

**SOUTH STAFFORDSHIRE COUNCIL****AUDIT & RISK COMMITTEE – 11 JULY 2023****INTERNAL AUDIT ANNUAL OUTTURN REPORT 2022/23****REPORT OF THE CHIEF INTERNAL AUDITOR****PART A – SUMMARY REPORT****1. SUMMARY OF PROPOSALS**

1.1 This report presents the Internal Audit annual outturn report for 2022/23.

**2. SUMMARY IMPACT ASSESSMENT**

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	Yes	The delivery of the internal audit plan 2022/23 provides management with assurances that their service objectives which support the Council's priorities are being achieved.  The work of Internal Audit covers those priorities contained within the Council's Plan 2020-2024
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	The delivery of the audit plan is not considered to have any adverse implications to equal opportunities and diversity policies.
SCRUTINY POWERS APPLICABLE	No	
KEY DECISION	No	
TARGET COMPLETION/ DELIVERY DATE	11 July 2023	
FINANCIAL IMPACT	Yes	There are no direct financial implications. The current costs of the Internal Audit Service are contained within the Medium Term Financial Strategy as are the costs of insurance covers to mitigate the cost of any financial loss arising from the failure of internal controls.
LEGAL ISSUES	Yes	Section 151 of the Local Government Act 1972 The Accounts & Audit Regulations 2015 A sound system of internal audit, and monitoring of the same, assists in compliance with the above statutory duties.
OTHER IMPACTS, RISKS & OPPORTUNITIES	No	Internal audit objectively examines, evaluates and reports on the adequacy of the control environment

		as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit will continue to align its work with the Strategic and Operational Risk Registers (as appropriate).
IMPACT ON SPECIFIC WARDS	No	No impact.

## **PART B – ADDITIONAL INFORMATION**

- 3.1 This report outlines the work undertaken by Internal Audit in respect of the 2022/23 annual audit plan.
- 3.2 Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements i.e. the control environment of the organisation. Internal audit acts as an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes<sup>1</sup>.
- 3.3 Internal Audit is required by professional standards i.e. the Public Sector Internal Audit Standards (PSIAS), to deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual Governance Statement. In accordance with these requirements, the Head of Internal Audit must provide an annual opinion that covers the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate: -
- The opinion;
  - A summary of the work that supports the opinion; and
  - A statement on conformance with PSIAS and the Local Government Application Note (LGAN), highlighting any areas of non-conformance.
- 3.4 The underlying principles to the 2022/23 audit plan were outlined in the Internal Audit Strategy and Plan 2022/23 paper presented to and approved by Members of the Audit & Risk Committee on 12<sup>th</sup> April 2022. Since the original plan was approved, there have been some additional exercises undertaken and some audits cancelled. The net effect, however, is that the key performance target of 90% for delivery against the audit plan 2022/23 has been exceeded.
- 3.5 Work is scheduled to meet the requirements of the service areas to ensure the greatest benefit is achieved from the audit work. Therefore, it is not uncommon for reports to be at draft report stage at the end of the audit year. The Internal Audit Team are proactively seeking to finalise the remaining reports as soon as possible.

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<sup>1</sup> Public Sector Internal Audit Standards definition of Internal Auditing.

3.6 Audit opinions are awarded for individual systems and compliance audits within one of the following categories: -

- Substantial Assurance (positive opinion);
- Adequate Assurance (positive opinion); and
- Limited Assurance (negative opinion).

3.7 Detailed below is a high level summary of the work undertaken by the Internal Audit Service analysed over the following categories: -

- Core Financial Systems;
- Assurance Reviews (Other Systems Audits); and
- Counter Fraud and Corruption Work, including Special Investigations.

3.8 For those areas awarded 'limited assurance', in addition to Members of the Audit & Risk Committee receiving a full copy of the report, the relevant officers attend the Committee to provide assurance that appropriate action has been taken regarding the implementation of recommendations.

3.9 Internal audit will continue to track and report on the implementation of high level recommendations made in the previous and current year. A summary of the status of high level recommendations is outlined in the table below. An update on the high level recommendations and further details are attached as **Appendix 1** to this report.

Year	Recommendations Made			
	Total	Implemented No. %	Superseded	In Progress No. %
High Level Recommendations b/fwd. from previous Year	7	3	0	4
2022/23	5	0	0	5

### ***2022/23 Audit Plan Outcomes***

#### Core Financial Systems

3.10 The following core financial system reviews were carried out during 2022/23: -

Core Financial Systems Description	Opinion			
	Substantial	Adequate	Limited	N/A Advisory*
Covid 19 - Test & Trace Support Payment Verification	✓			
Debtors & Debt Recovery			✓	
Creditors		✓		
Budgetary Control	✓			

Payroll	✓			
E-Payments	✓			
Test and Trace Contain Outbreak Management Fund - Surge funding grant verification	✓			
Council Tax including discounts exemptions and empty properties		Draft		
<b>Total Audits Delivered (8)</b>	<b>5</b>	<b>2</b>	<b>1</b>	<b>0</b>

\*Consultancy / Advisory work undertaken therefore no assurance opinion required.

