

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
23 October 2018

From: Director of Finance (s151 Officer)

Subject: **FIRST INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORT
2018/19**

All Wards

1.0 PURPOSE AND BACKGROUND:

- 1.1. The provision of Internal Audit is a statutory requirement (Accounts & Audit Regulations 2015). The Council has formalised its arrangements for internal audit within the Audit Charter. Internal Audit work is undertaken by Veritau who carries out work in accordance with the Public Sector Internal Audit Standards.
- 1.2. The Audit and Governance Committee approved the internal audit and counter fraud plans for 2018/19 at its meeting held on the 27 March 2018. The purpose of this report is to inform Members of the progress made to date in delivering internal audit and counter fraud work.

2.0 THE REPORT

- 2.1. In the period between 1 April 2018 and 23 September 2018 Veritau has completed three planned internal audit reviews to final stage. Work has been completed on the Transparency Code, Depot Training and Leisure Services 24/7 access. We have agreed timings with management for all the remaining 2018/19 audits. For those audits we have yet to start we have provided proposed start dates in this report. There are no significant delays anticipated in delivery of the work. Further information on internal audit progress is included in annex 1.
- 2.2. It is important that agreed actions are fully implemented by managers, following an internal audit review. The internal audit team carries out follow-up work throughout the year of previously agreed actions and escalates any issues that have not been addressed, to senior managers. Where necessary, the issues will also be brought to the attention of this committee. There are currently no matters to bring to the attention of members.
- 2.3. In order to comply with the Public Sector Internal Audit Standards (PSIAS), providers are required to have an external assessment of their working practices at least once every five years. A further external assessment of Veritau will be undertaken by SWAP in November 2018. SWAP is a not for profit public services company operating primarily in the South West of England. Further information about the external review is included in annex 1.
- 2.4. Counter fraud work has been undertaken in accordance with the approved plan. Annex 2 provides a summary of the work undertaken so far in 2018/19 and outcomes to date.

3.0 LINK TO COUNCIL PRIORITIES

- 3.1. 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.

4.0 RISK ASSESSMENT

4.1 There are no risks associated with this report.

5.0 FINANCIAL IMPLICATIONS:

5.1 There are no financial implications associated with this report.

6.0 LEGAL IMPLICATIONS:

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

7.0 EQUALITIES AND DIVERSITY ISSUES:

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

8.0 RECOMMENDATIONS:

8.1 It is recommended that members note the work undertaken by internal audit and the counter fraud team in the year to date.

8.2 The committee is also asked to note the arrangements for the external assessment of internal audit.

LOUISE BRANFORD WHITE
DIRECTOR OF FINANCE (S151 OFFICER)

Background papers: None

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Hambleton District Council
Internal Audit Progress Report 2018/19
Period to 23 September 2018

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

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

Date: 23 October 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 accordance with the PSIAS, the Head of Internal Audit is required to report, to 'those charged with governance' progress against the internal audit plan agreed by the Committee and to identify any emerging issues which need to be brought to the attention of the Committee.
- 2 Members of this Committee approved the Internal Audit Plan for 2018/19 at their meeting on the 27 March 2018. This report summarises the progress made to date in delivering the agreed programme of work.
- 3 This is the first Internal Audit progress report to be received by the Audit, Governance and Standards Committee in 2018/19. This report updates the Committee on the work completed between 1 April 2018 and 23 September 2018.

Internal Audit work completed

- 4 In the period between 1 April and 23 September 2018 we have completed three audits on the Transparency Code, Depot Training and Leisure Services 24/7 access.
- 5 We have agreed timings with management for all the remaining 2018/19 audits. For those audits we have yet to start we have provided proposed start dates in this report. We are on target to deliver the agreed Audit Plan by the end of April 2019.
- 6 Further information is included in **Appendix A**.
- 7 Information on the findings from the 2018/19 audits completed since 1 April 2018 is included in **Appendix B**.

