

Report to: Audit and Standards Committee

Date: 14 November 2022

Title: Internal Audit and Counter Fraud report for the financial year 2022-2023 – 1st April 2022 to 30th September 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 half of the financial year 2022-2023 – 1st April 2021 to 30th September 2022.

Officer recommendation(s):

- 1) That the information in this report be noted and that the Committee 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:

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.

The Public Sector Internal Audit Standards expect the Audit Charter to be periodically reviewed and brought to the Audit and Standards Committee for approval.

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.

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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 As the Committee meeting in September was cancelled, this report summarises the work carried out by Internal Audit and Counter Fraud for the first half of the financial year 2022-23.

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

2.1 During the first half 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 half of the year with a further one being issued in Draft. Two other audits have had reports issued in Final. Follow up reviews have also been undertaken and during the first half of the year 11 reports were issued in Final along with three others issued in Draft.

2.3 Appendix A lists all reports that have been issued in the first half 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. The next follow up is due in November.

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. A further follow up is currently ongoing.
- Arrears Collection – 1 low risk recommendation outstanding – an Arrears Collection Strategy is expected to be in place by September. The next follow up is due in October.
- Procurement: 5 medium risk recommendations outstanding – four were addressed between the second and third follow up. The next follow up is due in January.

Outstanding after 2 follow ups

- Members Allowances: 2 medium recommendations outstanding – at previous follow ups there have been too few claims to test. A further follow up is currently ongoing.
- 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. A further follow up is currently ongoing.

- Love Clean Streets: 1 high risk recommendation remains outstanding but work is currently ongoing to address this recommendation. The next follow up is due in January.

2.7 As can be seen, the number of follow up reports being issued has greatly increased. This is the result of the current level of unaddressed recommendations after follow up, which is fairly unprecedented. The number of those where recommendations are outstanding after several follow ups have been undertaken has raised an issue of how this should be addressed. Undertaking so many follow ups is also impacting on the team's ability to carry out new audit reviews. Consideration has therefore been given to how to reflect this and the proposal is to lower the assurance level that is given to the whole review. This practice will now begin with immediate effect as further follow ups are carried out. These will be clearly reported to the committee.

2.8 The work of the audit team has been impacted by a focus on training the two new Internal Auditors who took up their posts on 10th January 2022 and 9th May 2022. 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 both, therefore, taken more than the allocated time to complete the work and have required support. However, they are both making very good progress and are now requiring less support.

2.9 The Audit Manager is undertaking the Operations/Departmental Manager Apprenticeship and has already effectively implemented her new knowledge and skills in recruitment and induction, people management, and performance management.

2.10 One member of the Internal Auditor team has tendered their resignation and will be leaving their post on 28th October 2022. Authorisation to recruit to the vacant post is being sought.

2.11 The work of the team has already been impacted by training and will be further affected by having a temporary vacancy and training any new member of staff appointed. It is therefore inevitable that the full number of audits proposed in the audit plan will not be completed. However, in order for an opinion on the control environment to be given at the end of the year, the important factor is the breadth of work undertaken. This breadth of coverage is continuously monitored to ensure that it is adequate. This breadth is supported by members of the Audit team sitting in on project team meetings and providing feedback (real-time auditing) as well as carrying out requested pieces of ad hoc work/advice for areas and these can feed into the opinion on the control environment.

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

3.1 Housing Tenancy – At the end of September there were 49 cases of sublet/abandonment at various stages. In the first quarter, one property was returned, resulting in a net saving of £93,000. In the second quarter, one case has resulted in a signed notice to quit with the property due to be returned to the council in the third quarter. Following joint action by Homes First and the Counter-Fraud team, one other property is also due to be returned.

- 3.2 Right To Buy – During the first quarter, four applications were withdrawn with a further two withdrawn in the second quarter. The net saving from these withdrawals is £509,800. There are 22 previously withdrawn applications still requiring a home visit to verify residential status.
- 3.3 Housing Applications/Homeless Placement – The Counter-Fraud team continues to work with 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. During the first half of the year, one case was investigated and resulted in an amendment to the business rates account. This generated £15,903.06 additional income for the authority.
- 3.5 Council Tax – 25 cases have been investigated where discounts/exemptions were being claimed which have resulted in rebilling with a net recoverable income of £59,200.74 generated for the authority and a preventative saving of £23,500.80. A review of Council Tax exemptions/disregards is ongoing and includes work with National Fraud Initiative (NFI) matching data held between Council Tax Records and Electoral roll. So far, 64 cases have been reviewed with a net recoverable income of £5,860.75 generated along with a preventative saving of £14,921.44 (these figures are included within NFI savings below).
- 3.6 Council Tax Reduction – Four 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 resources 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 13 cases closed in this period with 1 case generating an overpayment of £295.61 and a weekly incorrect saving of £20.80
- 3.8 National Fraud Initiative – The 2020/21 exercise is gradually nearing completion, except for the Council Tax discount data matches detailed above. Work has now commenced on collecting data for the 2022/23 exercise, NFI have set a deadline for the completion of this work by the middle of November 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 the first half of the year the team have dealt with 14 Data Protection requests from the Police and other authorities.
- 3.10 Covid-19 Business Grants – Work continues on undertaking post verification checks, to include evidence sampling of random cases selected by the Department for Business, Energy and Industrial Standards.
- 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

10.2 Appendix B – Position of audits requiring follow up

10.3 Appendix C – Recommendations outstanding after follow-ups

10.4 Appendix D – Counter Fraud savings

10.5 Appendix E – Audit Charter

10.6 Appendix F – Code of Ethics for Internal Auditors

11 Background papers

11.1 None.