

Body: AUDIT AND GOVERNANCE COMMITTEE

Date: 25 JULY 2018

Subject: Internal Audit Report to 31ST March 2018

Report Of: Audit Manager (Eastbourne)

Ward(s) All

Purpose

To provide a summary of the activities of Internal Audit for the year 1st April 2017 to 31st March 2018.

To document the Internal Audit Manager’s opinion of the internal control environment as required for the Annual Governance Statement.

To consider compliance with the Public Sector Internal Audit Standards.

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

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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 2017/18 was agreed by the Audit and Governance Committee in March 2017.

2.0 Review of work in the financial year 2017/18.

- 2.1 A list of all the audit reports issued in final from 1st April 2017 to 31st March 2018 is as follows:

NB. These are the Assurance Levels given at the time of the initial report and do not reflect findings at follow up.

Main Accounting (Annual 2016/17)	Performing Excellently
Payroll (Annual 2016/17)	Performing Adequately

Security of Data Movement	Performing Adequately
IT Contract	Performing Well
Change Controls	Performing Well
VAT	Performing Excellently
Box Office Computer System	Performing Excellently
Cafi Debtors	Performing Excellently
Engineering	Performing Well
Insurances	Performing Well
Building Health and Safety	Performing Adequately
Cafi GL	Performing Excellently
Corporate Plan	Performing Excellently
Benefits (Annual 17/18)	Performing Adequately
Cash and Bank (Annual 17/18)	Performing Well
Council Tax (Annual 17/18)	Performing Well
Creditors (Annual 17/18)	Performing Well
Payroll (Annual 17/18)	Performing Well
Treasury Management (Annual 17/18)	Performing Excellently
IT (Annual 17/18)	Performing Well
Theatres Reconciliations (Annual 17/18)	Performing Excellently
W360	Performing Adequately

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 A joint audit of Prevent and Protect was carried out by the Head of Audit and Counter Fraud. This was issued using the Lewes assurance levels and was given the level of “partial assurance” which equates to “performing adequately” on the Eastbourne assurance levels.
- 2.3 No reports have been issued with an assurance level of inadequate in the financial year.
- 2.4 Appendix A shows the work carried out against the annual plan to the end of March 2018. The following comments explain the main points to be noted from the table:

Previously reported:

- Some annual reviews have exceeded the time allocated. This is due to some being carried out by the new member of staff who has never undertaken annual reviews and others being carried out by a member of staff who has never audited some areas previously.

- IT Contract and Change Controls – when the draft audit plan was put together in February 2017, it was not known whether these could be started in 16/17 and therefore they were carried forward into the 17/18 plan. However, these were started in the last financial year and were just completed in the first quarter of 17/18

- 2.5 Appendix B is the list of all reports issued in final during the year which were given an assurance level below “Performing Well”, with any issues highlighted in the reviews which informed the assurance level given.
- 2.6 The committee is reminded that 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. In order to clarify this a column has been added to show the assurance level given in the latest follow up carried out.
- 2.7 Where follow ups of reviews given an Inadequate assurance level show recommendations are not being addressed, the outstanding recommendations, and client comments from the report, have been listed at Appendix C. 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.
- 2.8 However, there is no appendix C attached to this report as there are no outstanding actions relating to audits that were issued with an “inadequate” assurance level.

3.0 New Audit Software

- 3.1 A piece of software has been procured for audit. This will allow all audit work to be stored and worked on in one place. This will be accessible by the team at Lewes and Eastbourne thus providing resilience if there are staffing issues and will ensure that the style of working in the two teams is aligned, thereby ensuring the teams can work together as one. Currently the system is being set up and this will result in a slightly different look to audit reports and to reports to the committee. As work progresses updates will be brought to committee along with examples/explanations of new report formats.

4.0 Counter Fraud

- 4.1. During the year the team saw the Counter Fraud Manager leave in October though, as the person filling this vacancy was an internal applicant, there was ample time for a thorough handover. Another member of staff returned from maternity leave in December. However, an internal member of staff had been providing cover during her absence. These changes therefore caused little disruption to the work of the team.
- 4.2 There were 56 Right to Buy applications received during the year, all of which had the initial checks dealt with by the Counter Fraud team. Of these, 30 were cancelled or withdrawn. The cost of discounts awarded had these sales

taken place would have been £2,210,550. It was noted that in the last quarter of the year the number of applications received fell. The cause is unknown but the trend has continued into the beginning of 18/19.

