

Body: AUDIT AND GOVERNANCE COMMITTEE

Date: 2nd DECEMBER 2015

Subject: Internal Audit Report to 30th September 2015

Report Of: Internal Audit Manager

Ward(s) All

Purpose To provide a summary of the activities of Internal Audit for the second quarter of the financial year 2015/16.

Recommendation(s): That the information in this report be noted and members identify any further information requirement and timescales.

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1.0 Introduction

- 1.1 The work of Internal Audit is reported on a quarterly basis to demonstrate work carried out compared to the annual plan and to report on the findings of audit reports issued since the previous meeting of the committee.
- 1.2 The annual audit plan for 2015/16 was agreed by the Audit and Governance Committee in March 2015.

2.0 Review of work in the second quarter of the financial year 2015/16.

- 2.1 A list of all the audit reports issued in final from 1st April to 30th September 2015 is as follows:

Benefits (Annual 2014/15)	Performing Well
Council Tax (Annual 2014/15)	Performing Well
Housing Rents (Annual 2014/15)	Performing Excellently
NNDR (Annual 2014/15)	Performing Excellently
IT (Annual 2014/15)	Performing Inadequately
Conferences and Group Travel	Performing Adequately
Internet Controls	Performing Adequately
Electoral Computer System	Performing Excellently
Planning System	Performing Adequately
Leasing and Licensing	Performing Adequately
Telephones	Performing Well
Personal Loans	Performing Well
Licences (Entertainment and Taxi)	Performing Inadequately

Levels of Assurance - Key

Performing inadequately	Major weaknesses. Insufficient controls in place or controls not being applied. Fundamental improvements required. – High risk.
Performing adequately	Some important weaknesses. Key controls need to be improved. – Medium to high risk.
Performing well	Important strengths but some areas for improvement. – Medium to low risk.
Performing excellently	Major strengths. Minor or no recommendations. A good example of internal control. – Low risk.

2.2 One report has been issued in this quarter with an assurance level of inadequate. This is explained at 2.5 and appendix C.

2.3 Appendix A shows the work carried out against the annual plan to the end of September 2015. The following comments explain the main points to be noted from the table:

- Some reviews went over the time allocated. These were carried out by new members of staff, one of which only joined the team in May. This is being monitored and feedback given.
- The team was one full time member short during April and the first part of May and training of the new member of staff took place during the second half of May. This put the team behind on the plan but work is continuing to ensure as much of the plan as possible is completed before the work begins on annual reviews in the new calendar year.
- Requests have been made for the postponement of the following reviews:

Performance Management - to be postponed until 2016/17. The reasons given were that with Phase 2 there were changes to the team with one member still not in post, a new Corporate Plan being produced and developing a new performance framework.

Engineering - to be postponed to 2016/17 in view of current maternity leave.

Asset Management - to be postponed until 2017/18 to allow for the implementation of Corporate Landlord.

2.4 Appendix B is the list of all reports issued in final during the year which were given an assurance level below "Performing Excellently", with any issues highlighted in the reviews which informed the assurance level given. NB. These are the assurance levels that were given at the time the final report was issued and do not reflect recommendations that have been addressed.

- 2.5 Appendix C shows the outstanding high and medium priority recommendations from audits and the reasons why they have not been implemented along with the month when the next follow up is due. Points to note are that no further follow up of HR Management will be carried out as recommendations are reliant of Phase 2 changes. As the original review was carried out some time ago a further full review will be carried out in the future. Also a precis of the issues leading to the "inadequate" assurance level for Licences is given.
- 2.6 Where the column "priority" in Appendix C shows "High" the outstanding recommendations, and client comments from the report, have been listed at Appendix D. Appendix D is designated as "Confidential" to reduce the risk of opportunities to commit fraud. It should be noted that the recommendations listed were outstanding at the time of the last follow up review. If they have been addressed since this time this will not be noted or reported until the next follow up review is carried out.
- 2.7 There were two reviews noted on Appendix D. One of these, Printing, has had a follow up review carried out recently. Although strictly related to the following quarter the reference to Printing has been removed since all bar one of the recommendations has been addressed. The follow up of Events is ongoing.

3.0 Corporate Fraud

- 3.1 The first exchange of data for matching using the "Who's Home" software commenced in August. 10 reports were produced:

- Tenancy fraud concerns
- Benefit concerns
- Tenancy discrepancies
- Possible deceased
- Inefficient use of stock
- Overcrowded properties
- Financial distress
- Welfare reform concerns
- Direct debit usage
- Direct debit vulnerability

Initially only the Corporate Fraud team will be able to use the first four reports though it is intended that as other teams settle following Phase 2 changes that they will also benefit from using the reports.