Audit Opinions

- 8 For most reports we provide an overall opinion on the adequacy and effectiveness of the controls under review. The opinion given is based on an assessment of the risks associated with any weaknesses in controls identified. We also apply a priority to all actions agreed with management. Details of the definitions used are included in **Appendix C**.

Wider Internal Audit work

- 9 In addition to undertaking assurance reviews, Veritau officers are involved in a number of other areas relevant to corporate matters:
 - **Support to the Audit, Governance and Standards Committee;** this is mainly ongoing through our attendance at meetings of the Committee and the provision of advice to Members.
 - **Ongoing support to management and officers;** we meet regularly with management to provide advice on a range of specific business and internal

control issues. These relationships help to provide 'real time' feedback on areas of importance to the Council.

- **Financial assessments;** this work involves supporting the assurance process by using financial reports obtained from Experian (Credit Rating Agency) to assess the financial standing of potential contractors.
- **Follow up of previous audit recommendations;** it is important agreed actions are regularly and formally 'followed up'. This helps to provide assurance to management and Members that control weaknesses have been properly addressed. We have followed up agreed actions either as part of our ongoing audit work, or by separate review. We currently have no matters to report as a result of our follow up work.
- **Risk Management;** Veritau advise on the Council's risk management processes.
- **Investigations;** We perform special or ad-hoc reviews or investigations into specific issues.

External Assessment

- 10 In order to comply with the Public Sector Internal Audit Standards (PSIAS), internal auditors working in local government are required to maintain a quality assurance and improvement programme (QAIP). As part of this programme, providers are required to have an external assessment of their working practices at least once every five years. The last external assessment of Veritau was undertaken in April 2014 by the South West Audit Partnership (SWAP).
- 11 A further external assessment of Veritau will be undertaken by SWAP in November 2018. SWAP is a not for profit public services company operating primarily in the South West of England. As a large shared service internal audit provider it has the relevant knowledge and expertise to undertake external inspections of other shared services and is independent of Veritau. The assessment will include a review of documentary evidence, including self-assessments completed by Veritau, and face to face interviews with a number of senior officers at each of the Veritau clients and Veritau auditors. The assessors may also wish to speak to the chair of the audit committee as part of the assessment process. The results of the assessment will be included in future internal audit progress reports to the committee, once a report has been received from the assessor. Any specific areas identified as requiring further development and/or improvement will also be included in the QAIP.

Stuart Cutts
Audit Manager
Veritau Ltd

26 September 2018

Table of 2018/19 audit assignments to 23 September 2018

Appendix A

Audit	Status	Assurance Level / Planned Start date	Audit Committee
Director of Finance (s151 Officer)			
Revenues and Benefits			
Benefits	Not Started	Quarter 3	
Integration	In Progress	-	
Corporate Finance			
Payroll	Not Started	Quarter 3	
Creditors	Not Started	Quarter 3	
Income and Receipting	Not Started	Quarter 4	
General Ledger	Not Started	Quarter 4	
Treasury Management	In Progress	-	
Performance and Information Technology			
Risk Management	Not Started	Quarter 4	
Performance Management Framework	Not Started	Quarter 4	
Digitalisation	In Progress	-	
Transparency Code	Final Report	High Assurance	October 2018
ICT	Not Started	Quarter 3	
Director of Law and Governance			
Sickness Absence	In Progress	-	
Contract Management	Not Started	Quarter 4	
Director of Leisure and Communities			
Depot policies and security	Not Started	Quarter 3	
Depot Training	Final Report	Limited Assurance	October 2018
Leisure Services 24/7 access	Final Report	High Assurance	October 2018
Business Continuity and Disaster Recovery	Not Started	Quarter 4	
Director of Economy and Planning			
Planning – systems development	In Progress	-	
Planning Enforcement	Not Started	Quarter 4	
Community Infrastructure Levy	In Progress	-	
Project Support			
Risk Management – development and support	In Progress		
Payment Card Industry Data Security Standards (PCIDSS)	Not Started	Quarter 3	
Follow-Ups	Ongoing		

