

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
24 July 2018

From: Director of Finance (s151 officer)

Subject: **INTERNAL AUDIT AND COUNTER FRAUD ANNUAL REPORT 2017/18**

All Wards

1.0 PURPOSE AND BACKGROUND:

- 1.1 The work of internal audit is governed by the Accounts and Audit (England) Regulations and relevant professional standards. The Council has formalised its arrangements for internal audit within the Audit Charter.
- 1.2 In accordance with chapter 5 of the Council's Audit Charter, 'The Head of Internal Audit is required to provide an annual report to the Audit, Governance and Standards Committee. The report will be used by the Committee to inform its consideration of the Council's annual governance statement.'
- 1.3 The annual report summarises the outcomes of audit work undertaken in 2017/18. The report provides an opinion on the overall adequacy and effectiveness of the authority's framework of governance, risk management and control.
- 1.4 The report also updates the Committee on counter fraud work undertaken in 2017/18.

2.0 INTERNAL AUDIT

- 2.1 The results of completed audit work have been reported to relevant officers during the year. In addition summaries of all finalised audit reports have been presented to this committee as part of regular monitoring reports. Details of the audits finalised since the last report to this Committee in March 2018 are included in Appendix 2 to the supporting report contained in Annex 1.
- 2.2 Veritau has completed all audit fieldwork work and has issued all expected reports to management. All areas reviewed have been finalised with final reports and future actions agreed.
- 2.3 The overall opinion of the Head of Internal Audit on the governance, risk management, and control framework operating in the Council is that it provides **Substantial Assurance**. There are no qualifications to that opinion. No reliance was placed on the work of other assurance bodies in reaching this opinion. The Head of Internal Audit has reported that in his opinion there are no significant weaknesses in controls that need to be considered for inclusion in the Annual Governance Statement.
- 2.4 As highlighted in the report contained in Annex 1 there has been a range of assurance levels reported during the year. Two reports concluded as High Assurance, seven reports as Substantial Assurance, seven reports as Reasonable Assurance, one as Limited Assurance and two pieces of work had no opinion.
- 2.5 In completing work in 2017/18 Internal Audit have reviewed new risk areas or some areas to a greater depth to help further improve aspects of Council operations. The scope of agreed work is a good reflection of the collaborative working between management and Internal Audit and the focus on risk areas for improvement. The scope of the work and the nature of the findings underpinning the 2017/18 work, plus the wider knowledge of the

control environment are taken into account when the Head of Internal Audit provides his overall opinion on the governance, risk management, and control framework operating in the Council.

2.6 Veritau follow up previous findings to ensure the underlying control weaknesses are addressed. No additional weaknesses were found when completing that work in 2017/18.

2.7 Veritau has carried out its work in 2017/18 in accordance with the Public Sector Internal Audit Standards. Internal quality assurance procedures are in place and have covered all the work undertaken. In addition an external assessment of Veritau's arrangements was undertaken in 2014 by the South West Audit Partnership. The outcome from the review demonstrated that the service provided by Veritau conformed to the International Standards for the Professional Practice of Internal Auditing.

3.0 COUNTER FRAUD

3.1 The report enclosed in Annex 2 summarises counter fraud work undertaken in 2017/18.

4.0 LINK TO COUNCIL PRIORITIES

4.1 The work of internal audit supports the council's overall aims and priorities by promoting probity, integrity and honesty and by helping support the Council to become a more effective organisation.

5.0 RISK ASSESSMENT

5.1 There are no risks associated with this report.

6.0 FINANCIAL IMPLICATIONS:

6.1 There are no financial implications associated with this report.

7.0 LEGAL IMPLICATIONS:

7.1 There are no legal implications associated with the recommendations in the report.

8.0 EQUALITIES AND DIVERSITY ISSUES:

8.1 There are no equalities or diversity issues associated with the report.

9.0 RECOMMENDATIONS:

9.1 Members are asked to:-

- (1) note the results of the audit and counter fraud work undertaken in 2017/18; and
- (2) accept the opinion of the Head of Internal Audit on the adequacy and effectiveness of the authority's internal control environment.

LOUISE BRANFORD WHITE
DIRECTOR OF FINANCE (S151 OFFICER)

Background papers: None

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Hambleton District Council
Internal Audit Annual Report
2017/18

Audit Manager: Stuart Cutts
Head of Internal Audit: Max Thomas

Circulation List: Members of the Audit, Governance & Standards Committee
Director of Finance (s151 officer)

Date: 28 June 2018

Background

- 1 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In connection with reporting, the relevant PSIAS standard (2450) states that the Chief Audit Executive (CAE)¹ should provide an annual report to the board². The report should include:
 - (a) details of the scope of the work undertaken and the time period to which the opinion refers (together with disclosure of any restrictions in the scope of that work)
 - (b) a summary of the audit work from which the opinion is derived (including details of the reliance placed on the work of other assurance bodies)
 - (c) an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment)
 - (d) disclosure of any qualifications to that opinion, together with the reasons for that qualification
 - (e) details of any issues which the CAE judges are of particular relevance to the preparation of the Annual Governance Statement
 - (f) a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme
- 2 During the year to 31 March 2018 the Authority's internal audit service was provided by Veritau Limited.

Internal audit work carried out in 2017/18

- 3 During 2017/18, internal audit work was carried out across the full range of the council's activities. The main areas of internal audit activity included:
 - **Financial systems** – Work in this area provides assurance to the council on the adequacy and effectiveness of financial system controls. This helps support the work of the external auditors and provides assurance to the Authority the risk of financial loss is minimised.
 - **Performance and Improvement** – to help provide support on data quality and to help drive continuous improvement.
 - **Operational Systems** – providing assurance on operational systems and processes which support service delivery.
 - **Governance and Risk Management** – providing assurance on governance and systems to manage risks to the achievement of corporate objectives.
 - **General Advice and Support** – We provide regular advice and support to officers on a range of specific business and internal control issues. This work helps to provide 'real time' feedback on areas of importance to the Council.

