

SOUTH HAMS DISTRICT COUNCIL

NAME OF COMMITTEE	Audit Committee
DATE	3rd April 2014
REPORT TITLE	Checklist from the Audit Commission Document: Protecting The Public Purse 2013 (Fighting Fraud against Local Government)
Report of	Chief Internal Auditor, and S.151 Officer
WARDS AFFECTED	All

Summary of report:

The purpose of this report is to inform members of the position of the Council against the checklist included in the Audit Commission publication 'Protecting the Public Purse 2013 (Fighting Fraud against Local Government)' (November 2013).

This report links to the previous versions of the checklist presented to members and the National Fraud Authority's strategy 'Fighting Fraud Locally'.

Financial implications:

None, within existing budgets.

RECOMMENDATIONS:

That the Audit Committee considers the position of the Council against the checklist included in the Audit Commission publication 'Protecting the Public Purse 2013 (Fighting Fraud against Local Government) (November 2013).

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1. BACKGROUND

1.1 This is the fifth year that the Audit Commission has published 'Protecting the Public Purse – Local Government Fighting Fraud' (September 2009, October 2010, November 2011, November 2012 and the latest November 2013).

1.2 The original report introduction said:

'Every pound lost through fraud affects citizens by increasing taxation and threatening essential service.....There has been a growing recognition of the damaging impact that fraud has on the UK economy and on citizens. This recognition has been matched by some important initiatives to combat fraud. Fighting fraud is high on the agendas of the government and most private and public sector organisations. The newly formed National Fraud Authority is committed to measuring and analysing the incidence and impact of fraud across the UK'.

2. UPDATE FOR 2013

2.1 Protecting the Public Purse 2013 focuses on the continuing progress by local government to protect tax payers by fighting fraud and is available on the Audit Commission web site: <http://www.audit-commission.gov.uk/2013/11/protecting-the-public-purse-2013/>

2.2 In 2012, the report said that the local government bodies are targeting their investigative resources more efficiently and effectively, but in 2013 fewer frauds were detected in local government compared with the previous year.

Local government detected 107,000 cases with a value of £178 million of which benefit fraud accounted for 2/3rds of the loss but only 44% of the cases.

South Hams return reported for 2012/13 reported that there were 29 benefit fraud cases with a total value of £93.5k in overpaid benefits. Of these 6 were prosecuted based on a total value of £32.7k, with a further case of aiding and abetting (nil value) – *as reported to the Audit Committee September 2013*. There were no identified cases of non-benefit fraud.

2.3 Among the report's recommendations it suggests that Councils use a checklist to review its counter-fraud arrangements – Appendix A.

2.4 The Council's Chief Internal Auditor presented the completed checklist to the April 2010, 2011, 2012 and 2013 Audit Committee meetings which reflected the Council's position at these times against each of the questions.

2.5 The 2013 Audit Commission's report included recommendations that Councils should:

- Actively pursue potential frauds identified through participation in the National Fraud Initiative (NFI) data matches;
- Actively promote a vigorous counter fraud culture;
- Develop[a clear strategy to tackle fraud;
- Work in partnership to reduce fraud;
- Prepare effectively for the introduction of the Single Fraud Investigation Service;
- Allocate sufficient resources to tackling fraud; and

- Improve their use of data to measure their performance in tackling fraud.

3. COUNTER FRAUD – INTERNAL AUDIT 2013/14

3.1 We carried out specific counter fraud audit work for South Hams and West Devon Councils as described in the 2013/14 audit plan and previous reports to the Audit Committee.

The audit and sample testing covered the following areas:

- Planning this and future years counter fraud work;
- Review of online counter fraud guidance;
- Promotion of Anti Fraud, Corruption and Bribery Policies;
- Review of National Fraud Initiative (NFI) data matching;
- Undertake pro-active counter fraud testing:
 - Cash transactions;
 - Vehicle disposal;
 - Rented and vacant units;
 - Comparison of the payrolls for both authorities;
 - Overtime payments; and
 - Physical verification of a sample of employees.
- Pro-active counter fraud testing using Computer Assisted Audit Techniques (CAATS):
 - Duplicate creditor payments;
 - Duplicate employees; and
 - Unusual suppliers or transactions.

