

To: Audit, Risk and Scrutiny Board

On: 23 January 2023

Report by: Chief Auditor

**Heading: Internal Audit and Counter Fraud Progress and Performance for
Period to 31 December 2022**

1. Summary

- 1.1 The Internal Audit Annual Plan was approved by the Audit, Scrutiny and Petitions Board on 13 June 2022. Internal Audit measures the progress and performance of the team on a regular basis using a range of performance indicators. This report monitors progress from 1 April 2022 to 31 December 2022, in terms of the delivery of the Audit Plan for the year and compares actual performance against targets set by the Director of Finance and Resources.
- 1.2 In terms of Counter Fraud, no formal performance targets for fraud investigation have been established for the following reasons. A major part of their work involves being the single point of contact for DWP's Single Fraud Investigation Service and the Service Level Agreement for this work contains time targets for completing this work. A great deal of effort has also been spent on increasing fraud awareness amongst employees to prevent fraud from occurring against the Council. The types of fraud referrals received to date are wide ranging and the team's objective is to concentrate on investigating those referrals considered to contain the greatest fraud risk.
- 1.3 All of the Internal Audit Team and Counter Fraud Team are currently working on a hybrid basis and also undertake home/site visits when the need arises. We also provide advice and support where necessary to council.

- 1.4 The report details progress against local and national initiatives involving Internal Audit and the Counter Fraud Team from 1 April 2022 to 31 December 2022.

2. **Recommendations**

- 2.1 Members are invited to note the Internal Audit and Counter Fraud Team progress and performance to 31 December 2022.

3. **Background**

- 3.1 The progress and performance of the Internal Audit Team is subject to regular monitoring using a number of performance measures. The Director of Finance and Resources has set annual targets for the team to demonstrate continuous improvement. In terms of the Counter Fraud team, there are time targets in place for responding to requests from the DWP's Single Fraud Investigation Service. Due to the diverse nature of fraud referrals no formal performance targets have been established and the outcomes from investigations is regularly monitored by management and reported to this Board.
- 3.2 Internal Audit and the Counter Fraud Team support a variety of local and national initiatives through participation in professional practitioner groups and co-ordination of national initiatives such as the National Fraud Initiative.

4. **Internal Audit Team Performance**

(a) **Percentage of audit plan completed as at 31 December 2022**

This measures the degree to which the Audit plan has been completed.

| Actual 2021/22 | Annual Target 2022/23 | Audit Plan Completion Target to 31 Dec 2022 | Audit Plan Completion Actual to 31 Dec 2022 |
|-------------------|-----------------------------|---|---|
| 92.1% | 95.0% | 66.5% | 63.7% |

Actual performance is currently slightly below target. The main reason for this is the team have had a high long term absence rate. In addition, due to workload pressures and other priorities, the specialised ICT Audits which have been outsourced have been delayed to January 2023. This indicator is being monitored closely by management and to assist

in improving this indicator we have received agreement from the Director of Finance and Resources to outsource a further two assignments.

(b) Percentage of assignments complete by target date

This measures the degree with which target dates for audit work have been met.

| Target 2022/23 | Actual to 31 December 2022 |
|----------------|----------------------------|
| 95.0% | 97.3% |

Actual performance is ahead of the target set for the year. It should be noted that target dates have been extended where necessary as it is taking longer to obtain information due to the priorities of services and the practicalities of home working.

(c) Percentage of audit assignments completed within time budget

This measures how well the time budget for individual assignments has been adhered to.

| Target 2022/23 | Actual to 31 December 2022 |
|----------------|----------------------------|
| 95.0% | 97.3% |

Actual performance is ahead of the target set for the year.

(d) Percentage of audit reports issued within 6 weeks of completion of audit field work

This measures how quickly draft audit reports are issued after the audit fieldwork has been completed.

| Target 2022/23 | Actual to 31 December 2022 |
|----------------|----------------------------|
| 95.0% | 100% |

Actual performance is ahead of target.

5. Review of the 2022/23 Internal Audit Plan

- 5.1 No further amendments are planned at this time to the Plan. However, the Internal Audit Plan progress will continue to be closely scrutinised by management and any further proposed amendments will be brought to this Board for approval.
- 5.2 It should be noted that we have utilised all of our contingency time, mainly as a result of the number of investigations that we have had to undertake to date, which are reported to this Board on completion. If more work of this nature materialises, it may result in one or two reviews not commencing until the first quarter of 2023/24.