Summary of Key Issues from audits completed to 20 December 2017; not previously reported to Committee

Appendix B

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Transparency Code	High Assurance	<p>In 2015, the Department for Communities and Local Government published the 'Local Government Transparency Code' to allow greater and easier access to data.</p> <p>The purpose of this audit was to assess the extent to which:</p> <ul style="list-style-type: none"> The council complies with all 13 required sections of the Local Transparency Code Data is published on a timely basis as per the timeframes specified in the Transparency Code. 	August 2018	<p>Strengths: The Council is complying with the publication and statutory requirements of the Transparency Code. All 13 relevant sections had all mandatory fields correctly published and within the required time lines.</p> <p>The required information is easily accessible via the Hambleton District Council website with a dedicated page on Transparency.</p> <p>Responsibilities for the code have been assigned. Each Service Manager is aware of their requirements to collate information and publish the documents to Hambleton District Council's website. To support this requirement relevant training has taken place for Service Managers.</p> <p>There is oversight from the Director of Finance and guidance from the Performance & Improvement Officer over the whole process. Checks are made on a quarterly basis to ensure information has been published online.</p> <p>Areas for Improvement: There were no areas for improvement noted.</p>	-
Depot Training	Limited Assurance	<p>The Hambleton depot is the base for approximately 80 operational staff. Training at the Hambleton depot is provided by the Training Officer. All operational staff at the depot require particular training due to the nature of the role.</p>	September 2018	<p>Strengths: Training specifications outlining the training required for each role are in place.</p> <p>There is a training matrix containing all members of staff at the depot with completed training, dates of completion and the refresher training dates. All the training sheets tested were found to be consistent with information in the training matrix.</p>	<p>A task and finish group will be created consisting of Depot Management. The Senior Responsible Officer (SRO) will be the Director of Leisure and Environment and the group will report to the SRO.</p> <p>The group will develop an action</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
		<p>The purpose of this audit was to provide assurance that:</p> <ul style="list-style-type: none"> All training needs are identified and managed appropriately. Appropriate training is provided to members of staff for all the roles they perform. Training sheets are up to date and are completed appropriately. Training documentation is up to date and accurate. 		<p>Areas for Improvement: Training is not complete and is not up to date for all depot employees for the roles they perform. There is a lack of management oversight taking place which has contributed to training needs not being effectively managed. There are also a significant number of gaps on the matrix indicating areas of out of date training.</p> <p>Plans are in place to perform 'dip tests' to quality review training and training records and to support the Training Officer to maintain accurate, up to date, and complete training records. However 'dip testing' and assistance with training records is not currently taking place.</p> <p>The training record sheet does not fully reflect the current training delivered. This may result in training not being recorded accurately.</p> <p>There is not an effective system in place for maintaining employee training files. This may lead to training records being incomplete and records not being able to be located as and when required.</p>	<p>plan to take forward the necessary actions to improve arrangements. It is planned for all actions to be completed by the end of 2018.</p> <p>Veritau will be kept informed of the progress being made with the plan.</p>
Leisure Services 24/7 access	High Assurance	<p>Northallerton Leisure Centre has undergone a £2.5 million improvement scheme which was completed in January 2018. The gym now has 24/7 access and is available to all Freedom members.</p> <p>The purpose of this audit was to provide assurance to management that:</p> <ul style="list-style-type: none"> There are robust policies 	September 2018	<p>Strengths: The Council has up to date Leisure 24/7 policies and procedures for a number of areas including health and safety, personal safety and security.</p> <p>A 24/7 Authorisation Form must be completed before access is granted. This form includes a medical checklist where users are asked to disclose medical information. An induction checklist is completed with a member of staff who is approved to deliver 24/7 training. The reverse side includes additional information about 24/7 including 24/7 operational hours, staffing, health and safety, CCTV, alarms, etc.</p>	-