¹ The PSIAS refers to the Chief Audit Executive. This is taken to be the Head of Internal Audit.

² The PSIAS refers to the board. This is taken to be the Audit and Performance Review Committee.

- **Financial assessments;** this work supports the assurance process by using financial reports obtained from Experian (Credit Rating Agency) to assess the financial standing of potential contractors. In August and September 2017 we worked alongside the Director of Finance (s151 officer) and the Corporate Finance Manager to appraise the financial and management information of Broadacres Housing Association. This work provided important due diligence information to Management and will be used in future decision making.
 - **Follow up of previously raised findings** - it is important agreed actions are followed up to ensure that they have been implemented. Veritau follow up agreed actions on a regular basis during the year taking account of the timescales previously agreed with management for implementation. Our work shows that generally, good progress has been made by management during the year to address previously identified control weaknesses.
- 4 Appendix 1 provides a summary of the audit work carried out in the year, and the opinions given for each completed audit. Work has been reported to this committee during the course of the year as part of regular monitoring reports. Details of work not previously reported to the committee are included in appendix 2. The opinions and priority rankings used by Veritau are detailed in appendix 3.

Compliance with Professional Standards

- 5 The work of internal audit has been undertaken in accordance with the PSIAS.
- 6 Veritau maintains a quality assurance and improvement programme (QAIP) to ensure that internal audit work is conducted to the required professional standards. Quality assurance arrangements include ongoing operational procedures, annual internal self assessment against the PSIAS, and periodic external assessment. Further details on the QAIP and the outcomes of the quality assurance process are provided in **appendix 4**.

Audit Opinion and Assurance Statement

- 7 The overall opinion of the Head of Internal Audit on the governance, risk management, and control framework operating in the council is that it provides **Substantial Assurance**. There are no qualifications to that opinion. No reliance was placed on the work of other assurance bodies in reaching this opinion. There are also no significant control weaknesses which, in the opinion of the Head of Internal Audit need to be considered for inclusion in the Annual Governance Statement.



Max Thomas
Director and Head of Internal Audit
Veritau Ltd
27 June 2018

Appendix 1

Audit	Status	Assurance Level	Audit Committee
Director of Finance (s151 Officer)			
Revenues and Benefits			
Council Tax and NNDR	Final Report	High Assurance	July 2018
Housing Benefits	Final Report	Reasonable Assurance	July 2018
Corporate Finance			
Payroll and Overtime	Final Report	Reasonable Assurance	January 2018
Creditors	Final Report	Substantial Assurance	July 2018
Sundry Debtors	Final Report	Reasonable Assurance	July 2018
Income and Receipting	Final Report	Substantial Assurance	March 2018
Performance and Improvement			
Risk Management	Final Report	Substantial Assurance	July 2018
Project Management	Final Report	Reasonable Assurance	July 2018
ICT Network Management	Final Report	Substantial Assurance	January 2018
Projects			
Purchase to Pay	Deferred	-	-
Payment Card Industry Data Security Standard (PCI DSS)	Deferred	-	-
Financial Appraisals – Broadacres	Completed	No opinion	October 2017
Director of Leisure and Environment			
Emergency Planning and Business Continuity	Final Report	Reasonable Assurance	July 2018
Disaster Recovery	Final Report	Substantial Assurance	July 2018
Pre Employment Checks	Final Report	Reasonable Assurance	January 2018
Environmental Health	Final Report	Reasonable Assurance	July 2018
Director of Law and Governance			
Procurement	Final Report	Substantial Assurance	July 2018
Contract Management	Final Report	Substantial Assurance	July 2018
Licensing	Final Report	High Assurance	July 2018
Director of Economy and Planning			
Design and Maintenance	Final Report	Limited Assurance	January 2018
Development Management	Completed	No opinion	July 2018
Follow-Ups	Completed		

Summary of key issues from finalised 2017/18 audits not previously reported to committee

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Housing Benefits	Substantial Assurance	<p>We reviewed the key risks/controls involved in awarding and paying benefits to ensure:</p> <ul style="list-style-type: none"> New claims were processed accurately and in a timely manner. Claimants in 'specified accommodation' had claims processed in line with legislation. Monitoring and the review of current claims was efficient and effective. 	June 2018	<p>Strengths New claims were being processed accurately by the Housing Benefits Team. All claims tested had appropriate supporting documentation. Any claims that required additional documentation were being chased in a timely manner.</p> <p>No issues were found with the processing of 'specified accommodation' claims. Appropriate monitoring is in place for high risk cases.</p> <p>Areas for improvement No formal procedure notes existed for processing 'specified accommodation' claims.</p> <p>A range of methods are currently used by the Benefits Team to review ongoing Housing Benefit claims. We suggested some potential changes to use Real Time monitoring Information (RTI) which was not being used as extensively as it could be.</p>	<p>Procedure notes on specified accommodation claims will be prepared.</p> <p>An updated Housing Benefits Monitoring Strategy is to be implemented.</p> <p>Both actions are planned to be completed by the end of November 2018.</p>
Council Tax and NNDR	High Assurance	A review of the key risks/controls for the setting and collection of local tax covering income collection performance management and the new transitional arrangements introduced from 1 April 2017 to reduce the effect of large revaluations.	June 2018	<p>Strengths Reconciliations of the rateable value and Council Tax Bands are undertaken each week to Valuation Office (VO) records. We confirmed that correct values had been used.</p> <p>There is a suitable, timely and robust recovery process for accounts in arrears. Write off procedures are robust and include proper authorisation. We sampled debts written off for both Council Tax and NNDR. All tested have been correctly authorised and were supported with appropriate documentation.</p>	The findings on transitional relief were promptly and fully addressed when raised during the audit and prior to NNDR billing for 2018/19.