We concluded that the majority of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified (standard wording for Good opinion). No fraud was identified.

We have identified that, in most cases, action has been undertaken to review the data matching provided by the NFI. We would encourage management to review all the data promptly and conscientiously to ensure potential irregularities are cleared at the earliest opportunity.

Other minor issues were reported to managers in a formal audit report.

4. LEGAL IMPLICATIONS

4.1 Statutory powers: Accounts and Audit Regulations 2011 etc.

5. FINANCIAL IMPLICATIONS

5.1 None, within existing budgets.

6. RISK MANAGEMENT

6.1 The risk management implications follow these considerations:

Corporate priorities engaged:	All
Statutory powers:	Accounts and Audit Regulations 2011
Considerations of equality and human rights:	No specific equality and human rights issues arising from this report.
Biodiversity considerations:	No specific biodiversity issues arising from this report.
Sustainability considerations:	No specific sustainability issues arising from this report.
Crime and disorder implications:	No specific crime and disorder issues arising from this report.
Background papers:	<ul style="list-style-type: none"> • Audit Commission report: Protecting The Public Purse 2013 (Fighting Fraud against Local Government); • National Fraud Authority's document <i>Fighting Fraud Locally</i> considered by the September 2012 Audit Committee; • The Council's Anti Fraud, Corruption & Bribery Policy and Strategy 2011; • Benefit Fraud Prosecution and Sanction Policy; and • Confidential Reporting (Whistle Blowing) Policy
Appendices attached:	Appendix A: Completed checklist from Protecting The Public Purse 2013 (Fighting Fraud against Local Government)

STRATEGIC RISKS TEMPLATE

No	Opportunity Title	Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Demonstrating zero tolerance of fraud.	Communicating the Anti-Fraud stance to members, officers and the public may deter those that consider that an attempted fraud is work risking.	-	-	-	↔	The Council demonstrates its commitment to an Anti-Fraud culture, by the regular review, updating and approval of an Anti Fraud Strategy.	Chief Internal Auditor
2	The Council's response to suspected fraud is documented	Investigations are commenced promptly after suspicions are aroused.	-	-	-	↔	The approach to investigating suspected fraud is clearly laid out in the Council's Fraud And Corruption Response Plan appended to the Anti-Fraud and Corruption Strategy. Early liaison with the police, where appropriate is clearly stated in the Council's Fraud And Corruption Response Plan.	Chief Internal Auditor
3	Preventative measures are in place	Preventative measures are in place, including a system of internal controls which are regularly reviewed.	-	-	-	↔	Controls are regularly reviewed by managers and Internal Audit on a risk basis, with vulnerability to fraud being a key part of the audit risk assessment.	Chief Internal Auditor

No	Risk Title	Risk Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
4	Risk of fraud.	Risk of fraud or corruption being perpetrated on the Council.	2	2	4	↔	Preventative measures are in place. These include a system of internal controls which are regularly reviewed, and a zero tolerance policy which is communicated to members, officers, stakeholders and the community. The risk of fraud appears in the Council's risk register.	Chief Internal Auditor
5	Reporting suspected fraud is encouraged.	Fraud or corruption is not identified at an early stage.	2	2	4	↔	The Council's Confidential Reporting Policy (whistle blowing) encourages members, officers and the public to report suspected fraud without fear of reprisals. Internal control measures are in place.	Chief Internal Auditor
6	A professional approach to fraud investigation	Suspected fraud or corruption is not investigated in a sound professional way.	2	2	4	↔	Only appropriately trained officers are appointed to investigate suspected fraud.	Chief Internal Auditor

Direction of travel symbols ↓ ↑ ↔

Audit Commission: Protecting the Public Purse – Updated for 2013
 Checklist for Those Responsible for Governance

