

Report to: **AUDIT AND GOVERNANCE COMMITTEE**

Date: **29th September 2021**

Title: **Internal Audit and Counter Fraud Report for the first quarter of the financial year 2021-2022.**

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 first quarter of the financial year - 1st April 2021 to 30th June 2021.**

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

The committee is requested to review and approve the updated Audit Charter.

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 first quarter of the financial year 2021-22.

1.4 At the last committee meeting, members raised some points relating to the layout of the report. In this report some RAG rating colours have been added for clarity and more information added to Appendix B. However, a fuller review of the report layout is underway and the next report to committee should address the issues that were raised.

2 Review of the work of Internal Audit carried out in the first quarter of the financial year 2021-22

2.1 A list of all the audit reports issued in final from 1st April 2021 to 30th June 2021 is as follows:

Name of Audit	Assurance Level
Council Tax (20/21)	Substantial Assurance
Payroll (20/21)	Substantial Assurance

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

2.2 Below are the descriptions of the levels of assurance referred to above.

Assurance Level	Description
Full Assurance	Full assurance that the controls reduce the risk to an acceptable level.
Substantial Assurance	Significant assurance that the controls reduce the level of risk, but there are some reservations; most risks are adequately managed, for others there are minor issues that need to be addressed by management.
Partial Assurance	Partial assurance that the controls reduce the level of risk. Only some of the risks are adequately managed; for others there are significant issues that need to be addressed by management.
Minimal Assurance	Little assurance that the controls reduce the level of risk to an acceptable level; the level of risk remains high and immediate action is required by management.
No Assurance	No assurance can be given. The reasons will be explained thoroughly in the report.

2.3 Appendix A is a list of all reports issued with an assurance level below “substantial”. This list is split between reports issued in this financial year and those issued in previous years where follow ups have not yet been carried out or where the assurance level remains below “substantial” after follow up. The list contains brief bullet points of the issues highlighted during the reviews which informed the assurance level given.

2.4 During the first quarter of the year the focus of work for Internal Audit is on completing the annual reviews of the main financial systems. There is much work to be carried out on these and the team are reliant on departments

responding to requests for information.

2.5 Two follow up reports have been completed in this quarter:

Business Continuity Planning: it was found that two of the original four recommendations had been addressed and that an action plan was in place to address the remaining action. The assurance level was raised from “minimal” to “partial” and a further follow up will be carried out in September.

IR35: it was found that only one of the original 13 recommendations had been addressed. However, work was ongoing to address the remaining recommendations. The assurance level was raised from “no” assurance to “minimal” because work has begun on looking at and addressing the recommendations. A further follow up will be carried out in October.

2.6 Following this quarterly report being taken to Corporate Management Team, the Assistant Director for HR and Transformation provided this update for the work on the recommendations re IR35:

“Outline next step:

- A new IR35 procedure has been drafted with appropriate guidance notes and forms e.g. Status Determination Statement
- Investigation has also been undertaken into existing arrangements with individuals and regarding the process with Matrix
- A meeting of the Working Group will review the draft policy and new proposed procedure
- Following this, a report will be taken to CMT by the end of September
- Go Live for new process – 1 October”

2.7 Appendix B shows outstanding recommendations/actions. This list includes recommendations from audit reviews that remain outstanding after the first follow up has been completed. It also includes actions from other reports that have been brought to committee.

2.8 The team is currently carrying one vacancy. This has had an impact on the team’s resilience and has impacted work carried out as one member of the team was on sick leave for the majority of the first quarter. This member of the team is now back at work. Consideration is currently being given to the make-up the team and the resources necessary to have a fully resilient team.

2.9 One member of the team only joined Internal Audit in January. The current work on the annual reviews is their first time carrying out these reviews and is their first experience of carrying out a full review on their own. They have therefore taken more than the allocated time to complete the work and have required support. However, they are making very good progress and are now requiring less support.

2.10 Two members of the team are continuing with their Institute of Internal Auditors, Internal Audit Practitioner apprenticeships. The Audit Manager has completed the IIA Award in the Effective Delivery of Audit and Assurance, and the Internal

Audit Practitioner exam. She now needs to complete a professional discussion and sit a scenario-based exam to complete the apprenticeship. The Auditor undertaking the apprenticeship has had to undertake extra work on English and Maths as they could not find their school exam certificates. He has completed the IIA Award in the Effective Delivery of Audit and Assurance but is currently awaiting results.