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>Access rights had been removed correctly for leavers.</p> <p>The two previous actions have been implemented.</p> <p>Areas for improvement A small number of errors were identified with the level of transitional relief awarded. Management discussed the findings with Northgate (the supplier of the Revenues system) who had to run new system scripts to help address the highlighted issues.</p>	
Creditors	Substantial Assurance	<p>We reviewed the procedures and controls within the creditor payments system to ensure:</p> <ul style="list-style-type: none"> • Procedures were efficient and supported with up to date procedure notes. • Duplicate creditor payments are prevented and identified if they occur. • Separation of duties was maintained. • Changes made to supplier's bank accounts were authorised, appropriate and in line with Council procedures. • Previous audit actions have been fully addressed. 	March 2018	<p>Strengths All invoices reviewed were authorised in line with current version of the Delegated authority list.</p> <p>The Council continues to have strong controls for identifying and preventing duplicate payments. No duplicate payments were found from our analysis of all invoices paid between April and November 2017.</p> <p>The previous audit found a lack of separation of duties between originator and authoriser of some invoices. We saw adequate controls had been introduced.</p> <p>Areas for improvement Procedure notes for changing supplier's bank accounts were not fully complete. Some procedure notes relating to the payment run were out of date and did not reflect current processes.</p> <p>Our work in 2016/17 had identified no formal review was taking place when changes were made to suppliers' bank details or a new supplier was being set up. An electronic control was introduced to record all amendments to the system. Audit testing in</p>	<p>Procedure notes will be updated in 2018 to reflect the current working practices for changing supplier's bank accounts and for the payment run.</p> <p>The process for recording new/changed bank details was reiterated with officers and reflected in procedure notes updated in May 2018.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				2017/18 saw this control was not being followed in all occasions.	
Sundry Debtors	Substantial Assurance	<p>We reviewed the Sundry Debtors system to ensure:</p> <ul style="list-style-type: none"> Procedures for Sundry Debt recovery were efficient, embedded and compliant Appropriate separation of duties was maintained System notes were maintained and up to date 	June 2018	<p>Strengths Our sample review of 20 invoices highlighted no internal control weaknesses.</p> <p>All sample invoices were raised within 3 days in accordance with council policy. They also contained accurate information which matched the invoice requests.</p> <p>A number of procedures are performed by the Business Support Officers to process invoice requests, raise invoices and recover the outstanding debts. We found a number of key controls are in place and were working effectively.</p> <p>Areas for improvement We highlighted 3 processes being completed that could be stopped without any adverse impact on internal control.</p> <p>HDC's policy is to raise an invoice within 3 days. Our review noted invoices being raised in small numbers on average more than twice daily. The Council should be able to reduce the frequency of raising invoices without impacting on policy objectives.</p> <p>The procedure notes do not reflect the entire sundry debtor's process. The procedure notes were last updated in 2016.</p>	<p>We will review the processes highlighted for potential to be removed and implement changes as required.</p> <p>The current policy and application of policy for raising invoices will be reviewed and reconsidered.</p> <p>Procedure notes will be created and updated to reflect current working practices.</p>
Risk Management (follow up)	Substantial Assurance	Different aspects of risk management have been reviewed each year since 2014/15. We have worked closely with officers to help	June 2018	<p>Strengths Good progress had been made in addressing the actions from the 2016/17 report.</p>	Work is ongoing to cascade and embed the new arrangements.