#### Assurance Reviews (Other Systems Audits)

3.11 The following other assurance system reviews were carried out during 2022/23: -

Core Financial System Description	Opinion			
	Substantial	Adequate	Limited	N/A Advisory*
Digital Strategy & Transformation Programme				✓
Climate Change		✓		
Recruitment including pre-recruitment checks	✓			
Leisure Centres – Development & Refurbishment		Draft		
Disability Facilities Grant		✓		
Commercial Units		✓		
Development Management	✓			
Developers Contributions (S106 Agreements)	✓			
Corporate Procurement – Monitoring of Service & Commercial Contracts		✓		
Cybersecurity – Incident Preparedness and Response effectiveness			✓	
IT Systems Resilience		✓		
Time Recording				✓
<b>Total Audits Delivered (12)</b>	<b>3</b>	<b>6</b>	<b>1</b>	<b>2</b>

### Counter fraud and corruption work

- 3.12 The following counter fraud and corruption audit work was carried out during 2022/23: -

Counter Fraud and Corruption Work	Opinion			
	Substantial	Adequate	Limited	N/A Advisory*
Continuous Controls Monitoring		✓		
Purchase Card Administration		✓		
<b>Total Audits Delivered (2)</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>0</b>

In addition to the specific pieces of Counter Fraud and Corruption Work undertaken, fraud risks are considered and reviewed as part of our planned system audits undertaken.

### Special Investigations (Internal)

- 3.13 The table below summarises those special investigations conducted during the financial year and any confirmed financial losses associated with each: -

Special Investigation	Financial Value	Control Area
Missing Cash	£345	Cash/Asset Management arrangements
<b>Total</b>	<b>£345</b>	<b>N/A</b>

- 3.14 Further details of the Counter Fraud and Corruption work carried out in-year are provided in **Appendix 2** of this report, including the outcomes from our Continuous Controls Monitoring programme of work.

### *Other In Year Activities*

- 3.15 The Internal Audit Manager continues to meet with the Corporate Director Finance & Resources (S151 Officer) and Director Legal & Governance (Monitoring Officer) on a regular basis. In addition, pre-agenda setting meetings are held with the Chair of the Audit & Risk Committee, as required. Meetings are also held between the Chief Internal Auditor and the Corporate Director Finance & Resources to review the on-going arrangements and delivery of Internal Audit Services in accordance with the contract in place with Staffordshire County Council.

### ***Overall Opinion on the Control Environment***

- 3.16 The UK PSIAS requires that the Head of Internal Audit (HIA) must deliver an annual internal audit opinion on the overall internal control environment of the Authority.

The methodology for formulating this opinion is set out within the Internal Audit Strategy which was approved by the Audit & Risk Committee on 12<sup>th</sup> April 2022. This methodology has been applied in formulating the annual audit opinion for 2022/23.

- 3.17 Each separate category of audit work is assessed against a benchmark of achieving a score of at least 80% of the total number of audits performed being awarded an opinion of “adequate or above” within each category. For reasons of simplicity, each category attracts equal weighting and a simple pass/fail assessment is used to differentiate the overall opinion between “Substantial, Adequate and Limited” as illustrated below:

Overall Opinion Level	No. of categories achieving the 90% benchmark
Substantial Assurance	5 out of the 5 categories
Adequate Assurance	3 or 4 out of the 5 categories
Limited Assurance	2 and below out of the 5 categories

Calculation of the 2022/23 Overall Assessment

- 3.18 The following table details the calculation of the 2022/23 overall assessment: -

Audit Category	% Awarded an Opinion of at Least “Adequate”	2021/22	2022/23
		Pass/Fail	Pass/Fail
Core Financial Systems	88%	Pass	Pass
Assurance Reviews (Other System Reviews)	90%	Pass	Pass
Counter Fraud & Corruption Work, including Special Investigations	90%	Pass	Pass
<b>Overall Total</b>		<b>3 out of 3 categories</b>	<b>3 out of 3 categories</b>

- 3.19 Based on the above, a “substantial” assurance opinion on the overall adequacy and effectiveness of the organisation’s governance, risk and control framework (i.e. the control environment) can be given for the 2022/23 financial year. This is consistent with the opinion awarded in 2021/22.

## ***Performance Measures***

3.20 Key performance measures for the Service are detailed below: -

Description	Target	2022/23
% of Audit Plan Completed (issued to draft stage)	90%	<b>100%</b>
Average scores achieved on customer satisfaction questionnaires	4	<b>5</b>

## ***Performance against the UK Public Sector Internal Audit Standards***

- 3.21 The UK PSIAS came into force on 1 April 2013 with the aim of promoting further improvement in the professionalism, quality, consistency, and effectiveness of internal audit across the public sector. These have been updated periodically since (last updated April 2017). A Local Government Application Note (LGAN) has also been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide further explanation and practical guidance on how to apply the standards. The LGAN is also updated periodically (last updated March 2019).
- 3.22 All public sector internal audit services are required to measure how well they are conforming to the standards. This can be achieved through undertaking periodic self-assessments (n.b the Internal Audit Service undertakes its own self-assessment annually the result of which are reported to this Committee), external quality assessments (EQA) or a combination of both methods. However, the standards state (standard 1312) that an external reviewer must undertake a full assessment or validate the internal audit service's own self-assessment at least once in a five-year period. The service's last EQA was undertaken in January 2018 and therefore a further external assessment was scheduled for January 2023 and was subsequently procured from CIPFA following a quotation process.
- 3.23 The EQA comprised a combination of a review of documentation provided by Internal Audit; a review of a sample of completed audits, a survey completed by a range of stakeholders as well as interviews with key stakeholders. This work took place week commencing 16th January 2023. The full assessment results were reported to the Audit & Risk Committee at its meeting held on 23rd March 2023 which outlined the overall conclusion and opinion of the assessor.
- 3.24 For ease of reference, the key highlights from the External Quality Assessor's report published in February 2023 were that 'the review established that there were no areas of non-compliance or partial compliance with the standards identified'. Based on the assessor's work undertaken, the overall conclusion was – 'It is our opinion that the self-assessment for the Staffordshire County Council's Internal Audit Service (which incorporates South Staffordshire Council's Internal Audit Service) is accurate and as such we conclude that the Internal Audit Service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application

Note'. This is the highest category level that can be awarded via the CIPFA assessment process.

