

14.1 None.