2.11 The Internal Audit team has also been involved with giving advice to departments and sitting on groups involved with various projects. Previously this work has not been noted as work against the Audit Plan. However, consideration has been given to how this work supports the council and how it is recorded. The team are therefore trialling a new approach of “real-time auditing”. One aspect of this will be that notes of discussion at these meetings will be recorded along with any suggestion/recommendation made by the Auditor present. A “report” will be passed to the appropriate manager/project manager after the meeting and a summary report at the end of the project. In this way the recommendations can be monitored and the work can be included against the Audit Plan as it will contribute to assurance given. An update on this work will be reported quarterly to the committee. This is a brand new process so it will evolve over time.

2.12 As reported previously, the flexibility of the new process of setting the Audit Plan proved invaluable during the Covid-19 pandemic. It also allows for the introduction of the new “real-time auditing” approach to be part of the overall work undertaken. The table below shows the work carried out by the Internal Audit team showing the percentage of work carried out across the main areas of the council compared to that originally planned. It should be noted that at the beginning of the year the actual figures will differ from that planned but should begin to match as more audit reviews are carried out.

Area	Planned	Actual
Regeneration	12%	0.44%
Tourism and Enterprise	9%	5.14%
Service Delivery	37%	47.84%
Corporate Services	42%	46.57%

3 Review of the work of Counter Fraud carried out in the first quarter of the financial year 2021-22.

3.1 The Counter Fraud Team continues to be directly impacted by the Covid-19 pandemic. This has resulted in periods of adjustment while supporting the council’s key priority areas and maintaining a flexible and creative approach in dealing with the existing and new fraud investigations under government guidelines and restrictions.

3.2 Cases have continued to be built and monitored during the easing of lockdown restrictions, with the team responding to new and emerging fraud risks following the release of Covid-19 support packages to businesses and individuals.

- 3.3 Housing Tenancy – The team continues to work closely with colleagues in Homes First and Legal. There are currently 27 ongoing sublet/abandonment tenancy cases at various stages. 12 tenancy fraud cases were closed in the quarter with no further action.
- 3.4 Right to Buy – There continues to be a steady volume of Right to Buy applications. 27 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. 10 cases were withdrawn during this quarter with a net saving to the authority of £839,500.
- 3.5 Housing Applications – 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.
- 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.
- 3.7 NNDR – As part of the review of Small Business Grant Fund applications discrepancies of Small Business Rate Relief and liable rate payer have been found. This has resulted in changes to business rate bills with a net income of £6,016.91 generated to the authority. 3 cases have been closed this quarter with a number still under review.
- 3.8 Council Tax – 28 cases have been investigated during the first quarter with a net recoverable income of £27,197.44 generated for the authority and a preventative saving of £11,208.96. A review of Council Tax exemptions/disregards also continues.
- 3.9 Council Tax Reduction – 5 cases have been closed in this period generating a recoverable income of £1,569.89 and a preventative saving of £1,878.08.
- 3.10 Housing Benefit – The team continue to work closely with the Department for Work and Pensions (DWP) and the benefit section. Due to resource limitations, and pressing need to assess Universal Credit applications, the DWP have limited their capacity to investigate Housing Benefit. However, 5 cases have been closed in this period with an increase in recoverable Housing Benefit of £656.11 and a preventative saving of £4,063.95. £553.20 was also recovered from historic Adpen collection.
- 3.11 Housing debtors – The team have commenced a project to look at debt avoidance where loans have been made to assist with securing housing and have remained outstanding following existing methods of contact. This activity has recouped £1,665 in this period which otherwise might have been written off.
- 3.12 National Fraud Initiative – The 2020/21 exercise has now commenced. The first batch released contains 1659 cases to review. The team have processed 135 so far and investigating another 37. No financial gains have been found to date.
- 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 this quarter the team have dealt with 22 DPA requests from the Police and other authorities. In addition, 7 fit and proper person checks were completed for new or renewal HMO licences and 12 Gas Safety checks were completed on council properties where the tenant has not responded.

3.14 6 allegations were received from the general public during this period which were closed down due to either insufficient information/contact details or the matter did not relate to a council concern.

3.15 A table showing the savings made by the Counter Fraud team in the first quarter of 2021-2022 can be found at Appendix C.