	Yes	No	2012 Response	2013 Update
General				
1. Do we have a zero-tolerance policy towards fraud?	Yes		<p>The Council's Anti-Fraud, Corruption and Bribery Policy and Strategy 2011 (incorporating the Housing Benefit Fraud Prosecution and Sanction Policy) states that the Council is committed to discouraging, preventing and detecting fraud and corruption where attempted on, or from within, the Council's organisation.</p> <p>The document appears on the Council's website and Intranet. A separate procedure document, 'Response Plan', has also been updated and made available to all staff via the Intranet.</p> <p>An item in the Council's 'Friday Flash' and Members' Bulletin was used to promote the Council's zero tolerance with a link to the revised Policy and Strategy; supported by the Audit Committee.</p> <p>Scanning for unforeseen events forms part of the Strategic Management Risk register and includes potential fraud.</p> <p>The risk registers are reviewed quarterly by the Risk Management Group which includes the Chief Internal Auditor and Monitoring Officer. Potential fraud risks will be fed into the Internal Audit teams counter fraud work.</p>	<p>Unchanged.</p> <p><i>Action:</i> The Anti-Fraud, Corruption and Bribery Policy and Strategy 2011 may benefit from a review in 2014/15.</p>
2. Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with <i>Fighting Fraud Locally</i> ?	Yes		<p>The National Fraud Authority's document <i>Fighting Fraud Locally</i> was also discussed at the September 2012 Audit Committee, but the Audit Commission checklist is used for review.</p>	<p>Unchanged.</p>

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	Yes	No	2012 Response	2013 Update
General				
3. Do we have dedicated counter-fraud staff?	Yes		A dedicated housing benefit fraud and visiting team cover revenues, benefits and housing. Counter fraud and corruption arrangements are a key part of the internal audit of the Council's financial systems and governance framework. The 2013/14 Internal Audit Plan includes specific resources for counter fraud work, in response to the action plan from the National Fraud Authority's document <i>Fighting Fraud Locally</i> .	Unchanged. The body of the report summarises the Counter Fraud work carried out in 2013/14.
4. Do counter-fraud staff review all the work of our organisation?	Yes		The internal audit plan covers all of the activities of the Council through a risk based audit approach. Vulnerability to fraud is one of the key components that determine the frequency of audit and resources used for any specific audit area.	In including days in the Internal Audit Plans for specific counter audit activities, a sub-plan was devised to direct the related work in an effective way.
5. Does a councillor have portfolio responsibility for fighting fraud across the Council?		No	New 2013.	No specific member but there is shared responsibility particularly through the Audit Committee who recommend approval of the policy, receive an update of any alleged fraud and this and similar review checklists.
6. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?	Yes		Internal Audit plans are presented to the Audit Committee annually and monitoring reports on activities include fraud risks and a summary of any investigations and their outcomes. Quarterly reports advise the Committee of any suspected or actual fraud identified.	Unchanged. Internal Audit brought together a centralised list of fraud risks as part of the Internal Audit team's counter fraud work.

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General				
7. Have we assessed our management of counter-fraud work against good practice?	Yes		Audit Commission Protecting the Public Purse checklists was completed and presented to members in 2009, 2010, 2011, 2012 and 2013. The National Fraud Authority's document <i>Fighting Fraud Locally</i> was considered by the September 2012 Audit Committee.	Annual review carried out using the Audit Commission checklist Protecting the Public Purse, this being the latest.
8. Do we raise awareness of fraud risks with: <ul style="list-style-type: none"> • New staff (including agency staff)? • Existing staff? • Members? • Our contractors? 	Yes		The Council's commitment to the Anti-Fraud and Corruption Policy and Strategy is communicated to new staff at induction days and existing staff through the Intranet and leaflets on notice boards linked to the Whistle Blowing Policy. An item in the Council's 'Friday Flash' and Members' Bulletin was used to promote the Council's zero tolerance with a link to the revised Policy and Strategy, supported by the Audit Committee. Contractors – fraud risks are managed actively through set pricing schedules and checking of invoices. All Council contracts include our corruption & bribery warnings as standard (this is mandated along with full anti-fraud criteria for EU contracts in line with the directives).	As paragraph 1 and unchanged. <i>Action:</i> The Anti-Fraud leaflets may benefit from a refresh in 2014.

