

Report to:	Audit and Standards Committee
Date:	12 September 2022
Title:	Internal Audit and Counter Fraud Report for the Financial Year 2022-2023 – 1st April 2022 to 30th June 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 2022-2023 – 1st April 2021 to 30th June 2022.
Officer recommendation(s):	<ol style="list-style-type: none"> 1) That the information in this report be noted and members identify any further information requirements. 2) The Committee is requested to consider and adopt the Audit Charter. 3) The Committee is requested to consider and adopt the Code of Ethics for Internal Auditors.
Reasons for recommendations:	<p>The remit of the Audit and Standards 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.</p> <p>The Public Sector Internal Audit Standards expect the Audit Charter to be periodically reviewed and brought to the Audit and Standards Committee for approval.</p> <p>The Public Sector Internal Audit Standards expect Internal Auditors to abide by a code of ethics. For best practice the Internal Audit team hold their own Code of Ethics for Internal Auditors: the Audit and Standards Committee are requested to evidence this best practice by reviewing and approving the Code.</p>
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1 Introduction

1.1 The remit of the Audit and Standards 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 for the first quarter of the financial year 2022-23.

2 Review of the work of Internal Audit carried out in the first quarter of the financial year 2022-23

2.1 During the first quarter of the financial year the work of the Internal Audit team has to concentrate on completing the annual reviews that have to be carried out. There are 11 of these and they cover the main financial systems.

2.2 Four of these have been issued in Final in the first quarter along with even reports on follow-ups of audits carried out in previous years. One further report was issued in draft within the quarter.

2.3 Appendix A lists all reports that have been issued in the first quarter of the year.

2.4 Appendix B lists all the audits which are still subject to follow up reviews. The table shows the results of all 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.

2.5 Appendix C lists all the outstanding recommendations against reports after one or more follow ups have been carried out.

2.6 Of the audits listed in Appendix C the following should be noted:

Outstanding after 4 follow ups

- Business Continuity Plans: 1 high risk recommendation outstanding – work is well underway on addressing this last recommendation.

Outstanding after 3 follow ups

- Leaseholder Management and Recharges: 2 medium risk recommendations outstanding – looking to establish a leaseholder panel for consultations. Will publish an interim handbook if not completed by August.
- Arrears Collection – 1 low risk recommendation outstanding – an Arrears Collection Strategy is expected to be in place by September.

Outstanding after 2 follow ups

- Procurement: 9 medium risk recommendations outstanding – see 2.7
- Members Allowances: 2 medium recommendations outstanding – at previous follow ups there have not been enough claims to test. Checks will be made and a follow up completed as soon as possible.
- Officers Expenses: 1 medium and 6 low risk recommendations outstanding – two low risk recommendations are awaiting a meeting of

the Senior Managers' Forum and all the rest need forms to be updated and this is reported as being ongoing in all cases.

2.7 At the time of writing this report a full follow up is still to be carried out on Procurement. However, the Strategic Procurement Manager and Systems and Transactional Manager were asked to give a brief update. The responses from the Strategic Procurement Manager are:

- Write a Procurement Strategy – in progress.
- Write a Procurement forward plan – initial plan developed and being updated as new projects come on-line.
- Publicise corporate contracts – contracts registers are on the website.
- Contract procedure rules should make clear that corporate contracts must be used – will be included as part of the strategy
- Spend analysis should be used to identify contract opportunities – reports are reviewed quarterly to identify contract opportunities.

The responses from the Systems and Transactional Manager are:

- All CAFI users reminded in March 2022 of the need to raise purchase orders prior to ordering goods and services with suppliers and to let suppliers have the purchase order number so this could be entered on the invoice that the supplier sends to the appropriate authority. All suppliers paid in last 3 years have been written to via email to be informed of expectations with regards sending invoices in. We are about to carry out a follow up exercise starting in mid-September to contact all CAFI users again, plus all suppliers, to let them know we will be from a set date, probably 01/11/2022, no longer accepting supplier invoices where here is no valid purchase order number quoted on them. These will be returned to suppliers after this date asking for them to be resubmitted with this information on. There are, and will be, supplier exemptions, most notably around utility invoicing.
- This has not been actioned yet. A general email will be sent out to all CAFI users reminding them of this and also to update our, "How to raise a PO" instructions on the web.
- Discussions between the Strategic Procurement Manager and Systems and Transactional Manager concerning the "Type of Creditors" functionality on CAFI have yet to take place.

As soon as the annual audits are completed, a full follow up on Procurement will be carried out.

2.8 The work of the audit team has been concentrating on completing the annual audits. During this time follow up reviews are put on hold. However, once the annual audits are completed, the follow ups will be picked up and completed.