- 4.3 Work has been continuing with checking of details of tenants from the Tenancy Occupancy Review. 50% of responses resulted in information on Orchard being updated. This will ensure that more accurate and up to date information is migrated to the new Housing CX system.
- 4.4 The Counter Fraud team has been working closely with Homes First with ongoing credit checks to safeguard against tenancy fraud. During the year six applicants were removed from the housing waiting list and one council property was returned, following investigations by the Counter Fraud team.
- 4.5 The project which reviewed Council Tax Reduction (CTR) cases, where there had been no changes reported for two or more years, has resulted in £34,936.64 in weekly incorrect benefit being cancelled and £55,232.19 in CTR excess being identified. A further 28 cases have been reviewed which were highlighted by data matching exercises. These resulted in cashable savings of £2,872.82 through a value increase and £3,197.23 in liability changes.
- 4.6 397 cases arising from the Housing Benefit Matching Service have been checked. A total of £31,890.26 in overpayments has been identified along with £126,256.51 in weekly incorrect benefits.
- 4.7 The team has completed the majority of the matches from the 16/17 National Fraud Initiative exercise. There are a handful of matches that are still under investigation. A total of 2152 matches have been checked with 20 errors found with a value of £12,424.73.
- 4.8. Appendix D shows the work of the Corporate Fraud team across the year.

5.0 East Sussex Fraud Hub

- 5.1. The Hub members with counter fraud investigation teams (Brighton and Hove City Council, Eastbourne Borough Council, East Sussex County Council, Lewes District Council and Wealden District Council) have had a very strong financial outcome in 2017/18.
- 5.2. Three of the teams undertake pre-counter fraud checks on all Right To Buy applications. This has shown the most significant preventative saving of near £7,000,000 across the authorities.
- 5.3. Social housing tenancy fraud remains an accepted high risk and a key target area. All authorities with housing stock successfully supported their housing teams in removing fraudulent applications for housing and returned the keys for a number of properties. The value in which each returned property is calculated varies between each authority, but there were combined savings of just under £900,000.
- 5.4. Council Tax and Council Tax Reduction remain a consistent area of interest for three authorities, either through undertaking reviews or referrals, the

teams have provided preventative savings and actual recoverable savings just over £300,000. Housing Benefit has also provided preventative savings and overpayments in excess of £250,000.

- 5.5. There was less fraud found within the areas of Procurement, NNDR and Grants which remain a largely untapped area of investigation.
- 5.6. The table at appendix E shows the savings of the Hub over the year 17/18.

6.0 Managing the Risk of Fraud and Corruption

- 6.1. Cipfa suggests it is good practice to make a statement on the adequacy of an authority's counter fraud arrangements in the annual governance report. In September 2015 it produced a Counter Fraud Assessment Tool to sit alongside its Code of Practice on Managing the Risk of Fraud and Corruption.
- 6.2. Having considered all the principles the Head of Audit and Counter Fraud is satisfied 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.

7.0 Annual Governance Statement and Opinion of the Internal Audit Manager

- 7.1 The work referred to in this report has been used as the basis for the opinion of the overall effectiveness and adequacy of the internal control environment along with other ad hoc work undertaken by the auditors.
- 7.2 It is the opinion of the Internal Audit Manager that internal controls in processes and IT systems across the authority were generally found to be sound.
- 7.3 CMT and Heads of Service were asked to consider potential governance issues to be reported in the Annual Governance Statement.

8.0 Conforming with the Public Sector Internal Audit Standards

- 8.1 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. The standards have also been recently updated and these changes have been taken into account for this year's assessment.
- 8.2 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.
- 8.3 There are two areas of only partial compliance. These are where the Audit Manager's annual appraisal is expected to have 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 Manager throughout the year through various meetings.

- 8.4 It is the opinion of the Internal Audit Manager that the Council's Internal Audit Service generally conforms with the Public Sector Internal Audit Standards (PSIAS) which came into effect from 1 April 2013.
- 8.5 The standards require an external review to be carried out at least every five years. A review of the audit function was carried out as a peer review by other members of the Sussex Audit Group in 2016. The results of this review were fully reported to the Audit and Governance Committee at the September 16 meeting. The report from the reviewers stated that the audit function at Eastbourne generally conforms with the standards.
- 8.6. The Internal Audit team has maintained its independence throughout 2017/18 in accordance with the Audit Charter.

9.0 Consultation

- 9.1 Respective Service Managers and Heads of Service and Directors as appropriate.

10.0 Resource Implications

- 10.1 Financial – Delivered within the approved budget for Internal Audit
- 10.2 Staffing – None directly as a result of this report.

11.0 Other Implications

- 11.1 None

12.0 Summary of Options

- 12.1 None

13.0 Recommendation

- 13.1 That the information in this report be noted and members identify any further information requirements.

Jackie Humphrey
Audit Manager (Eastbourne)

Background Papers:

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

Public Sector Internal Audit Standards - checklist