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		<p>support and challenge the risk management arrangements in place.</p> <p>Officers are in the process of significantly changing and improving the risk management framework in place. Our work this year reviewed the progress against the actions from the 2016/17 Risk Management audit.</p>		<p>Updated Risk Management training has been developed and was delivered to relevant officers in May 2018. Operational risks and key risk indicators were included in the training to help enable a more effective approach when risk scoring takes place. Risk registers have been updated and now include review dates and enable the evaluation of gross and net risk.</p> <p>The risk management policy has been amended to reflect, and enforce the changes in the framework and more clearly defines risk appetite A strategic risk management group now meets on a monthly basis.</p> <p>Areas for improvement To take the new policies, procedures and thinking and embed within the working practices of the Council.</p>	
Project Management	Reasonable Assurance	<p>The effective management of projects has increased in significance and importance across the public sector. Organisations now have to adopt more structured approaches to delivering services. They also have an increasing number and variety of projects, plans and schemes to manage.</p> <p>Our review of project management considered whether:</p> <ul style="list-style-type: none"> • A clear and effective project management framework was in place • All staff are aware of their project management roles and responsibilities 	April 2018	<p>Strengths The Council has a number of project management templates to help support the project management process.</p> <p>There is an effective approval process in place for capital programme projects within the Council.</p> <p>Areas for improvement Current project management information is not user friendly. There is no guidance for officers to refer to when using the project management templates.</p> <p>Project management documentation has not been reviewed for a number of years. Training has not been delivered on project management since 2013.</p> <p>The approval process for projects not part of the capital programme is unclear.</p>	<p>The audit was chosen knowing the area had not been reviewed internally for some time. An internal review originally planned for 2017/18 will now be undertaken in 2018/19. This audit work will be used to help focus on the areas that require improvement.</p> <p>A project guidance document will be produced.</p> <p>A projects approval process, including clearly defined reporting levels, will be incorporated into the project guidance document.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		<ul style="list-style-type: none"> Projects currently being undertaken within the Council are carried out in line with expected requirements 		<p>There is no formal guidance on internal monitoring and governance arrangements for projects including clearly defined reporting levels.</p>	<p>Training will be provided on the Council's project management process.</p>
Emergency Planning & Business Continuity	Reasonable Assurance	<p>The council's responsibilities for business continuity fall under the Civil Contingencies Act 2004 which states councils should ensure they can continue to deliver their functions in an emergency 'so far as is reasonably practicable'.</p> <p>We reviewed Emergency Planning and Business Continuity to see whether:</p> <ul style="list-style-type: none"> Comprehensive Business Continuity plans were in place, The significance of Business Continuity had been effectively promoted and embedded across key service areas, and An Emergency Plan with clearly defined roles and responsibilities for responding to a major incident had been established 	March 2018	<p>Strengths Progress has been made to address some of the recommendations from previous audits. Officers are working towards having a comprehensive Business Continuity plan embedded across the authority.</p> <p>All departments have completed the first step of the Business Continuity process and identified critical services in a Business Impact Analysis (BIA). All documents were created using a consistent template. All services have assessed their risks and identified critical services in line with best practice guidelines.</p> <p>Emergency Plans were 'fit for purpose'. Clear guidelines were in place for officers to effectively respond to an emergency incident. Regular review and testing of these plans takes place.</p> <p>Areas for improvement Some previous audit actions due to be completed in September 2017 were not yet fully completed.</p> <p>The Business Continuity risk on the corporate risk register has not been updated since 2016/17. Some of the Business Impact Assessments (BIA) had not been completed accurately.</p> <p>Business Continuity documents completed by Service Managers had not been collectively monitored or reviewed for quality assurance and compliance purposes. Current Business Continuity arrangements were not effectively promoting collaborative working between different service</p>	<p>Outstanding actions from the 2016/17 Business Continuity Action Plan will be completed as a priority.</p> <p>Critical services from BIAs are now being incorporated into the corporate BC plan.</p> <p>Business Continuity risks and actions will be updated on the corporate risk register.</p> <p>Meetings have been held with each Directorate to review their BIAs, provide feedback to service managers and approve if they have been satisfactorily completed.</p> <p>The requirement to review BIAs is now included within each area's service plan.</p> <p>The Emergency Planning Partnership will be amended to clearly show Business Continuity roles and responsibilities for each Authority.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>areas.</p> <p>The Partnership agreement between HDC and the Emergency Planning Department at NYCC does not clearly state the Business Continuity roles and responsibilities of HDC and NYCC.</p>	<p>Collaborative working between service areas will be incorporated into BC planning arrangements as they continue to develop.</p>
Disaster Recovery	Substantial Assurance	<p>The purpose of this audit was to provide assurance to management that procedures and controls for Disaster Recovery (DR) ensured:</p> <ul style="list-style-type: none"> The council maintains a DR plan which is regularly reviewed and meets the relevant business continuity requirements Regular testing of DR is completed to ensure the plan is fit for purpose DR Roles and responsibilities are clearly defined 	March 2018	<p>Strengths</p> <p>A comprehensive DR plan is in place at HDC which is reviewed regularly to help ensure it remains up to date. The plan was last updated in January 2018 to reflect changes in the IT team.</p> <p>The DR plan had roles and responsibilities clearly documented and assigned for IT officers.</p> <p>Restoration and restart procedures are recorded in priority order within the plan. This will help enable officers to recover the authority's IT functions and ensuring critical systems are given precedence in the event of an emergency or disruption.</p> <p>Areas for improvement</p> <p>The DR Plan does not contain a section where senior management approval could be indicated.</p> <p>The relationship between Disaster Recovery and Business Continuity is not fully developed and arrangements within the plans are not cross referenced and standardised.</p>	<p>DR information will be incorporated into the corporate Business Continuity plan.</p> <p>Approval will be completed by the Management Team once all relevant actions have been completed.</p>
Environmental Health	Reasonable Assurance	<p>We reviewed arrangements at Environmental Health to assess whether:</p> <ul style="list-style-type: none"> Service Plans were fit for purpose, proportionate and all targets and objectives were 	May 2018	<p>Strengths</p> <p>Considerable effort has been made to respond to and improve on the issues raised in the 2016/17 audit.</p> <p>An Environmental Health improvement plan is in place with actions which are due to be completed in</p>	<p>We have upcoming training and consultancy days that will be arranged with IDOX to help provide officers with the knowledge to carry out the majority of the actions</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		<p>regularly assessed by management</p> <ul style="list-style-type: none"> • Managerial and departmental meetings are producing useful outcomes that are regularly reviewed • The IDOX Uniform system improvement plan is delivering increased efficiency and streamlining processes <p>Our audit work in 2016/17 on Environmental Health had highlighted a number of weaknesses and so this audit built on that work. The system suppliers of IDOX also completed a 'health check' review in 2016 and highlighted some areas for improvement.</p>		<p>December 2018. The Environmental Health Service plan and Food Service plan have been improved.</p> <p>Key Performance indicators have been streamlined. They are also regularly updated and monitored by management and include estimated targets for each quarter. The Food Service is currently meeting or exceeding these quarterly targets. Regular meetings are now held between the Head of Service and Environmental Health Manager which include a review of performance. Actions are assigned to officers and reviewed as part of these meetings.</p> <p>Areas for improvement The Management Team are unable to obtain comprehensive reports from the IDOX Uniform system. Considerable time is spent manually obtaining key performance information to update the Service Plan and statutory reports.</p> <p>A number of the urgent and best practice recommendations made in the 2016 report by IDOX have not yet been implemented.</p> <p>The IDOX Uniform system is behind on an update and numerous patches are outstanding.</p> <p>Roles and Responsibilities for the IDOX User Groups have not been documented, assigned or approved. An overview of the meetings aims and operational details are not in place. To date, little progress to meeting the group's aims and objectives has been made.</p>	<p>in the IDOX audit as well as automating reporting. On-going support will be required from the IT service and IDOX.</p> <p>Upgrades to the next version of Uniform are being tested.</p> <p>We will formalise a procedure to identify and apply patches and upgrades with IT. A meeting is arranged to discuss the future use of Uniform including, clarifying responsibilities.</p> <p>EH is in a position to move the group forward. However at this time it is not considered a priority as officers will be able to contribute and be more effective in the group following the training that will be provided by IDOX.</p>
Procurement	Substantial Assurance	Our review of procurement considered whether:	April 2018	<p>Strengths All contracts were procured within the correct thresholds per the financial regulations and signed by</p>	Reminder to Service Managers to use documents from the suite of