5.3 We continue to liaise and advise services on proposed amendments to internal controls and new procedures as and when required

5.4 All of this work will enable us to deliver our annual audit opinion on the Council's governance, internal control and risk management, at the end of the year.

6 Counter Fraud Team Progress and Performance

6.1 In line with the Service Level Agreement, the Counter Fraud Team act as the Single Point of Contact (SPOC) to route potential housing benefit fraud referrals to the DWP, liaise with the Council's Housing Benefit Team and DWP Fraud Officers and retrieve the necessary evidence for the DWP Fraud Officers from the Housing Benefit System. In addition, we also work jointly with DWP Fraud Officers on criminal fraud investigations which focuses on the investigation and prosecution of the LA administered Council Tax Reduction Scheme (CTRS) and Social Security benefit fraud. We continue to refer cases worthy of investigation to them for their consideration.

6.2 As well as continuing to investigate referrals received from many different sources, during this quarter we co-ordinated and submitted the required data by the due date in October 2022 for the next National Fraud Initiative. The data matches for further investigation should be received at the end of January/February 2023.

6.3 During this quarter we have increased our fraud prevention work. In light of the increased risk of bank mandate frauds, it has been agreed with the Director of Finance and Resources that the Counter Fraud Team will assume responsibility for verifying any bank account changes or remittance advice contact changes that are received from Suppliers. In consultation with the Procurement and Accounts Payable teams, a procedure, listing the validation check to be undertaken, has been drawn up and commenced in December 2022. It should be noted that depending on the volume of these requests, we may have to amend our current workload focus to accommodate this task.

6.4 The financial and non-financial results for the period up to quarter 3 (April 2022 to December 2022) are noted in the table below:-

| Financial Outcomes | As at End of Quarter 3 (£) |
|---|-----------------------------------|
| Cash savings directly attributable to preventative counter fraud intervention | 1,995 |
| Cash recoveries in progress directly attributable to counter fraud investigations | 56,713 |
| Housing Benefit savings directly attributable to counter fraud investigation | 17,324 |

| | |
|---|-----------------------------------|
| Housing Benefit Savings Attributable to Joint Working by Counter Fraud and DWP Counter Fraud Officers | 35,115 |
| Notional savings identified through counter fraud investigation, (e.g. housing tenancy and future council tax,) | 222,058 |
| Non-Financial Outcomes | As at End of Quarter 3 (£) |
| Housing properties recovered | 2 |
| Housing applications amended/cancelled | 0 |
| Blue badge misuse warning letters issued | 12 |
| Licences revoked | 0 |

- 6.5 The latest virtual meeting of the Scottish Local Authorities Investigators Group took place this month and included a presentation from the National Anti Fraud Network providing an overview of Communications Data, and the Investigatory Powers Act and its potential use to Investigators.

7. Scottish Local Authorities Chief Internal Auditors' Group

- 7.1 The Local Authorities Computer Audit Sub-Group was attended virtually during this quarter. The main discussion topic at this meeting was Cloud Hosted Environments – Including Cloud Governance, Cloud Security and Cloud Migration.

8. External Quality Assessment

- 7.3 The Public Sector Internal Audit Standards requires that an External Assessment should be undertaken on the Internal Audit Service at least every 5 years to ensure conformance with the definition of Internal auditing and the standards, along with an evaluation of whether internal auditors comply with the code of ethics.
- 7.4 Our second assessment is being undertaken by the Chief Auditor at South Ayrshire Council and our submission and supporting evidence has been forwarded to her. The results along with any actions will be reported to this Board when this assessment has been completed.

Implications of the Report

1. **Financial** - The Council has in place arrangements to recover the any overpayments identified from the work of the Counter Fraud Team and the National Fraud Initiative.
2. **HR & Organisational Development** - None
3. **Community Planning – Safer and Stronger** - effective internal audit is an important element of good corporate governance.
4. **Legal** - None
5. **Property/Assets** - None
6. **Information Technology** - None
7. **Equality & Human Rights** - None
8. **Health & Safety** – None
9. **Procurement** - None
10. **Risk** - The progress and performance reported relates to the delivery of the risk-based internal audit plan and the mitigation of the risk of fraud and error.
11. **Privacy Impact** – None
12. **COSLA Implications** – None
13. **Climate Risk** - None

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