3.25 Whilst no recommendations were made, there was one advisory action for management to consider which related to keeping a watching brief on the developments to the standards which are due to be consulted on and revised during 2023/24.

3.26 With the above in mind, the work undertaken by the Internal Audit Service during 2022/23 and reported within the Annual Outturn Report has been performed in accordance with PSIAS. In relation to this, there are no impairments or restrictions in scope or impairments in independence or objectivity during the year which prohibit the Chief Internal Auditor or the Service from delivering the annual Head of Internal Audit opinion for 2022/23.

#### **4. IMPACT ASSESSMENT – ADDITIONAL INFORMATION**

4.1 None identified.

#### **5. PREVIOUS MINUTES**

5.1 Not Applicable.

#### **6. BACKGROUND PAPERS**

**Appendix 1** – Update on the high level recommendations

**Appendix 2** – Counter Fraud & Corruption Work 2022/23

#### **7. RECOMMENDATION**

7.1 To receive the annual outturn report containing the annual internal audit opinion for 2022/23.

Report prepared by: *Susan Bluck,*  
*Audit Manager*



PREVIOUS YEARS' HIGH LEVEL AUDIT RECOMMENDATIONS – UPDATE 30<sup>th</sup> JUNE 2023

No.	Audit Subject	Date reported to Cttee	Recommendations	Target Date for Implementation	Current Status	Actual Date of Implementation	Date presented to Cttee to Clear
1	Mileage & Subsistence	12.12.17	The Travel & Subsistence Policy is reviewed and approved as a priority task.	Revised 30.09.23	<p>The Finance Manager has confirmed that a review of the policy has been delayed to take into account the impact of the Covid 19 pandemic on working practices and is now to be undertaken by the end of September 2023.</p> <p>It is recognised that the Covid pandemic has had a transformational impact on ways of working, both internally and externally, which has reduced the requirement for travel and subsequently the risk associated with this recommendation.</p> <p><b>In Progress</b></p>	N/A	N/A

No.	Audit Subject	Date reported to Cttee	Recommendations	Target Date for Implementation	Current Status	Actual Date of Implementation	Date presented to Cttee to Clear
2	Leisure Centre – Vending Machine Income	04.06.2020	<p>The Council's Legal Team and the Financial Services Team should be consulted on the proposed new contract amendments.</p> <p>This is to ensure that the proposed amendments are Legally binding and arrear balances and monthly payment figures are correct to ensure recovery of the outstanding debt by end of the financial year.</p>	31.07.2023	<p>Review of the Sundry Debtors report as of 31<sup>st</sup> March 2022, confirmed that there remained an outstanding balance of £5,343 against the invoice raised to recover the overpayment of £29,422.</p> <p>The Finance Manager has confirmed that as of the 26<sup>th</sup> of June 2023 there continues to be an aged debt recorded against this supplier. Further investigation is to be undertaken by the Finance Manager to confirm the current position and liaison will be undertaken with the Service to action recovery of any outstanding debts.</p> <p><b>In Progress</b></p>	N/A	N/A

No.	Audit Subject	Date reported to Cttee	Recommendations	Target Date for Implementation	Current Status	Actual Date of Implementation	Date presented to Cttee to Clear
3	Central Building Control Partnership	31.05.2022	Assurance be obtained regarding the resilience arrangements in the absence of the Building Control and Land Charges Partnership Manager to ensure there is sufficient coverage of partnership and its meetings, access to records and clarity for staff in terms of which senior officer(s) matters are escalated to.	30.11.2022	Partnership arrangements have been reviewed and revised. This issue has now been addressed.  <b>Implemented</b>	31/03/2023	11/07/2023
4	Debtors & Debt Management	31.05.2022	The current Debt Recovery Policy should be reviewed and updated to ensure it reflects current working practices and contains sufficient information to clearly define and communicate required actions and accountabilities within the sundry debt recovery process. The revised Policy should be clearly communicated to Officers of the Council and all existing versions removed from circulation.	Revised Date 31.03.2024	<u>Update – June 2023</u>  A Follow Up audit undertaken in June 2023 confirmed that the reviewed Debt Management Policy was approved by Cabinet on the 06/06/2023.  Communication of the Policy is yet to be undertaken, however, as a review of supporting processes remains ongoing, communication will be completed when the supporting procedures and resources are	N/A	N/A

No.	Audit Subject	Date reported to Cttee	Recommendations	Target Date for Implementation	Current Status	Actual Date of Implementation	Date presented to Cttee to Clear
					also in place. A medium recommendation has been made in relation to this within the audit report – June 2023  <b>In Progress</b>		
5	Debtors & Debt Management	31.05.2022	Accountability for the issue of reminder notices should be confirmed, documented and clearly communicated to accountable individuals. Finance Team to liaise with service areas periodically to ensure that reminder notices have been issued in accordance with the Debt Recovery Policy.	30.10.2022	This will be included and addressed as part of the review of the Debt Recovery Policy and procedures.  <u>Update - June 2023</u>  Debt Recovery Policy is now in place, approved by Cabinet 06/06/2023. Therefore, this action has been <b>implemented</b> .  A Follow Up audit undertaken in June 2023 and an audit review of Commercial Units, confirmed, however, that reminder letters have not been sent consistently since the previous audit was undertaken. A new high level	06/06/2023	11/07/2023