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		<ul style="list-style-type: none"> • Detailed and sufficient policies and procedures are in place and are reviewed regularly • Policies and procedures are being followed consistently across the authority • Best value is actively achieved and demonstrated by Officers <p>A sample of 14 contracts from a number of service areas across the authority was reviewed.</p>		<p>officers with the appropriate delegated authority. Up to date financial regulations are in place.</p> <p>Best value was demonstrated using detailed tender specifications, with pre-defined scoring criteria relevant to the individual procurement exercise. The complexity and nature of the scoring criteria was bespoke to each procurement exercise.</p> <p>Areas for improvement Completed standard procurement templates were not provided for 4/14 items tested. One contract was automatically extended as the officer did not review the contract until after the necessary deadline.</p> <p>There was no routine review of internal procurement documentation. Updates to procurement documents could be directly highlighted/communicated to staff.</p>	<p>standard procurement documents available on the Groups and Services shared area.</p> <p>Introduce 2 year rolling review of the suite of standard procurement documents.</p>
Contract Management	Substantial Assurance	<p>Our review of contract management considered whether:</p> <ul style="list-style-type: none"> • A complete, up to date, and accurate Contract Register was maintained • Contracts are managed in line with expected policy and procedures • Contracts help achieve Council corporate objectives and provide value for money over the contract duration 	June 2018	<p>Strengths In most cases our testing of contracts found they were managed in line with expected policy and procedures.</p> <p>For all contracts a preliminary meeting took place to ensuring contractual arrangements were outlined and mutual understanding between parties existed.</p> <p>Appropriate communication plans at strategic and operational level were in place for all of the contracts reviewed. All the contracts had appropriate budget management of the contract and relevant service area they related to.</p> <p>Areas for improvement Review meetings with suppliers do not routinely discuss Key Performance Information. Consequently one of the contracts we reviewed did not address</p>	<p>In respect of the one contract highlighted, the relevant officer will conduct a review of performance in accordance with the Contract Management guidance.</p> <p>Procurement and Legal will review the highlighted anomalies between the contract register and service plans and update the contract register with the information required to be recorded.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>contractual under performance highlighted in the Key Performance Indicators.</p> <p>Some entries on the contract register were incomplete and outdated.</p>	
Licensing	High Assurance	<p>Our review of licensing considered whether:</p> <ul style="list-style-type: none"> • Policies, procedures, licence fees and fares are reviewed at regular intervals • Applications are processed in accordance with legislation with appropriate checks taking place before a licence is issued • On each license application the relevant authorities are consulted within statutory timescales • Fees charged by the Council cover reasonable costs • Suitable action is taken by the Council to ensure compliance with licence conditions • Performance data is calculated regularly and reported to the appropriate level of management 	June 2018	<p>Strengths Policies, procedures, licence fees and fare scales had been reviewed at regular intervals and reflected recent changes in legislation.</p> <p>Applications had been processed in accordance with legislation. Appropriate checks were taking place before a licence is issued.</p> <p>The Licensing Enforcement Officer undertakes enforcement using an Enforcement Action Plan for 2017/18. This is updated annually and sets proposed enforcement action for the coming year.</p> <p>Performance data is produced quarterly for Senior Management. This includes reporting against statutory deadlines, where applications have not been decided within the 29 day timescale.</p> <p>Areas for improvement No areas for improvement highlighted.</p>	-

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Development Management	No opinion given	<p>The Authority is investing extra monies to help develop the structures, systems and processes on Development Management.</p> <p>We completed some preliminary audit work to understand the development management system, risks, processes, controls and plans in advance of more detailed work included in the 2018/19 Internal Audit plan.</p>	April 2018	<p>We reviewed planning applications, enforcement control and performance reporting. Our work showed controls within the above systems appear to be satisfactory.</p> <p>We highlighted five areas for future consideration by management as they continue to develop the service, systems and processes.</p>	Items noted and planning for the 2018/19 audit work is already underway.

Audit Opinions and Priorities for Actions

Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

VERITAU**INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME****1.0 Background**Ongoing quality assurance arrangements

Veritau maintains appropriate ongoing quality assurance arrangements designed to ensure that internal audit work is undertaken in accordance with relevant professional standards (specifically the Public Sector Internal Audit Standards). These arrangements include:

- the maintenance of a detailed audit procedures manual
- the requirement for all audit staff to conform to the Code of Ethics and Standards of Conduct Policy
- the requirement for all audit staff to complete annual declarations of interest
- detailed job descriptions and competency profiles for each internal audit post
- regular performance appraisals
- regular 1:2:1 meetings to monitor progress with audit engagements
- induction programmes, training plans and associated training activities
- the maintenance of training records and training evaluation procedures
- agreement of the objectives, scope and expected timescales for each audit engagement with the client before detailed work commences (audit specification)
- the results of all audit testing and other associated work documented using the company's automated working paper system (Galileo)
- file review by senior auditors and audit managers and sign-off of each stage of the audit process
- the ongoing investment in tools to support the effective performance of internal audit work (for example data interrogation software)
- post audit questionnaires (customer satisfaction surveys) issued following each audit engagement
- performance against agreed quality targets monitored and reported to each client on a regular basis.

On an ongoing basis, samples of completed audit files are also subject to internal peer review by a senior audit manager to confirm quality standards are being maintained. Any key learning points are shared with the relevant internal auditors and audit managers. The Head of Internal Audit will also be informed of any general areas requiring improvement. Appropriate mitigating action will be taken (for example, increased supervision of individual internal auditors or further training).

Annual self-assessment

On an annual basis, the Head of Internal Audit will seek feedback from each client on the quality of the overall internal audit service. The Head of Internal Audit will also update the PSIAS self assessment checklist and obtain evidence to demonstrate conformance with the Code of Ethics and the Standards. As part of the annual appraisal process, each internal auditor is also required to assess their current skills and knowledge against the competency profile relevant for their role. Where necessary, further training or support will be provided to address any development needs.

