

Report to:	AUDIT AND GOVERNANCE COMMITTEE
Date:	12th July 2022
Title:	Internal Audit and Counter Fraud Report for the financial year 2021-2022 – 1st April 2021 to 31st March 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 financial year 2021-2022 – 1st April 2021 to 31st March 2022.
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 2021-22.

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

- 2.1 During the last quarter of the year, six reports were issued in final and one in draft. Four follow-up reports were also issued. Across the whole financial year, the team issued a total of 25 final reports and 19 follow-up reports.
- 2.2 A list showing all the reports issued during the year, along with assurance levels given, can be found at Appendix A. This list also shows audit reviews carried out in the last financial year where follow-ups are still being carried out. Lines greyed out are showing that follow-ups are not being carried out.
- 2.3 Where there are outstanding recommendations after a follow-up has been carried out, these are listed at Appendix B. This table also gives the feedback

from managers made at the last follow-up review.

- 2.4 There are six audit reviews which have outstanding recommendations following two follow-ups and one following three follow-ups. A summary of these follows but full details are contained in Appendix B.

Business Continuity Planning – Third follow-up:

- At the time of writing this report the fourth follow-up was being undertaken. The outstanding recommendations appear to have been addressed.

Procurement – Second follow-up:

- Work is reported as ongoing and a third follow-up is ongoing.

Members Allowances – Second follow-up:

- Owing to Covid restrictions few claims have been presented so there has been little, or nothing, to test at follow-up. A third follow-up will be carried out in June.

Arrears Collection – Second follow-up:

- The third follow up is ongoing. Also, the committee has requested the Chief Finance Officer and the Director of Service Delivery to attend this meeting and explain the overall position regarding the council's approach to arrears collection.

Implementation of Housing Software – Second follow-up:

- There is one recommendation outstanding and this is around report writing. It was reported that it had not been possible to recruit to this role.

Leaseholder Management and Recharges – Second follow-up:

- There is one recommendation outstanding though work to address it is reported as ongoing – this is to update the Leaseholder Handbook.

Fly-Tipping – Second follow-up:

- At the time of the second follow up there were four recommendations outstanding but all were in the process of being addressed.

- 2.5 At the beginning of the financial year the work of the team was impacted by carrying a vacancy and the absence of a team member for an extended period. This highlighted the lack of resilience within the team. The request to fill the vacant post was therefore agreed and recruitment was carried out in October, with the new Auditor taking up the post on 10th January 2022.

- 2.6 At the same time the structure of the Internal Audit team was reviewed following the checking of the Benefits Subsidy Claim work being handed back to Customer First. This work was a substantial part of the Senior Auditor role. The review was undertaken to ensure the internal audit service had the appropriate structure and resources to effectively deliver the internal audit remit in line with the Public Sector Internal Audit Standards. The outcome of the review was that, due to the substantial part of the Senior Auditor role being lost, the post was no longer required and resources could be better deployed to provide more cost-effective auditing hours, whilst delivering a more resilient and professional service.

- 2.7 Following consultation, this was agreed, and the new structure came into effect on 1st January 2022. The new structure did away with the Senior Auditor post and replaced it with a new Auditor post. A recruitment exercise for the newly formed Auditor post was conducted in March with interviews taking place on 1st April. The new starter began with the team on 9th May 2022.

2.8 Now the team is fully resourced, after initial training has been completed, further reviews of ways of working will be carried out. This will be carried out to ensure that the ways that audits are planned, carried out and reported are up-to-date, professional and provide the best service possible.

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

3.1 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.

3.2 The team continues to target the high risk and value areas of tenancy housing while also undertaking other exercises as detailed below. An increase in fraud referrals and information from the public has been noted during and post Covid-19 restrictions – this is partly explained by more people working from home but also the work to increase fraud awareness, particularly tenancy fraud.

3.3 Housing Tenancy – The team continue to work closely with colleagues in Homes First and Legal. There are currently 25 ongoing sublet/abandonment tenancy cases at various stages. 48 tenancy fraud cases were closed during the year with no further action and three properties were returned with a net saving to the authority of £279,000. One case involving the abandonment of the property was due to be heard at Hastings Magistrates Court in April. The tenant did not appear and the magistrate awarded the return of the property.

3.4 Right To Buy - There continues to be a steady volume of Right to Buy applications since autumn 2021. 31 cases are currently either being checked to prevent and detect fraud or waiting for a home visit to verify residential status. 37 applications were vetted during this period and of those 21 applications were withdrawn resulting in a net preventative saving of £1,771,400.

3.5 Housing Applications/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. Three cases were investigated during the year, with one case resulting in the cancellation of a temporary accommodation placement which costs the council on average £12,000 (based on the average length of a placement). In addition, the household was removed from the housing waiting list which the National Fraud Initiative estimates is a preventative saving of £3,240.