No.	Audit Subject	Date reported to Cttee	Recommendations	Target Date for Implementation	Current Status	Actual Date of Implementation	Date presented to Cttee to Clear
					recommendation has been made. Recommendation 2 below refers.		
6	Debtors & Debt Management	31.05.2022	Processes should be developed and implemented to capture, monitor and report debt recovery status and actions undertaken. This should be developed by the Finance Team in conjunction/ liaison with service areas to confirm and agree the information to be provided / reported and to determine accountabilities for the capture, review and reporting of debt management activities.	30.10.2022	<p>Governance arrangements for the management of outstanding debts, including monitoring and reporting has been considered and incorporated within the revised Debt Recovery Policy.</p> <p>The Finance Team have increased liaison with some service areas to support debt management activity and this will continue to be undertaken until revised arrangements are in place.</p> <p><b>Implemented</b></p>	06/06/2023	11/07/2023

No.	Audit Subject	Date reported to Cttee	Recommendations	Target Date for Implementation	Current Status	Actual Date of Implementation	Date presented to Cttee to Clear
7	Debtors & Debt Management	31.05.2022	<p>The current Debt Recovery Policy should be reviewed and updated to ensure it reflects current working practices and contains sufficient information to clearly define and communicate required actions and accountabilities within the sundry debt recovery process.</p> <p>The revised Policy should be clearly communicated to Officers of the Council and all existing versions removed from circulation.</p>	<p>Revised date</p> <p>31.03.2024</p>	<p><u>Update – June 2023</u></p> <p>A Follow Up audit undertaken in June 2023 confirmed that the reviewed Debt Management Policy was approved by Cabinet on the 06/06/2023.</p> <p>Communication of the Policy is yet to be undertaken, however, as a review of supporting processes remains ongoing, communication will be completed when the supporting procedures and resources are also in place. A medium recommendation has been made in relation to this within the audit report – June 2023</p> <p><b>In Progress</b></p>	N/A	N/A

**NEW 2022/23 HIGH LEVEL AUDIT RECOMMENDATIONS – UPDATED 30 June 2023**

No.	Audit Subject	Date reported to Cttee	Recommendations	Target Date for Implementation	Current Status	Actual Date of Implementation	Date presented to Cttee to Clear
1	Commercial Units	11/07/2023	<p>Management should ensure that a review of the insurance in place across tenants in both the Commercial Units and Business Hub is conducted. It should be ensured that insurance documentation is requested from all tenants where documents have not been retained, to confirm that insurance is adequate. Furthermore, a tenant insurance review process should be implemented to periodically update tenant insurance details and request renewal documentation.</p> <p>The Customer Relations Team Manager should ensure that all Business Hub tenants are</p>	30.09.2023	<p>The recommendation has been discussed and agreed with the Service Area and actions to address the issues identified are under consideration.</p> <p><b>Not Due</b></p>	N/A	N/A

			contacted immediately to ensure tenants premises are insured against loss or damage and to request documentation.				
2	Debtor & Debt Management (Follow up review – June 2023)	11/07/2023	It is recommended that consistent and processes compliant with the revised policy for issuing reminder letters are implemented and recovery actions taken are recorded clearly.	31.03.2024	<p>To date there has been focus and scrutiny on pursuing debts of high financial value on an ad-hoc basis.</p> <p>Further action will be taken as part of the ongoing review of processes and resources to implement a more robust process for the follow-up of all debt.</p> <p><b>Not Due</b></p>	N/A	N/A
3	Debtor & Debt Management (Follow up review – June 2023)	11/07/2023	It is recommended that options for resourcing administrative support of debt recovery processes are further reviewed.	31.03.2024	<p>This is being progressed as part of the ongoing review and is dependent on the availability of resources through restructuring.</p> <p><b>Not Due</b></p>	N/A	N/A
4	IT Systems Resilience	11/07/2023	The initial phase of the Disaster Recovery as a Service (DRaaS) implementation will test out the	31.03.2024	The initial phase of the Disaster Recovery as a Service (DRaaS) implementation will test out the	N/A	N/A



			<p>principles of Cloud recovery using the council's established and regularly tested Cloud storage backup and recovery processes to the council's existing physical and virtual server estate.</p> <p>A successful proof-of-concept recovery test to Cloud servers will be completed to inform the fuller approach and plan for the DRaaS solution, as well as providing a blueprint and assurance for the recovery of critical IT systems to Microsoft Azure in the interim whilst the fuller DRaaS solution is implemented.</p>		<p>principles of Cloud recovery using the council's established and regularly tested Cloud storage backup and recovery processes to the council's existing physical and virtual server estate.</p> <p>A successful proof-of-concept recovery test to Cloud servers will be completed to inform the fuller approach and plan for the DRaaS solution, as well as providing a blueprint and assurance for the recovery of critical IT systems to Microsoft Azure in the interim whilst the fuller DRaaS solution is implemented.</p> <p><b>Not Due</b></p>		
5	Cyber Security – Incident Preparedness & Response Effectiveness	08/03/2023	A cyber incident response plan should be documented and formally approved.	30.09.2023	Initial draft of the Cyber Incident Response Plan will be produced based on advice and support from Local Digital Cyber team from the Department for Levelling Up, Housing and Communities	N/A	N/A

					<p>A refined Cyber Incident Response Plan will be produced following testing of the plan using cyber incident response playbooks and reflection of opportunities to improve the plan.</p> <p><b>Not Due</b></p>		
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# **Appendix 2 Fraud and corruption Outturn Report**

2022/23



## Our Mission

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

### **Chief Internal Auditor**

Deborah Harris

### **Lead Auditor**

David Fletcher

### **Report Status**

Issued – 28<sup>th</sup> June 2023

# **1 Internal Audit Outturn Report 2022/23– Corporate Counter Fraud and Corruption Activity**

## **1.1 Introduction and Context**

- 1.1.1 During the 2022/23 financial year, Internal Audit has continued to develop its fraud strategy, response and testing programme based upon a fraud risk assessment. The overarching objective of the Corporate Counter Fraud Work Plan (referred to as Counter Fraud Work Plan) is to minimise the cost of fraud, bribery and theft at the Council. The Counter Fraud Work Plan can be revised in year to take into account emerging risks and developing systems at the Council.
- 1.1.2 This report details our counter fraud work completed in 2022/23 and looks forward to anticipated developments in 2023/24.