3 Review of the work of Counter Fraud carried out in the first quarter of the financial year 2022-23

3.1 Housing Tenancy – The team continue to work closely with colleagues in Homes First and Legal to build on the existing investigations and find possible solutions in response to the backlog of cases generated and delayed by Covid-19 restrictions. There are 33 ongoing sublet/abandonment tenancy cases at

various stages. Four cases were closed during this period with the successful return of one property resulting in a net saving to the authority of £93,000.

- 3.2 Right To Buy - There continues to be a steady volume of Right To Buy applications since autumn 2021. 16 cases are currently either being checked to prevent and detect fraud and protect the authority against money laundering with 19 previously withdrawn applications still requiring a home visit to verify residential status. Four applications were withdrawn resulting in a net preventative saving of £335,400.
- 3.3 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.
- 3.4 National Non-Domestic Rates – As part of the review of Small Business Grant Fund applications, discrepancies of Small Business Rate Relief and liable rate payer have been found. A number of cases are currently still under review, with one case closed down during this quarter with no change in business rates.
- 3.5 Council Tax – 13 cases have been investigated where discounts/exemptions were being claimed which have resulted in rebilling with a net recoverable income of £33,460 generated for the authority and a preventative saving of £15,492. A review of Council Tax exemptions/disregards will continue through 2022/23.
- 3.6 Council Tax Reduction – 4 cases are currently under investigation.
- 3.7 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. However, this has begun to change with eight cases closed in this period with no further action required.
- 3.8 National Fraud Initiative – The 2020/21 exercise is gradually nearing completion; the Counter Fraud team have cleared 1013 cases in this quarter with no additional savings or fraud found. It is anticipated that a second batch of Covid-19 grant matches incorporating phase 2 grants will be made at some point during this financial year (original release date was April 2022).
- 3.9 Data Protection Requests – the team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. During this period the team have dealt with six Data Protection requests from the Police and other authorities. In addition, 15 Gas Safety checks were completed on council properties where the tenant has not responded.
- 3.10 Covid-19 Business Grants - Following on from the government's announcement to support businesses through the Covid-19 pandemic, the team have been undertaking post verification checks to include evidence sampling of random cases selected by the Department for Business, Energy and Industrial Standards. It is anticipated that this work will continue into the autumn.

3.11 A trial at Chichester Crown Court was heard in December 2021 where a former Lewes District Council tenant was found guilty of two counts of fraud for two separate Right to Buy applications. The sentence hearing was delayed until April 2022 where the judge handed down a 24-month prison sentence for each offence to run concurrently, this is suspended for 24 months. The former tenant was also required to complete 40 hours of unpaid work within 12 months, pay a victim surcharge order and prosecution costs of £15,887.

The Counter-Fraud, Legal and Homes First teams put a significant amount of work into this case which is only the second ever Right To Buy criminal prosecution made by the council.

The property has already been returned to the council following a successful civil court case in 2021 and is now being used by a family with a genuine housing need.

3.12 A table showing the savings made by the Counter Fraud team in 2022-2023 can be found at Appendix D. A table has been added to this appendix to give an explanation of how the amounts have been calculated.

4 Updating Policies

4.1 Work is currently underway to ensure that the suite of policies for Internal Audit and Counter-Fraud are reviewed and updated where appropriate. As these are updated they will be brought to the committee to be considered and approved.

4.2 The Public Sector Internal Audit Standards expect the Internal Audit function to hold an Audit Charter which covers the powers, role and authority of the Internal Audit function. The Standards also expect the Charter to be approved by the committee. The Charter has been subject to a review and is therefore brought to the committee for approval. The Audit Charter can be found at Appendix E.

4.3 The Public Sector Internal Audit Standards expect Internal Audits to abide by a code of ethics as set out in the Standards. For best practice, Internal Audit hold their own Code of Ethics for Internal Auditors based on the Standards and this has also been reviewed. Whilst bringing this Code to the committee is not required within the Standards, committee are asked to approve the Code to evidence best practice. The Code of Ethics for Auditors can be found at Appendix F.

4.4 The committee is requested to consider and approve both the Audit Charter and the Code of Ethics for Internal Auditors.

5 Financial appraisal

5.1 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.

6 Legal implications

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

7 Risk management implications

- 7.1 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.

8 Equality analysis

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

9 Environmental sustainability implications

- 9.1 Not applicable.

10 Appendices

- 10.1 Appendix A – List of reports issued during the year
Appendix B – Position of audits requiring follow up
Appendix C – Recommendations outstanding after follow-ups
Appendix D – Counter Fraud savings
Appendix E – Audit Charter
Appendix F – Code of Ethics for Internal Auditors