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	Yes	No	2012 Response	2013 Update
General				
9. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?	Yes		<ul style="list-style-type: none"> The Audit Commission's data matching service (NFI); The dedicated Housing Benefit Fraud Team and Internal Audit subscribe to the National Anti-Fraud Network and receive 'Intelligence Bulletins' that alert readers to identified alleged frauds and scams. These are reviewed and forwarded to the relevant service to enable them to ensure the Council is not at risk of an equivalent fraud. The Council subscribes to the CIPFA Technical Information Service and other bulletins; Liaison with other audit and benefit teams particularly in Devon. <p>In addition the Department for Work and Pensions Housing Benefits Matching Service is used on a monthly basis. Reference has been made to a private sector company that help businesses to manage credit risk and prevent fraud. Internal Audit shares data with neighbouring Council teams relating to fraud and the system weaknesses that allowed the fraud to be perpetrated.</p>	Unchanged, plus: The dedicated Housing Benefit Fraud Team has signed up to NFI's flexible matching for 2013 (additional matching on certain higher risk data streams). At the time of this report the details have yet to be finalised but are likely to included Council Tax single person discount.
10. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	Yes		As 9 above plus the Benefits Fraud Team have working arrangements and monitoring meetings with the Department for Work and Pensions (DWP), both Exeter and Plymouth offices.	As 9 above.

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General				
11. Do we identify areas where internal controls may not be performing as intended? How quickly do we then take action?	Yes		Internal audit process, results reported to managers, senior managers in detail and in summary to the Audit Committee. Vulnerability to fraud also consider at the start of each individual audit. Action taken quickly depending on the significance of the non performing control and whether other compensating controls are in place to maintain integrity. Internal Audit will carry out some counter fraud enquiries using Computer Assisted Audit techniques (CAATs).	Unchanged. Internal Audit has carried out some counter fraud enquiries using Computer Assisted Audit techniques (CAATs) to identify potential fraud as part of the 2013/14 Counter Fraud work.
12. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative (NFI) and receive reports on our outcomes?	Yes		The Council takes part in the Audit Commission NFI. Action is taken and outcomes are reported to the Audit Committee by exception through normal reporting channels where appropriate. Members were updated with the Council's work on the NFI in September 2012. The results of the latest matched have been released to the Council by the Audit Commission (February 2013).	The Audit Committee will be updated with the results of the latest NFI data matching work which must be completed by the Council by the 31 st March 2014. Internal Audit monitored progress as part of the Counter Fraud work in September 2013.
13. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?	Yes		An updated Anti Money Laundering Policy and Procedure was approved by the Council upon the recommendation of the June 2012 Audit Committee, and published on the Council's Intranet and Website.	Unchanged.
14. Do we have effective arrangements for: <ul style="list-style-type: none"> • Reporting fraud?; and • Recording Fraud? 	Yes		A separate procedure document, 'Fraud Response Plan', has also been updated and made available to all staff via the Intranet. This links to the Disciplinary Policy and Whistleblowing Policy.	Unchanged.