The Head of Internal Audit is also a member of various professional networks and obtains information on operating arrangements and relevant best practice from other similar audit providers for comparison purposes.

The results of the annual client survey, PSIAS self-assessment and professional networking are used to identify any areas requiring further development and/or improvement. Any specific changes or improvements are included in the annual Improvement Action Plan. Specific actions may also be included in the Veritau business plan and/or individual personal development action plans. The outcomes from this exercise, including details of the Improvement Action Plan are also reported to each client. The results will also be used to evaluate overall conformance with the PSIAS, the results of which are reported to senior management and the board³ as part of the annual report of the Head of Internal Audit.

External assessment

At least once every five years, arrangements must be made to subject internal audit working practices to external assessment to ensure the continued application of professional standards. The assessment should be conducted by an independent and suitably qualified person or organisation and the results reported to the Head of Internal Audit. The outcome of the external assessment also forms part of the overall reporting process to each client (as set out above). Any specific areas identified as requiring further development and/or improvement will be included in the annual Improvement Action Plan for that year.

2.0 Customer Satisfaction Survey – 2018

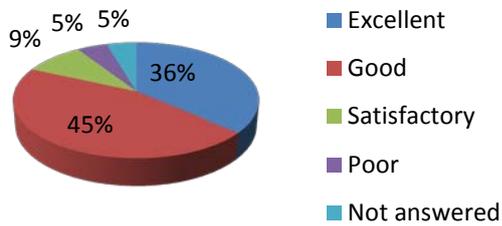
Feedback on the overall quality of the internal audit service provided to each client was obtained in March 2018. Where relevant, the survey also asked questions about the counter fraud and information governance services provided by Veritau. A total of 159 surveys (2017 – 149) were issued to senior managers in client organisations. 22 surveys were returned representing a response rate of 14% (2017 - 21%). The surveys were sent using Survey Monkey and respondents were asked to identify who they were. Respondents were asked to rate the different elements of the audit process, as follows:

- Excellent (1)
- Good (2)
- Satisfactory (3)
- Poor (4)

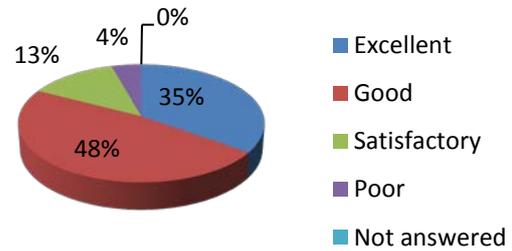
Respondents were also asked to provide an overall rating for the service. The results of the survey are set out in the charts below:

³ As defined by the relevant audit charter.

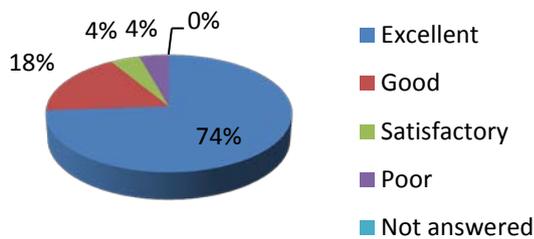
Quality of audit planning / overall coverage



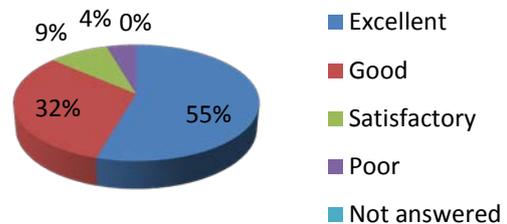
Provision of advice / guidance



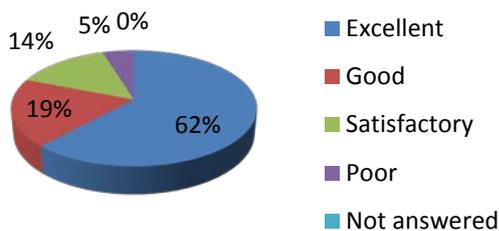
Staff - conduct / professionalism



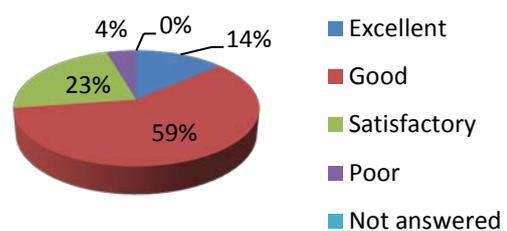
Ability to provide unbiased / objective opinions



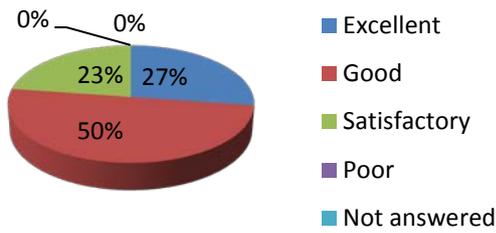
Ability to establish positive rapport with customers



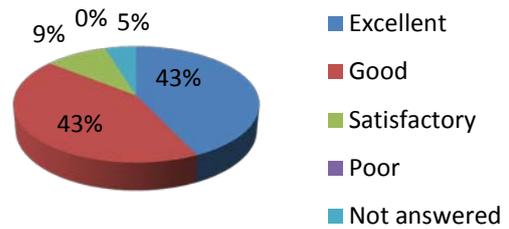
Knowledge of system / service being audited



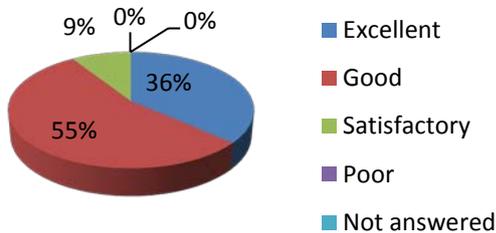
Ability to focus on areas of greatest risk