3.6 National Non-Domestic Rates – As part of the review of Covid-19 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 £104,484.10 generated for recovery. 30 cases have been closed during the year with additional cases still outstanding.

3.7 Council Tax – 87 cases have been investigated during the year as part of a review of Single Person Discounts, Exemptions and Disregards with a net recoverable income of £99,306.91 generated for the authority and a preventative saving of £53,506.24. A review of Council Tax exemptions/disregards is ongoing and expected to continue through into 2022/23.

3.8 Council Tax Reduction – 20 cases have been closed in this year generating a total recoverable income of £17,225.99 and a preventative saving of £8,197.65.

3.9 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 the year, 71 cases were closed generating a recoverable Housing Benefit overpayment of £44,105.89 and a preventative saving of £32,726.03. The amount of £1,475.90 was also recovered from historic penalty collection.

- 3.10 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 £10,788.09 during this period which otherwise might have been written off.
- 3.11 National Fraud Initiative – The 2020/21 exercise is ongoing with the first batch of 1659 cases to review, the team have cleared 447 so far with 46 open for investigation. One fraud and one error have been found which have resulted in Council Tax Reduction overpayments totalling £3,254.92. In addition, one Covid Business Grant worth £10,000 has been found which appears to be a fraud but is currently being appealed.
- 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 65 Data Protection requests from the Police and other authorities. In addition, 11 fit and proper person checks were completed for new or renewal Houses in Multiple Occupation licences and 85 Gas Safety checks were completed on council properties where the tenant has not responded.
- 3.13 Following on from the government’s announcement to support businesses through the Covid-19 pandemic, the team have been working closely with the revenues specialists to prevent and investigate fraudulent applications. The team are currently continuing to undertake post verification work as requested by the Department for Business, Energy and Industrial Strategy. This includes sample checking on each of the grant schemes and reviewing applications where only one grant has been applied for, as this has been identified as an area of higher risk of fraud.
- 3.14 One member of the team was selected as a finalist for the ‘Outstanding Investigator’ category at the 2021 ‘Tackling Economic Crime Awards’ held in December. These awards are independent and aim to recognise outstanding contributions in tackling all areas of economic crime – the awards showcase the very best organisations, teams, individuals, and initiatives across the public and private sector.
- 3.15 A table showing the savings made by the Counter Fraud team in 2021-2022 can be found at Appendix C.

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 Conforming with the Public Sector Internal Audit Standards

- 5.1 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.
- 5.2 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.
- 5.3 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 be comment to the Chief Finance Officer.
- 5.4 The standards require an external review to be carried out at least every five years. A review of the audit function was carried out by a peer review by other members of the Sussex Audit Group in 2016. The resultant report stated that the audit function generally conforms with the standards – this was reported to the committee at the September 2016 meeting. Whilst the peer review for Eastbourne was carried out in 2016, the review for Lewes was carried out in 2018. As the Audit team now covers both authorities, the next review is about due. The Sussex Audit Group has experienced a number of Heads of Audit retiring or leaving and some authorities have chosen to have their internal audit provided by the private sector or partnerships. If the external review were to be carried out by a private sector provider, this would cost anything from around £9,000. However, a meeting has recently been held with the audit functions from Wealden, Rother and Hastings who are all in the same position. All have agreed that they would be willing to participate in a reciprocal peer review, with cost being just in terms of the time of the relevantly qualified person in the department. It is suggested that the reciprocal peer review is the most cost-effective method. Also, the review would be carried out by auditors working in the public sector who understand specific issues/requirements relating to the public sector. All four authorities are required to obtain the approval of their committees so the reviews will not commence until later in the year. It is recommended that this committee agrees to this approach.

6 Opinion on the control environment.

- 6.1 As stated earlier in this report, the work of the Internal Audit team was impacted by carrying a vacancy and the absence of a team member for an extended period of time at the beginning of the year. Later in the year, the restructure in the team led to a vacancy while a new position was filled. This impacted the audit plan and reduced the number of audits that could be undertaken during the year. However, it is considered that there were still a reasonable number of reviews carried out across the authority and did not significantly limit the scope of the work.
- 6.2 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 5 of this report covers the self-assessment against the Public Sector Internal Audit Standards and shows that this work is carried out in accordance with the standards.

The work of Internal Audit: It has been noted that a number of recommendations remain outstanding after following up reviews. Many of these are being affected by ongoing lack of resources. This appears to have been caused by the response to the Covid-19 pandemic, changes in staffing, and an inability to be able to fill vacancies in some areas.

While the governance framework is in place and working and Internal Audit are carrying out their work in accordance with standards, the opinion on the control environment has to be caveated by the number of outstanding recommendations.

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

Not applicable

12 Appendices

Appendix A – Audit reports issued and follow-ups

Appendix B – Recommendations outstanding after follow-ups

Appendix C – Counter Fraud savings.