## **1.2 Strategic**

- 1.2.1 As part of the Audit Planning process, past fraud experience and inherent fraud risks are discussed with management and risk assessed.
- 1.2.2 The top fraud risks identified in the risk assessment are:
- Council Tax including discounts, exemptions and empty properties;
  - Housing Benefits & Council Tax Support (aka Council Tax Reduction scheme (CTRS));
  - NNDR including discounts, exemptions and empty properties;
  - Creditors; and
  - Payroll Claims.
- 1.2.3 Each of these areas have been included in the Internal Audit workplan either in the last three years or in 2023/24. The risk assessment remains a 'live' document that can be updated throughout the year in the event of emerging risks.
- 1.2.4 The Internal Audit Manager – Fraud is an Accredited Counter Fraud Specialist with 15 years of experience working in Public Sector Fraud.
- 1.2.5 To keep abreast of emerging fraud risks and opportunities, the Internal Audit Manager – Fraud, is a regular attendee of the West Midlands Fraud Forum and the Midland Counties Fraud Group. The Staffordshire Counter Fraud Partnership forums ceased in 2022/23, however steps are being taken to re-establish these in 2023/24.

- 1.2.6 Over the course of the year, Internal Audit have reviewed the Council's Counter Fraud and Corruption Policy to ensure opportunities to deter fraud and hold individuals to account are maximised. Comments were fed back to the Director of Legal & Governance.
- 1.2.7 Internal Audit welcomes the opportunity to consider policies as they are being revised and updated, to ensure clarity over the current and correct processes required to be followed, which also aids the application of successful sanctions (criminal, civil recovery, or disciplinary) in the event of fraud or error.
- 1.2.8 A programme of Continuous Controls Monitoring (CCM) is in place, with an associated strategy document being shared with key members of staff. Full details of the CCM programme to date can be found at paragraph 1.5 below. Efforts are being made to expand testing carried out as part of our CCM programme. It is anticipated that a comparison of Council Tax data to Electoral role will be completed imminently, with proposed tests in place, however, this has been delayed by difficulties in obtaining Council Taxpayer data.

### **1.3 Counter Fraud Outcomes 2022/23**

- 1.3.1 The risk of fraud is considered during the process of designing Internal Audit briefing documents, and by auditors whilst an audit is being conducted. As a result, a number of recommendations are raised throughout the year which contribute to the prevention, detection and deterrence of fraud.

1.3.2 For reference, the table below summarises the volume of recommendations related to fraud risks arising from 2022/23 Internal Audits.

<b>Audit</b>	<b>High Priority</b>	<b>Medium Priority</b>	<b>Low Priority</b>
Creditors	0	0	1
E-Payments	0	0	3
Council Tax including discounts exemptions and empty properties	0	2	0
Climate Change	0	0	1
Disability Facilities Grant	0	1	0
Development Management	0	0	1
Corporate Procurement - Monitoring of Service & Commercial Contracts	0	1	1
Cybersecurity - Incident Preparedness and Response effectiveness	1	3	0
<b>Total</b>	<b>1</b>	<b>7</b>	<b>7</b>

1.3.3 It is noted that of the 15 fraud related recommendations raised. Members of the Audit & Risk Committee receive a copy of all audit reports once finalised.

1.3.4 All recommendations are subject to follow up to ensure appropriate steps are taken to mitigate and manage identified risks. This is carried out using our on-line recommendation portal.

## **1.4 Fighting Fraud and Corruption Locally ('FFCL')**

1.4.1 In March 2020, CIPFA refreshed it's FFCL strategy 2016-2019 with the new Fighting Fraud and Corruption Locally – A Strategy for the 2020's. The Strategy is now hosted by CIFAS<sup>2</sup>.

1.4.2 A self-assessment of the Council's work to counter fraud against the latest Fighting Fraud and Corruption Locally Checklist has been undertaken, the full findings of which are detailed at the end of this appendix (Section 2).

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<sup>2</sup> Credit Industry Fraud Avoidance System, founded in 1998. Its scope has been extended beyond the credit industry in subsequent years.

Our assessment has been focussed on Corporate Fraud to date, as Revenues and Benefits Fraud is managed in-house.

1.4.3 The FFCL self-assessment found the Council to be fully compliant with 33 of the 37 standards, as of March 2023. The Council is partially compliant with three standards. A standard relating to the analysis of referrals has been assessed to be not applicable, due to the low volume of referrals received.

1.4.4 Available best practice will continue to be monitored and used to identify areas for development in the Council's counter fraud work in-year.

## **1.5 Continuous Controls Monitoring**

1.5.1 Continuous Controls Monitoring (CCM) is a programme of testing designed to use data analytics tools efficiently to test large volumes of transaction data in order to identify "high risk" transactions for further review.

1.5.2 The purpose of continuous controls monitoring is to:

- Detect fraud;
- Detect error;
- Deter fraud and error through use of publicity highlighting the existence of CCM; and
- Provide reassurance where appropriate that controls are operating correctly, or otherwise.

1.5.3 The key benefit of CCM over random sample testing is that 100% sample sizes can be used to test for specific anomalies. It is anticipated that following the introduction of a test, algorithms used can be refined to improve the results, limiting 'false positive' matches and learning from positive findings to best target adverse findings.

1.5.4 As CCM findings are identified and verified, key findings will be reported to management. Where appropriate, issues identified will be considered as part of the Internal Audit plan for current or future years. Opportunities to expand CCM will also consider those control weaknesses identified in Internal Audit reports.