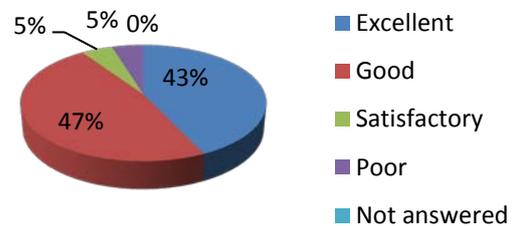
Agreeing scope / objectives of the audit



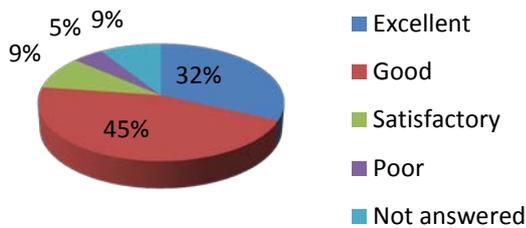
Minimising disruption to the service being audited



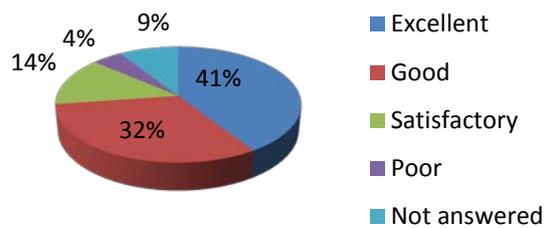
Communicating issues during the audit



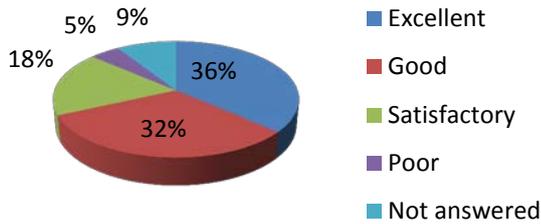
Quality of feedback at end of audit



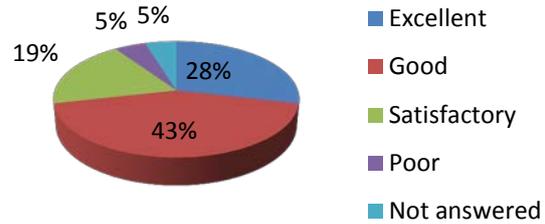
Accuracy / format / length / style of audit report



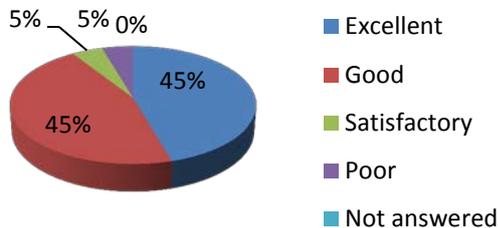
Relevance of audit opinions / conclusions



Agreed actions are constructive / practical



Overall rating for Internal Audit service



The overall ratings in 2018 were:

	2018		2017	
	Count	Percentage	Count	Percentage
Excellent	10	45%	11	27%
Good	10	45%	19	63%
Satisfactory	1	5%	2	10%
Poor	1	5%	0	0%

The feedback shows that the majority of clients continue to value the service being delivered.

3.0 Self Assessment Checklist – 2018

CIPFA prepared a detailed checklist to enable conformance with the PSIAS and the Local Government Application Note to be assessed. The checklist was originally completed in March 2014 but has since been reviewed and updated annually. Documentary evidence is provided where current working practices are considered to fully or partially conform to the standards.

The current working practices are generally considered to be at standard. However, a few areas of non-conformance have been identified. These areas are mostly as a result of Veritau being a shared service delivering internal audit to a number of clients as well as providing other related governance services. None of the issues identified are considered to be significant and the existing arrangements are considered appropriate for the circumstances and hence require no further action.

The following areas of non-conformance remain unchanged from last year:

<u>Conformance with Standard</u>	<u>Current Position</u>
Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the Head of Internal Audit?	The Head of Internal Audit's performance appraisal is the responsibility of the board of directors. The results of the annual customer satisfaction survey exercise are however used to inform the appraisal.
Is feedback sought from the chair of the audit committee for the Head of Internal Audit's performance appraisal?	See above
Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the audit committee before the engagement was accepted?	Consultancy services are usually commissioned by the relevant client officer (generally the s151 officer). The scope (and charging arrangements) for any specific engagement will be agreed by the Head of Internal Audit and the relevant client officer. Engagements will not be accepted if there is any actual or perceived conflict of interest, or which might otherwise be detrimental to the reputation of Veritau.
Does the risk-based plan set out the - (b) respective priorities of those pieces of audit work?	Audit plans detail the work to be carried out and the estimated time requirement. The relative priority of each assignment will be considered before any subsequent changes are made to plans. Any significant changes to the plan will need to be discussed and agreed with the respective client officers (and reported to the audit committee).
Are consulting engagements that have been accepted included in the risk-based plan?	Consulting engagements are commissioned and agreed separately.
Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	Reliance may be placed on other sources of assurances where this is considered relevant. However, the Head of Internal Audit will only rely on other sources of assurance if he/she is satisfied with the competency, objectivity and reliability of the assurance provider.

4.0 External Assessment

As noted above, the PSIAS require the Head of Internal Audit to arrange for an external assessment to be conducted at least once every five years to ensure the continued application of professional standards. The assessment is intended to provide an independent and objective opinion on the quality of internal audit practices.

Whilst the new Standards were only adopted in April 2013, the decision was taken to request an assessment at the earliest opportunity in order to provide assurance to our clients. The assessment was conducted by Gerry Cox and Ian Baker from the South West Audit Partnership (SWAP) in April 2014. Both Gerry and Ian are experienced internal audit professionals. The Partnership is a similar local authority controlled company providing internal audit services to a number of local authorities.

The assessment consisted of a review of documentary evidence, including the self-assessment, and face to face interviews with a number of senior client officers and Veritau auditors. The assessors also interviewed an audit committee chair.