- 3.2 Checking the reports so far produced has highlighted that work needs to be undertaken to ensure that data held is accurate and up to date, thus ensuring that maximum benefit is gained from the software. 5,918 matches have so far been received with 216 highlighting issues to be reviewed. Following a review of these 19 referrals have been issued for investigation.
- 3.3 A project has been taken on Right to Buy cases with all those received from August 2015 being reviewed. This work is currently ongoing, however findings to date have led to new processes being introduced, one of which will see the Corporate Fraud team reviewing all applications prior to processing.

- 3.4 A Charity Shop Relief project was undertaken and has been completed. Findings indicated that all shops inspected were selling wholly, or mainly, donated items.
- 3.5 Following closer working with Eastbourne Homes and Housing , the team will undertake pre tenancy checks prior to allocation of new tenancies. The team has undertaken pre allocation checks on new shared ownership applications. Both types of checks have been introduced to help safeguard the social housing system against fraud and irregularities.
- 3.6 Other pieces of work include: undertaking background checks on Houses of Multiple Occupation (HMO) applications and renewals, signing of a data sharing agreement with East Sussex County Council to undertake a joint project and the recovery of one council property following an investigation into abandonment of a property.
- 3.7 Other investigations during the quarter have identified unregistered HMOs, properties unregistered for Council Tax and undeclared second adults in properties claiming Single Person Discount.
- 3.8 Appendix E shows the number of cases worked on, income and savings made by the team along with the cost of the team by the quarter.

4.0 East Sussex Counter Fraud Hub

- 4.1 A governance panel (the Board) has been established for the Fraud hub to ensure that objectives are achieved and higher level decisions are correctly considered and recorded.
- 4.2 Procurement projects for publicity services and a case management system being ongoing. Wealden District Council has signed an agreement to purchase Who's Home and discussions around this software are taking place with Lewes District Council and Brighton and Hove City Council.
- 4.3 Preliminary work is commencing for procurement of ID verification solutions. Such software will allow for photographic ID, e.g. passports, driving licences etc., to be scanned and verified as genuine or forged. It is anticipated that at Eastbourne the scanners would be used in the post room and the contact centre.
- 4.4 The Hub has collated its first performance figures for the first two quarters of 15/16. The figures come from the member authorities; Eastbourne, East Sussex County Council, Wealden, Lewes and Brighton and Hove. The summary can be seen below.

April - September 2015	No of proven cases	Value of proven cases £	Current cases
Reduction in procurement fraud	0	0	2
Social housing tenancy fraud	26	306,000	90
Right to Buy fraud	0	0	0
CTRS fraud	23	17,282	79
CT discount fraud	20	6,930	10
NNDR fraud	0	0	0
Grant fraud	0	0	0
Blue Badge fraud	135	120,000	97
Direct Payments	0	0	2
Totals	204	450,212	280

Figures for savings on social housing tenancy fraud and blue badge fraud are those suggested by the Audit Commission in the Protecting the Public Purse publication. This suggests a saving of £18,000 for each property returned and £500 for each Blue Badge rescinded.

- 4.5 When the performance figures for the Fraud Hub were collated for the first quarter an error appeared in relation to the Blue Badge fraud savings. These were shown as £5,000 per badge instead of £500. This has now been amended.
- 4.6 When the bid for funding from the DCLG was submitted, a forecast of savings had to be included. As none of the authorities had carried out proactive corporate fraud work previously these figures had to be estimated based on the savings suggested in Protecting the Public Purse 2013 "Estimated annual loss to fraud in local government". A lower estimate was given for the first year of work as it was felt that the Hub members would just be testing the water to understand the areas where fraud and inconsistencies could occur.
- 4.7 The projected savings for the Hub in 15/16 and the actual for the first half of the year are shown on Appendix F.
- 4.8 The actual savings are below the forecasted performance. This could be for a number of reasons. Firstly the performance figures used are those suggested in the Protecting the Public Purse publication and therefore are averages for the country and not necessarily reflective of this area. However, the authorities involved in the hub are still only just beginning work on corporate fraud and there are still many cases being investigated which could result in identified fraud and savings as well as some areas of work not yet being started.

5.0 SFIS Update

- 5.1 Since migration in November 2014, 199 Housing Benefit cases have been referred to the DWP for investigation. To date, 43 have been closed – 37 of which were closed as unproven or no action taken. Of the remaining six two resulted in Adpens and four were proven frauds.

6.0 Consultation

6.1 Respective Service Managers and Heads of Service as appropriate.

7.0 Resource Implications

7.1 Financial – Delivered within the approved budget for Internal Audit

7.2 Staffing – None directly as a result of this report.

8.0 Other Implications

8.1 None

9.0 Summary of Options

9.1 None

10.0 Recommendation

10.1 That the information in this report be noted and members identify any further information requirement and timescales.

Jackie Humphrey
Internal Audit Manager

Background Papers:

The Background Papers used in compiling this report were as follows:

None