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	Yes	No	2012 Response	2013 Update
General				
15. Do we have effective whistle blowing arrangements? In particular are staff: <ul style="list-style-type: none"> Aware of our whistle blowing arrangements? Have confidence in the confidentiality of those arrangements? Confident that any concerns will be addressed? 	Yes		The Council's Confidential Reporting (Whistleblowing) Policy was updated by the Monitoring Officer in March 2009 and related Frequently Asked Questions added. These are available to all staff and members on the Intranet including the Staff Pages. In addition a leaflet on staff notice boards provides further guidance. As discussed at 7 above, an email to all staff reminded them of the Confidential Reporting (Whistle Blowing) Policy.	Unchanged.
16. Do we have effective fidelity insurance arrangements?	Yes		Fidelity Insurance cover is in place, with the 'Sums Guaranteed' linked for designated officers to the risk of loss. Reviewed annually by Internal Audit as part of the Treasury Management audit with results reported to the Audit Committee.	Unchanged.
	Yes	No	2012 Response	2013 Update
Fighting Fraud with Reduced Resources				
17. Have we reassessed our fraud risks in the light of the current financial climate?	Yes		Various guidance taken into account during audit planning – e.g. CIPFA's "Auditing in an Economic Downturn".	Unchanged.
18. Have we amended our counter-fraud action plan as result?	Yes		The CIPFA documents cover a number of different areas that are already included in the risk based annual audit plan. Counter fraud action plan to be produced for 2013/14 using the resource put aside for specific counter fraud work. The current financial climate will contribute to the risks.	Counter fraud action plan has been audited for 2013/14 using the resource put aside for specific counter fraud work
19. Have we reallocated staff as a result?		No	As 18 above.	Unchanged.

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	Yes	No	2012 Response	2013 Update
Some Current Risk & Issues				
Housing Tenancy				
20. Do we take proper action to ensure that we only allocate social housing to those who are eligible?	Yes		<p>The Council is part of the countywide Choice Based Letting Scheme (Devon Home Choice).</p> <p>Applicants are assessed and placed into bands depending on circumstances and housing need by the responsible Council.</p> <p>Officers registering the data in the system raise any irregularities in application with the Fraud Team.</p> <p>Applicants are able to bid for allocation to a property advertised by the Registered Providers (RP). Allocation offers are made by the RP to the applicant with the highest band/longest time in the band.</p> <p>The RP must verify that the details provided by the applicant are correct prior to allocation.</p>	<p>Unchanged.</p> <p>The Council supports a partnership lead by Plymouth City Council which was successful in securing grant funding from central government to tackle social housing fraud.</p> <p>The 'Devon Social Housing Fraud Team' (3 posts, one appointed and two being recruited) will investigate cases of possible social housing fraud on participating Devon Home Choice partner landlords and prosecute where appropriate.</p>
21. Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?	N/A	N/A	<p>It is the responsibility of the Registered Provider (RP) to ensure that the social housing is occupied by those to whom it is allocated, but the Council confirms that the occupation has been completed as expected using the Landlords update on the Devon Home Choice website.</p>	Unchanged.

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	Yes	No	2012 Response	2013 Update
Some Current Risk & Issues				
Procurement				
22. Are we satisfied that procurement controls are working as intended?	Yes		<p>Audited annually without significant issues being raised.</p> <p>Relatively low value procurement covered in the annual creditor payment audit and service audits.</p> <p>Higher values in the annual capital expenditure audit.</p> <p>Contract Procedure Rules and other key procurement documents are readily available as is the advice of the Corporate Procurement Officer who is actively involved in all procurement over £30k.</p> <p>A system exists to 'waive' the rules in specific circumstances and depending on the value, with the approval of the statutory officers and Internal Audit as minimum but without the need for a full report to members.</p>	Unchanged.
23. Have we reviewed our contract letting procedures since the investigations by the Office of Fair Trading into cartels and compared them with best practice?	Yes		<p>The Contract Procedure Rules were updated and aligned with West Devon Borough Council's equivalent, approved by the Council on November 2011 upon the recommendation of the September 2011 Audit Committee. They reflect the guidance issued by the Office of Fair Trading.</p> <p>The guidance issued by the Office of Fair Trading, which includes reducing the risk of illegal practices such as cartels, will be considered at the next review, the results of which will be presented to members later in the year.</p>	<p>Unchanged.</p> <p><i>Action:</i> Contract Procedure Rules may benefit from a review and update during 2014.</p>