The conclusion from the external assessment was that working practices conform to the required professional standards. Copies of the detailed assessment report were provided to client organisations and, where appropriate, reported to the relevant audit committee.

5.0 Improvement Action Plan

No specific changes to working practices have been identified in 2018. However, to enhance the overall effectiveness of the service, the following areas continue to be a priority in 2018/19:

- Further development of in-house technical IT audit expertise
- Implementation of the data analytics strategy (stage 1) and investment in new capabilities
- Improved work scheduling, clearer prioritisation of objectives for individual assignments to enable them to be managed within budget, and better communication and agreement with clients on timescales for completion of audit work.

6.0 Overall Conformance with PSIAS (Opinion of the Head of Internal Audit)

Based on the results of the quality assurance process I consider that the service generally conforms to the Public Sector Internal Audit Standards, including the *Code of Ethics* and the *Standards*.

The guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards. 'Partially conforms' means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit service from performing its responsibilities in an acceptable manner. 'Does not conform' means the deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit service from performing adequately in all or in significant areas of its responsibilities.



Hambleton District Council
Counter Fraud Annual Report
2017/18

Counter Fraud Manager: Jonathan Dodsworth

Head of Internal Audit: Max Thomas

Circulation List: Members of the Audit, Governance & Standards Committee
Director of Finance (s151 officer)

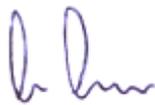
Date: 28 June 2018

Background

- 1 Fraud is significant risk to the public sector. Annual losses are estimated to exceed £40 billion in the United Kingdom.
- 2 Councils are encouraged to prevent, detect and deter fraud in order to safeguard public finances.
- 3 Veritau are engaged to deliver a corporate fraud service for Hambleton District Council. A corporate fraud service aims to investigate any fraud or related criminality affecting an organisation. Veritau deliver counter fraud services to the majority of councils in the North Yorkshire area as well as local housing associations and other public sector bodies.

Counter Fraud work carried out in 2017/18

- 4 Across 6 local authorities in 2017/18 Veritau detected £570k of fraud against its clients and produced £615k in actual savings.
- 5 Counter fraud work was undertaken in accordance with the approved plan. A summary of activity is included in **Appendix 1** of this report. Investigations this year have led to the £11.6k of savings being produced for Hambleton District Council. Overall, 50% of investigations resulted in a successful outcome.
- 6 A separate counter fraud report has been issued to the committee detailing priorities for 2018/19.



Max Thomas
Director and Head of Internal Audit
Veritau Ltd

28 June 2018

Background papers: None

Author ref: JD

Contact: **Jonathan Dodsworth; Counter Fraud Manager; Veritau North Yorkshire**
Jonathan.Dodsworth@veritau.co.uk

Counter Fraud Activity 2017/18

The table below shows the total number of fraud referrals received and summarises the outcomes of investigations completed during the year.

	2017/18 (Full Year: 31/3/18)	2016/17 (Full Year)
% of investigations completed which result in a successful outcome (for example benefit stopped or amended, sanctions, prosecutions, properties recovered, and housing allocations blocked).	50%	62%
Amount of actual savings (quantifiable savings - e.g. CTS) identified through fraud investigation.	£11,625	£21,955

Caseload figures for the period are:

	2017/18 (Full Year)	2016/17 (Full Year)
Referrals received	28	18
Referrals rejected	6	0
Number of cases under investigation ¹	22	20
Number of investigations completed	22	24

¹ As at the end of the financial year, ie 31/3/2018

Summary of counter fraud activity:

Activity	Work completed or in progress
Data matching	<p>The 2018/19 National Fraud Initiative (NFI) is soon to begin. Data will be gathered ahead of an October submission date. Results from the exercise are expected early 2019.</p> <p>The NFI are running an additional pilot exercise looking at business rates fraud. There was strong interest nationally in participating in the pilot. The council along with its partners were one of just seven groups chosen to take part. The council is joined by City of York Council, Leeds City Council, Harrogate Borough Council, Selby DC, Ryedale DC, Richmondshire DC, Doncaster MBC, Kirklees MDC, and Barnsley MBC. Results from the pilot are expected to be released in September.</p>
Fraud detection and investigation	<p>The service continues to promote the use of criminal investigation techniques and standards to respond to any fraud perpetrated against the council. Activity to date includes the following:</p> <ul style="list-style-type: none"> • Council Tax Support fraud – In 2017/18 the team received 16 referrals for potential fraud in this area. £4.2k of incorrectly awarded discounts were identified and 5 people were issued warnings about their conduct. There are currently 14 ongoing investigations into Council Tax Support fraud. • Council Tax/Non Domestic Rates fraud – During the last financial year the fraud team completed 6 investigations into potential Council Tax and Business Rates fraud. The team identified over £6.9k in savings and issued one warning. There are currently 8 cases under investigation in this area. • Internal fraud – No instances of suspected internal fraud were reported in 2017/18.
Fraud management	<p>In 2017/18 a range of activity has been undertaken to support the Council's counter fraud framework.</p> <ul style="list-style-type: none"> • In July 2017 a new counter fraud policy, counter fraud prosecution policy, and counter fraud strategy were approved by the Audit, Governance and Standards committee before being formally adopted by the council. • In September 2017 a new 0800 number was launched to allow members of the public to report fraud free of charge.

Activity	Work completed or in progress
	<ul style="list-style-type: none"><li data-bbox="421 244 2004 316">• As part of International Fraud Week in November, the counter fraud team raised awareness of fraud with council staff via intranet articles published throughout that week.<li data-bbox="421 355 2004 427">• In March 2018 a leaflet promoting the council's fraud hotline was included in annual billing for residents and businesses.<li data-bbox="421 467 2004 539">• The counter fraud team continues to alert council departments to emerging local and national threats through a monthly bulletin and specific alerts.