1.5.5 A CCM Strategy has been prepared and agreed with management. This outlines initial areas of testing, and potential areas for expansion going forward. The strategy will be revisited on a periodic basis.



1.5.6 CCM testing started during 2022/23 and focussed on the following data sets:

- Invoice Payments;
- Absence Records;
- Purchase Card Statements; and
- Expenses Claims.

1.5.7 The matching of Council Tax data to Electoral Role data, to identify inconsistencies which may indicate incorrect application of Council Tax discounts has commenced, with areas for matching identified and electoral role data obtained. Council Tax data, at the time of writing, has not been provided due to issues extracting the data from the systems used. It is anticipated that this will be completed in Quarter 2 2023/24.

1.5.8 A test by test summary of findings to date are detailed below:

Test	Findings to date	Risk Rating
Duplicate Invoices	Invoice data for the period April 2022 to March 2023 has been analysed to identify duplicate payments. In total, 975 invoices were subject to analysis, identifying three groups of payments which were potentially duplicated. Follow up enquiries by Council Officer identified 2 of these represented duplicate payments, totalling £968.72.	●

Test	Findings to date	Risk Rating
Purchase Cards vs Absence	<p>In 2022/23 accurate detailed transaction data has been obtained. This has allowed us to match this data to absence data in order to identify card use whilst individuals were absent from work.</p> <p>Complete absence data has been received for the period April to October 2022, with November 2022 to March 2023 currently outstanding.</p> <p>For the period where both data sets were available no transactions of concern were identified.</p>	
Duplicate Expenses	<p>Difficulties extracting expenses data encountered in 2021/22 have now been resolved, and testing for duplicate expenses has been conducted for claims approved in the 2022/23 financial year.</p> <p>Two individuals have been identified as having submitted mileage claims that appear to include duplicates. One of these has agreed repayment (by entering a negative claim) of 31 miles (c£12.40). A response is being chased from the second individual (8 journeys totalling 112 miles, c£44.80).</p>	

1.5.9 Over the course of 2023/24, it is expected that the above testing will continue as a rolling programme and expanded into other areas of Council business. It is anticipated that in Summer 2023 matching of Council Tax records to Electoral role data will be completed. This will initially be treated as a pilot exercise, with options for repeating the data match at regular intervals considered after establishing the value and validity of findings.

## 1.6 Proactive Exercise – Purchasing Cards

1.6.1 Whilst conducting our CCM work in 2021/22, gaps in compliance with purchase card processes were noted. In response, a proactive exercise has been completed in 2022/23 to provide assurance that controls are adequate and effectively implemented.

1.6.2 Our review identified areas of non-compliance, particularly around completion and authorisation of purchase card transaction logs. It is noted, however, that following the allocation of additional resource to monitoring completion of the logs from January 2023 compliance in this area has been significantly improved. Five recommendations have been raised regarding updating procedure documents, collating a consolidated record of card holders and limits, accounting for VAT and regular reconciliations, and continuing to monitor purchase card transaction logs.

## **1.7 National Fraud Initiative 2022**

1.7.1 The Council submitted data to the Cabinet Office's National Fraud Initiative 2022 in October 2022.

1.7.2 Results of the analysis have been received and will be reviewed by the Council during 2023/24. In total, the Council has been provided with 433 matches over the following areas of activity:

<b>Area of Activity</b>	<b>Number of Matches</b>
Housing Benefit	9
Payroll	12
Housing Waiting List	79
Council Tax	226
Creditors	107
<b>Total</b>	<b>433</b>




1.7.3 The Audit Committee will receive a report of initial findings in Autumn 2023, and it is anticipated all match screening and investigations will be completed by April 2024. Internal Audit have agreed to monitor the processing of matches, as well as reporting to Management and the Audit and Risk Committee at appropriate intervals.





## **1.8 Referrals and Investigations**





1.8.1 One matter has been passed to Internal Audit for investigation in 2022/23. This related to a cash theft of £345.30. Following interviews with members of staff responsible for the cash and consideration of controls in place, it was established that there was limited prospect of obtaining evidence identifying who had taken the cash. Recommendations have been raised regarding safe controls, CCTV management and improving cash handling procedures and this was reported in full to this Committee at its meeting held on 23<sup>rd</sup> March 2023.





## 2 FFCL 2020 Self-Assessment – 2022/23





2.1.1.1 A self-assessment of the Council's work to counter fraud against CIPFA's Fighting Fraud and Corruption Locally Checklist 2020 has been undertaken, the findings of which are detailed below. The assessment is based on our experience of Corporate Fraud at the Council and does not take into account Revenues and Benefits Fraud activities undertaken.

Ref	FFCL Standard	Related Activity	Rating	Areas for development
1	The local authority has made a proper assessment of its fraud and corruption risks, has an action plan to deal with them and regularly reports to its senior Board and its members.	<p>A Fraud Risk Assessment is completed as part of the annual internal audit planning process. The results from this process are reported to the Corporate Leadership Team and the Audit &amp; Risk Committee as part of the formal approval process for the Internal Audit and Counter Fraud Plan each year.</p> <p>As part of the approval of the Internal Audit and Counter Fraud Plan, the Plan is presented to CLT and the Audit and Risk Committee. Both presentations include details of the top fraud risks for the year ahead.</p>		No further action required.
2	The local authority has undertaken a fraud risk assessment against the risks and has also undertaken horizon scanning of future potential fraud and corruption risks. This assessment includes the understanding of the harm that fraud may do in the community.	<p>On an annual basis the Council's counter fraud activity is compared against the Fighting Fraud and Corruption Locally Strategy.</p> <p>Emerging and future risks are considered as part of the risk assessment. The Internal Audit Manager – Fraud is a member of peer group forums, where emerging risks and fraud identified are discussed.</p>		No further action required.
3	There is an annual report to the audit committee, or equivalent detailed assessment, to compare against FFCL 2020 and this checklist.	<p>This appendix details our assessment of South Staffordshire Council against the Fighting Fraud and Corruption Locally Strategy Document.</p> <p>This assessment is refreshed on an annual basis as part of the outturn report.</p>		Further assessment to be performed on an annual basis.






