

Report to:	AUDIT AND GOVERNANCE COMMITTEE
Date:	23rd November 2022
Title:	Internal Audit and Counter Fraud Report for the first half of 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):	That the update on the work of Internal Audit and Counter-Fraud 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 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 been concentrating 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 Two of these have been issued in Final in this quarter along with three other reports on audits from the audit plan. Work has also been carried out on audits requiring follow up and four reports were issued in Final. Three further reports were issued in draft within the quarter.
- 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: 1 medium risk recommendation outstanding – work is underway on updating the handbook, consultation is taking place but has been delayed by sickness. 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. The committee has been requesting updates from the Lead for Income Maximisation and Welfare. However, these requests are concerning performance rates and are therefore outside the remit of this audit and the Audit and Governance Committee.
- Procurement: 5 medium recommendations are 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 not been enough claims to test. Checks will be made and a follow up completed as soon as possible. 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 remains outstanding, but work is currently ongoing to address this recommendation. The next follow up is due in January.

2.7 At the last meeting, the committee questioned when a risk for a recommendation would change from Amber to Red if the recommendation is not addressed or an inadequate response has been received. The risk level given is the risk of this control not being in place. This risk level can therefore not change.

2.8 The question around unaddressed recommendations is, however, very pertinent and is an issue that has been recently discussed in the Audit team. The current level of unaddressed recommendations after follow up is fairly unprecedented, particularly those outstanding after a number of follow ups, and so this issue has not been something that needed to 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.

- 2.9 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.
- 2.10 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.
- 2.11 One member of the Internal Auditor team has resigned and will be leaving their post on 28th October 2022. Authorisation to recruit to the vacant post is being sought.
- 2.12 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 The Stage Door

- 3.1 A second follow up of the Stage Door has just been completed. This follow up found that, since the last follow up, a further four high risk and three medium risk recommendations have been addressed. As good progress is now being made to address recommendations, the assurance level has been raised to Partial.
- 3.2 Appendix C has been updated to reflect the current position but, as the committee have specifically requested an update, a general summary of the current position is given below.
- 3.2 The recommendation regarding stock controls is currently being addressed. Steps had been undertaken to implement changes. However, some processes are still "bedding in" and some training still needs to be undertaken.
- 3.3 Information regarding income taken through tills was being entered manually onto spreadsheets for reconciliations. It was therefore recommended that enquires be made to see if this could be automated. The till software has been updated and progress is being made to produce reports which can be used to reconcile income.
- 3.4 Rental for the gaming machine was being incorrectly coded in the general ledger. This has now been addressed but the relevant e-return still needs to be updated.

- 3.5 At the original review some apparent health and safety issues were identified, and it was recommended that a full review of health and safety be carried out. This has been carried out and an action plan produced. While most issues on the action plan have been address, some actions are outstanding.
- 3.6 It was recommended that all staff working at the Stage Door must attend health and safety training. It is noted that training has been carried out but that, at the time of carrying out the follow up, some staff still needed to undertake the training.
- 3.7 Overall, good progress is being made on all remaining recommendations, but some elements still need to be completed before they are fully addressed.

4 Review of the work of Counter Fraud carried out in the second quarter of the financial year 2022-23

- 4.1 Housing Tenancy – The Counter Fraud team continues to work closely with colleagues in Homes First and Legal - there are currently 27 ongoing sublet/abandonment tenancy cases at various stages. Three properties were returned to council following action by the team, with a net saving of £279,000 (based on £93,000 for each property). One succession application was refused following involvement by the team, and five other cases closed during this quarter with no further action. One case was heard at Hastings Magistrates Court in April, with immediate possession granted due to non-occupation and rent arrears - recovery via bailiff enforcement of this order is due in early October.
- 4.2 Right To Buy - There continues to be a steady volume of Right To Buy applications since autumn 2021. 18 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. 13 applications were vetted during this period and, of those, five applications were withdrawn resulting in a net preventative saving of £436,000.
- 4.3 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.
- 4.4 National Non-Domestic Rates – Only one Small Business Rate Relief discount was investigated during this quarter with no change to the existing award.
- 4.5 Council Tax – 16 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 £2,953.71 generated for the authority and a preventative saving of £4,451.68. A review of Council Tax exemptions/disregards is ongoing and includes work with National Fraud Initiative matching data held between Council Tax Records and Electoral roll, so far 33 cases have been reviewed with a net recoverable income of £3178.33 generated along with a preventative saving of £4957.12 (these figures are included within NFI savings below).
- 4.6 Council Tax Reduction – Four cases have been closed in this year generating a total recoverable income of £455.11 and a preventative saving of £4451.68.
- 4.7 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. Over the 2nd quarter, 12 cases were closed generating a recoverable Housing

Benefit overpayment of £17,884.47 and a preventative saving of £5,569.68. £33.50 was also recovered from historic Additional Penalty collection.

- 4.8 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 £4,126.67 during this period which otherwise might have been written off. The team have also started assisting the Homes First officers trace former tenants with outstanding re-charges. Three former tenants were traced during this period with an outstanding debt of £3153 owed to the council.
- 4.9 National Fraud Initiative (NFI) – The 2020/21 exercise is gradually nearing completion. The team have cleared a total of 232 cases with errors amounting to £12,455.89 and preventative savings of £5,607.28 during this quarter. Work has now commenced on collecting data for the 2022/23 exercise, NFI have set a deadline for this work of the 18 November 2022.
- 4.10 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 five Data Protection Act requests from the Police and other authorities. In addition, three fit and proper person checks were completed for new or renewal HMO licences and two Gas Safety checks were completed on council properties where the tenant has not responded.
- 4.11 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.

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