4 Post Verification of Review of the First Round of Covid Grants

4.1 The government introduced Small Business grants and Retail, Hospitality and Leisure grants to help businesses that were affected during the pandemic. In order to deal with the applications a portal was put onto the council's website, through which applications could be made. This piece of software checks applications against data held by the council and from open source data. It then allocated a RAG rating to the applications where:

Green – met checks and criteria and could be paid
Amber – low risk but some further checks required
Red – higher risk and required thorough checking

4.2 Lewes/Eastbourne was one of only two authorities to originally work with Ascendant to use this portal. By the second round of grants, many more authorities began using this software.

4.3 When the portal went live, 1500 applications were made between April and September 2020. In this first round, £10,780,000 was paid out in Small Business grants and £8,035,000 in Retails, Hospitality and Leisure grants. A total of £18,815,000.

4.4 The Department of Business, Energy and Industrial Strategy (BEIS) requested post-verification testing to be carried out. In order to give assurance, the work was carried out in two parts:

- to check the information produced by the portal software to ensure that it had correctly allocated the RAG ratings
- to check grants which had been paid to see if any showed fraud or error had occurred

4.5 Software testing – a sample of applications from each of the RAG ratings were tested. In each case it was found that the correct rating had been allocated to the cases based on the data held by the council and open data. Therefore, reasonable assurance can be given that the software worked as intended.

4.6 Grants paid – a sample of cases was taken from those that had been in the amber and red ratings where the grant had been paid. 255 red rating and 591 amber rating were checked. Testing found that 11 had been paid incorrectly, amounting to a total of £110,000. At the time of writing, a further 26 are still under review. The percentage of grants incorrectly paid at this time is 1.3%.

It is not possible to state definitively whether any of the 11 cases paid incorrectly were fraudulent claims or not. It can only be stated that they were ineligible for the grant.

Reasons for incorrect payment included:

- business had ceased trading as of 11th March 2020
- business not eligible under the criteria
- dispute between parties following change or transfer of the business

Recovery of the incorrectly paid grants is ongoing with £30,000 having been repaid in full. Of the remaining cases, some have accepted the decision and have requested a repayment plan. These have been set up through the Debtors system. Other have not responded. BEIS have advised that the council is responsible for taking any practical steps to recover monies incorrectly paid with the plan that at some point these debts, if still outstanding, will be passed back to them to resolve. All monies paid back will be given back to the government.

4.7 Work is continuing on checking grants but the following observations were made during the first round of testing:

- the grants were implemented in a matter of weeks so there was no time for thorough preparation
- the business rate payer records were formed for the collection of rates and not for fraud prevention so do not contain the same level of detail as other systems
- there were just 5 members of staff across two authorities working on the administration of these grants. extra work was caused where there has been a dispute over eligibility. All this at a time when the businesses were actually closed.
- there was pressure from government and business owners to pay out grants swiftly
- 423 grant applications were never fully completed, indicating that the measures in place are likely to have reduced fraudulent applications being made
- the process of administering the grants revealed that some information held by business rates was out of date

4.8 The Counter-Fraud team are continuing with post-verification testing. Now businesses have re-opened, it will be possible to do further checks around eligibility.

- 4.9 It has not been possible to find information from other authorities against which to benchmark this work. However, such information will continue to be sought and will be reported to the committee if and when it becomes available.

5 Updating Policies

- 5.1. The policies and procedures of Internal Audit and Counter Fraud are regularly reviewed and the procedures of the teams are also considered in terms of continuous improvement.
- 5.2. All of the policies are currently undergoing a thorough review to ensure that they are up to date and, where necessary, amended or re-written. Attached at Appendix D to this report is the updated Audit Charter which the committee is required to approve.

The Public Sector Internal Audit Standards (PSIAS) state:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

- 5.3. The committee is requested to review and approve the updated Audit Charter.

6 Updating the quarterly report

- 6.1 Questions raised by councillors have highlighted that the quarterly report itself needs to be reviewed. Over time, small changes have been made in response to requests and questions by councillors and it is felt that it would now be timely to consider a fuller review.
- 6.2 The review will consider the process of producing and collating information and how it is presented in this quarterly report.
- 6.3 As the committee requires the information it needs to keep the work under review, members are requested to make any comments/request about both content and layout of the current report. These will then be taken into consideration when updating the report.

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 C.

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

Appendix A – list of all reports issued in final during the year which were given an assurance level below “Substantial” with any issues highlighted in the reviews which informed the assurance level given.

Appendix B – Outstanding recommendations/actions

Appendix C - Counter Fraud work and savings.

Appendix D - Audit Charter

13 Background papers

Internal Audit reports issued throughout the year.