Ref	FFCL Standard	Related Activity	Rating	Areas for development
4	The relevant portfolio holder has been briefed on the fraud risks and mitigation	Internal Audit meet with the S151 and Monitoring Officer on a monthly basis, and on a quarterly basis to the Audit and Risk Committee.		No further action required.
5	The audit committee supports counter fraud work and challenges the level of activity to ensure it is appropriate in terms of fraud risk and resources.	The Audit and Risk Committee receives a regular progress report on all Internal Audit activities including Counter Fraud Activity during the year which enables the Committee to scrutinise the Council's counter fraud work.		No further action required.
6	There is a counter fraud and corruption strategy applying to all aspects of the local authority's business which has been communicated throughout the local authority and acknowledged by those charged with governance.	<p>There is a Counter Fraud and Corruption Policy which was refreshed in 2019. The Policy contains definitions of key offences, principles of public life and details of how to report fraud. The Council's Intranet site is also used to receive fraud concerns.</p> <p>The Counter Fraud and Corruption Policy was Subject to review in 2022/23.</p>		No further action required.
7	The local authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	<p>The following Policies and Procedures promoting probity across the Council are in place.</p> <ul style="list-style-type: none"> <li>• Counter Fraud and Corruption Policy</li> <li>• Financial Procedure Rules</li> <li>• Procurement Procedure Rules</li> <li>• Employee code of Conduct;</li> <li>• Members Code of Conduct; and</li> <li>• Whistleblowing.</li> </ul>		No further action required.






Ref	FFCL Standard	Related Activity	Rating	Areas for development
8	The risks of fraud and corruption are specifically considered in the local authority's overall risk management process.	Fraud risk is considered within the Internal Audit Risk assessment methodology used to produce the annual Internal Audit Plan Separately, a Fraud Risk Register is reviewed during the audit planning process for the Fraud Workplan, and this is subject to ad-hoc updates throughout the year.		No further action required.
9	Counter fraud staff are consulted to fraud-proof new policies, strategies and initiatives across departments and this is reported upon to committee.	Council Policies and Procedures are typically subject to review as part of a typical proactive anti-fraud exercise. We have been consulted in 2022/23 with regard to the Council's Counter Fraud and Corruption Policy.		No further action required.
10	Successful cases of proven fraud/corruption are routinely publicised to raise awareness.	Internal Audit will discuss with Management on how best to deter fraud by publicising successful convictions on a case by case basis.		To be considered on a case by case basis when appropriate.
11	The local authority has put in place arrangements to prevent and detect fraud and corruption and a mechanism for ensuring that this is effective and is reported to committee.	The fraud workplan is in place dedicating time to preventing, detecting and deterring fraud. The workplan is approved annually by the Audit and Risk Committee and progress against the plan is reported at year end as part of the Internal Audit Outturn Report.		No further action required.






Ref	FFCL Standard	Related Activity	Rating	Areas for development
12	<p>The local authority has put in place arrangements for monitoring compliance with standards of conduct across the local authority covering:</p> <ul style="list-style-type: none"> <li>• codes of conduct including behaviour for counter fraud, anti-bribery and corruption</li> <li>• register of interests</li> <li>• register of gifts and hospitality.</li> </ul>	<p>Policies and procedures are in place detailing the requirements for declarations of gifts and hospitality, and pecuniary interests. An internal Audit in this area in 2020/21 resulted in a positive assurance opinion.</p>		No further action required.
13	<p>The local authority undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking the checks recommended in FFCL 2020 to prevent potentially dishonest employees from being appointed.</p>	<p>The Council has recently introduced a new recruitment module to automate recruitment processes.</p> <p>This was subject to an Internal Audit review in 2022/23, resulting in a Substantial Assurance opinion.</p>		No further action required.
14	<p>Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and business. This is checked by auditors and reported to committee.</p>	<p>Policies and procedures are in place detailing the requirements for declarations of gifts and hospitality, and pecuniary interests. An internal Audit in this area in 2020/21 resulted in a positive assurance opinion.</p>		No further action required.
15	<p>There is a programme of work to ensure a strong counter fraud culture across all departments and delivery agents led by counter fraud experts.</p>	<p>The Council has recently adopted a fraud E-Learning package provided by the Staffordshire Counter Fraud Partnership.</p>		Adoption of the E-Learning package to be assessed in 2023/24.



Ref	FFCL Standard	Related Activity	Rating	Areas for development
16	There is an independent whistle-blowing policy which is monitored for take-up and can show that suspicions have been acted upon without internal pressure.	The Council's Whistleblowing Policy was updated in February 2022.		Awareness of the revised whistleblowing policy should be subject to assessment.
17	Contractors and third parties sign up to the whistle-blowing policy and there is evidence of this. There should be no discrimination against whistle-blowers.	The Council's standard terms and conditions of contract place an obligation on suppliers to report concerns regarding fraud, bribery and corruption, and direct suppliers to the Council's whistleblowing policy.		No further action required.
18	Fraud resources are assessed proportionately to the risk the local authority faces and are adequately resourced.	<p>Risk Based work planning means resources are targeted where most value can be obtained.</p> <p>A fraud risk assessment is maintained and this informs the annual Internal Audit and Counter Fraud Plan.</p>		No further action required.
19	There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the local authority's business and includes activities undertaken by contractors and third parties or voluntary sector activities.	The Counter Fraud Work Plan considers risks across the whole Council and is subject to annual formal approval by the Audit and Risk Committee.		No further action required.
20	Statistics are kept and reported by the fraud team which cover all areas of activity and outcomes.	In 2021/22 and 2022/23 the limited volume of corporate fraud reports does not warrant statistical analysis.	n/a	Appropriateness of this standard to be monitored on an ongoing basis.