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	Yes	No	2012 Response	2013 Update
Some Current Risk & Issues (continued)				
Recruitment				
24. Are we satisfied our recruitment procedures:				
<ul style="list-style-type: none"> Prevent us employing people working under false identities? Confirm employment references effectively? Ensure applicants are eligible to work in the UK? Require agencies supplying us with staff to undertake the checks that we require? 	Yes		Successful candidates are required to provide two forms of identity. Referees provided by the applicant are written to by the Council. Evidence of the right to work in the UK via a British passport is required or other relevant documentation in the exact terms expected by the Immigration, Asylum and Nationality Act 2006. Successful applicants are required to provide a National Insurance number. The Council's Agency contract requires the agency to undertake the same recruitment checks that the Council itself undertake.	Unchanged.
Personal Budgets				
25. Where we are expanding the use of personal budgets for social care, in particular direct payments, have we introduced appropriate safeguarding proportionate to risk and inline with recommended good practice?	N/A	N/A	No direct social care responsibilities.	Unchanged.
26. Have we updated our whistle blowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?	N/A	N/A	No direct social care responsibilities.	Unchanged.

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 Checklist for Those Responsible for Governance

	Yes	No	2012 Response	2013 Update
Some Current Risk & Issues (continued)				
Council Tax				
27. Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?	Yes		<p>Controls are in place for awarding discounts.</p> <p>The NFI also covers this area with cases identified by the data matching and discount removed.</p> <p>A data matching exercise was carried relating to single persons discount, to compare these discounts with information held in credit agency databases and having regard to the Data Protection Act.</p> <p>Letters were sent in January 2013 to those people where the numbers of residents don't match asking them to complete and sign a form.</p> <p>The forms returned were reviewed for fraud risk. If the forms were not returned, it was stated that the discount might be removed, following a reminder.</p> <p>The approach mirrors other Councils and is supported by Devon County.</p>	<p>Prior to 2014/15 bills being issued, the Council has started a rolling programme to review all discounts and exemptions for Council Tax.</p> <p>See also paragraph 9 re the NFI.</p>
Housing Benefit				
<p>28. When we tackle housing benefit fraud do we make full use of:</p> <ul style="list-style-type: none"> • National Fraud Initiative (NFI)? • Department for Work and Pensions Housing Benefit matching service; • Internal data matching; and • Private sector data matching. 	Yes		<p>Policies and procedures are in place as discussed in this checklist.</p> <p>Benchmarking with other local authorities of sanctions taken.</p> <p>A dedicated fraud hotline is available to the public who can anonymously give information about any fraudulent claimant - the Council investigates every report.</p>	<p>Unchanged.</p> <p>Members will be updated with the results of the latest NFI data matching at an Audit Committee in June 2014.</p>

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	Yes	No	2012 Response	2013 Update
Some Current Risk & Issues (continued)				
Housing Benefit (continued)				
28. When we tackle housing benefit fraud do we make full use of: <ul style="list-style-type: none"> • National Fraud Initiative (NFI)? • Department for Work and Pensions Housing Benefit matching service; • Internal data matching; and • Private sector data matching. 	Yes		Full use is made of the NFI and in addition the Department for Work and Pensions Housing Benefits Matching Service on a monthly basis. Reference was also made to a private sector company that helps businesses to manage credit risk and prevent fraud.	Unchanged. Members will be updated with the results of the latest NFI data matching at an Audit Committee in June 2014.
Emerging Fraud Risks				
29. Do we have appropriate and proportionate defences against fraud risks: <ul style="list-style-type: none"> • Business rates; • Local welfare assistance; • Council Tax reduction; • Grants? 	Yes		Internal controls are in place for business rates; discretionary housing payments; Council Tax support and Grants. These are all subject to review and testing by Internal Audit with the results reported to the relevant managers and a summary to the Audit Committee.	Unchanged. Local welfare assistance to be audited early in the 2014/15 audit plan.