

Report to:	AUDIT AND GOVERNANCE COMMITTEE
Date:	28th 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):	<p>That the update on the work of Internal Audit and Counter-Fraud be noted and members identify any further information requirements.</p> <p>The committee is requested to consider and approve the Audit Charter.</p> <p>The committee is requested to consider and approve the Code of Ethics for Internal Auditors.</p>
Reasons for recommendations:	<p>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.</p> <p>The Public Sector Internal Audit Standards expect the Audit Charter to be periodically reviewed and brought to the Audit and Governance 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 Governance 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 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 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 12 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 eight reports on follow-ups of audits carried out in previous years. Three further reports were 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: 1 medium risk recommendation outstanding – work is underway on updating the handbook, consultation is taking place but has been delayed by sickness.
- 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. There are currently 25 ongoing sublet/abandonment tenancy cases at various stages. One case led by Homes First and supported by the Counter Fraud team resulted in the tenant handing the property back. 13 other cases were closed during the quarter with no further action. Two properties are due to be returned to the authority in the second quarter following abandonment investigations. One case was heard at Hastings Magistrates Court in April, with immediate possession granted due to non-occupation and rent arrears. Recovery of this property is currently awaiting a bailiff enforcement warrant.
- 3.2 Right To Buy - There continues to be a steady volume of Right to Buy applications since autumn 2021. 22 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. 14 applications were vetted during this quarter and, of these, 8 applications were withdrawn resulting in a net preventative saving of £689,000.
- 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. One case was investigated during this quarter which 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).

- 3.4 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 £16,280 generated for recovery. Four cases have been closed during this quarter.
- 3.5 Council Tax – 35 cases have been investigated during the quarter as part of a review of Single Person Discounts, Exemptions and Disregards with a net recoverable income of £27,573 generated for the authority and a preventative saving of £22,205. A review of Council Tax exemptions/disregards is ongoing and expected to continue through 2022/23.
- 3.6 Council Tax Reduction – Four cases have been closed in this quarter generating a total recoverable income of £4,742 and a preventative saving of £144.
- 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. Over this quarter, 15 cases were closed generating a recoverable Housing Benefit overpayment of £3,576 and a (Weekly Incorrect Benefit) preventative saving of £3,441. An amount of £32.48 was also recovered from historic administrative penalty collection.
- 3.8 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 £4,093 during this period which otherwise might have been written off.
- 3.9 National Fraud Initiative – The 2020/21 exercise is gradually nearing completion, the Counter Fraud team have cleared 1529 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).
- 3.10 Data Protection Requests – The team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. During the quarter the team dealt with 18 Data Protection requests from the Police and other authorities. In addition, two fit and proper person checks were completed for new. or renewal of, Houses of Multiple Occupancy licences and 17 Gas Safety checks were completed on council properties where the tenant has not responded.
- 3.11 Following on from the government's announcement to support businesses through the Covid-19 pandemic, the Counter Fraud 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 this work will continue into the autumn.
- 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

Not applicable

10 Appendices

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