Ref	FFCL Standard	Related Activity	Rating	Areas for development
21	Fraud officers have unfettered access to premises and documents for the purposes of counter fraud investigation.	All members of staff within the Internal Audit Service have unfettered access to premises and documents for the purposes of counter fraud investigation.		No further action required.
22	There is a programme to publicise fraud and corruption cases internally and externally which is positive and endorsed by the council's communication team.	As CCM becomes embedded, communications will be issued highlighting key findings. In the event of corporate fraud being identified, the use of communications to deter fraud will be considered on a case by case basis.		Requirement for case outcome communications to be monitored on an ongoing basis.
23	All allegations of fraud and corruption are risk assessed.	All allegations are subject to a case assessment, this includes loss estimates, and prospects of sanctions being obtained.		No further action required.
24	The fraud and corruption response plan covers all areas of counter fraud work: <ul style="list-style-type: none"> <li>• prevention</li> <li>• detection</li> <li>• investigation</li> <li>• sanctions, and</li> <li>• redress.</li> </ul>	The Counter Fraud Work Plan covers these areas suggested by the Standard.		No further action required.
25	The fraud response plan is linked to the audit plan and is communicated to senior management and members.	The Council has in place a Counter Fraud and Corruption Policy which details roles and responsibilities for managing fraud risks.		No further action required.

Ref	FFCL Standard	Related Activity	Rating	Areas for development
26	Asset recovery and civil recovery is considered in all cases.	In the event of fraud being identified, the opportunities for criminal sanctions, civil recovery and disciplinary action will be discussed with Management.		No further action required.
27	There is a zero-tolerance approach to fraud and corruption which is always reported to committee.	The Counter Fraud and Corruption Policy outlines a zero-tolerance stance against fraud. All allegations received have been investigated as appropriate. A summary of allegations is presented to the Audit and Risk Committee as part of the Internal Audit Annual Outturn Report.		No further action required.
28	There is a programme of proactive counter fraud work which covers risks identified in assessment.	A Counter Fraud Work Plan is in place based on the risks identified in the fraud risk assessment and the annual internal audit planning process. This may evolve based on emerging risks and changing priorities of the Council in year.		No further action required.
29	The counter - fraud team works jointly with other enforcement agencies and encourages a corporate approach and co-location of enforcement activity.	The Audit Manager - Fraud works with the Police, the Cabinet Office (for NFI) and networks with neighbouring County Councils and District Councils to share best practice via the MCCIAG Fraud Sub-Group, Staffordshire Counter Fraud Partnership, and West Midlands Fraud Group.		No further action required.
30	The local authority shares data across its own departments and between other enforcement agencies.	The Internal Audit team has access to multiple data sources. Internally there is a developing programme of CCM. Also, the Council participates in the National Fraud Initiative.  Where appropriate, Internal Audit would facilitate the sharing of information both internally and externally (e.g. Police and DWP).		No further action required.

Ref	FFCL Standard	Related Activity	Rating	Areas for development
31	Prevention measures and projects are undertaken using data analytics where possible.	Proactive fraud exercises have used data analytics for targeted sampling of transactions.  Use of data is considered for all audits and counter fraud proactive and reactive work.		Opportunities to improve and expand CCM will remain under consideration as emerging risks are identified.
32	The counter fraud team has registered with the Knowledge Hub so it has access to directories and other tools.	The Audit Manager – Fraud is in regular contact with the NAFN Data and Intelligence Service.  The Audit Manager – Fraud is also a member of the Midlands County Councils’ Internal Audit Group - Fraud Sub-Group, Staffordshire Counter Fraud Partnership, and the West Midlands Fraud Group.		No further action needed.
33	The counter fraud team has access to the FFCL regional network.	The Audit Manager - Fraud continues to network with other fraud professionals via the channels noted in response to Standards 29 & 32 (see above).		No further action required.
34	There are professionally trained and accredited staff for counter fraud work. If auditors undertake counter fraud work, they too must be trained in this area.	The Audit Manager - Fraud is an Accredited Counter Fraud Specialist.		No further action required.
35	The counter fraud team has adequate knowledge in all areas of the local authority or is trained in these areas.	The Internal Audit Team has a wide range of experience across local Government with over 100 years of audit experience. South Staffordshire Council has access to this team as part of the contract arrangements in place.		No further action required.

Ref	FFCL Standard	Related Activity	Rating	Areas for development
36	<p>The counter fraud team has access (through partnership/other local authorities/or funds to buy in) to specialist staff for:</p> <ul style="list-style-type: none"> <li>• surveillance</li> <li>• computer forensics</li> <li>• asset recovery</li> <li>• financial investigations.</li> </ul>	<p>No formal arrangements are in place. Reliance would be placed on the engagement of the Police or specialist staff procured from existing framework contracts should the need arise.</p> <p>The need to create a formalised partnership or similar for these roles is subject to ongoing consideration, although it is not seen as necessary at this time.</p> <p>Suppliers on existing Internal Audit Framework Contracts can provide these services if needed.</p>		No further action required.
37	<p>Weaknesses revealed by instances of proven fraud and corruption are scrutinised carefully and fed back to departments to fraud proof systems.</p>	<p>All investigations and proactive exercises that identify system weaknesses would result in recommendations being raised, agreed with management and reported to the Audit and Risk Committee.</p>		No further action required.

**Disclaimer**

The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. SCC neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.