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
		<p>and procedures relating to health and safety, personal safety and security</p> <ul style="list-style-type: none"> Risks relating to 24/7 access had been identified, assessed and managed proportionately 		<p>There is a 24/7 facility inspection checklist which is completed by a Duty Manager prior to opening and closing normal operating hours. This checklist includes tasks to complete prior to closing for 24/7 such as checking 24/7 entrance/exit, alarms, equipment, notifying customers of closing, locking internal access gym door etc.</p> <p>A risk assessment was completed prior to opening to the public for 24/7 access. This identifies the key risks to 24/7 access, actions to mitigate the risks and has been signed off appropriately by the Leisure Manager. During our site visit, the risk assessment was walked through at the Leisure Centre to ensure current risk areas were being managed. No issues or control gaps were identified.</p> <p>Safety and security measures are in place. Access during 24/7 hours is gained through a weighted Pod via the side entrance. CCTV is in place extensively around the gym and is monitored during 24/7 hours on an hourly basis by CHUBB as per the contract.</p> <p>Areas for Improvement: There were no areas for improvement noted.</p>	

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.



Hambleton District Council
Counter Fraud Progress Report
2018/19

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: 23 October 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 prevent, detect and deter fraud and 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 Performance 2018/19

- 4 Up to 31 August, the fraud team achieved £5.1k in savings for the council as a result of investigative work. There are currently 22 ongoing investigations. A summary of counter fraud activity is included in the tables below.

COUNTER FRAUD ACTIVITY 2018/19

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

	2018/19 (As at 31/8/18)	2018/19 (Target: Full Year)	2017/18 (Full Year)
% of investigations completed which result in a successful outcome (for example benefit stopped or amended, sanctions, prosecutions, properties recovered, housing allocations blocked).	50%	30%	50%
Amount of actual savings (quantifiable savings - e.g. CTS) identified through fraud investigation.	£5,103	£16,000	£11,625

Caseload figures for the period are:

	2018/19 (As at 31/8/18)	2017/18 (Full Year)
Referrals received	28	28
Referrals rejected	9	6
Number of cases under investigation	22	22 ¹
Number of investigations completed	18	22

¹ As at 31/3/18

Summary of counter fraud activity:

Activity	Work completed or in progress
Data matching	<p>The 2018/19 National Fraud Initiative (NFI), a regular datamatching exercise run by the Cabinet Office, will begin shortly. Preparations to gather data are underway ahead of an early October submission date.</p> <p>The council successfully bid to participate in a business rates fraud pilot run by the NFI alongside a number of regional partners. Data was returned to the council in the last week of September and results are now being analysed. The council issued a press release about the project which drew interest from local media. The council's section 151 officer was interviewed by BBC Radio Tees about this project..</p>
Fraud detection and investigation	<p>The service continues to use 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"><li data-bbox="421 951 2002 1074">• Council Tax Support fraud – To date the team has received 16 referrals for possible CTS fraud. Four people have been issued a warning relating to fraud in this area. There are currently 13 cases under investigation.<li data-bbox="421 1142 2002 1350">• Council Tax/Non Domestic Rates fraud – 8 referrals for council tax fraud have been received to date in 2018/19. There are currently 8 cases under investigation. £4,221 of actual savings has been identified through Council Tax fraud investigation in the current financial year with £6,066 of overpayments identified. In 2018/19 three people have been warned over future conduct relating to Council Tax fraud.

Activity	Work completed or in progress
	<ul style="list-style-type: none"> • Internal fraud – No internal fraud referrals have been received this year.
Fraud Management	<p>In 2018/19 a range of activity has been undertaken to support the Council's counter fraud framework.</p> <ul style="list-style-type: none"> • In May, the council's counter fraud transparency data was updated to include data on counter fraud performance in 2017/18 meeting the council's obligation under the Local Government Transparency Code 2015. • The council participated in the annual CIPFA Counter Fraud and Corruption Tracker (CFaCT) survey in June 2018. Information provided will form part of an upcoming CIPFA report which aims to provide a national picture of fraud, bribery and corruption in the public sector and the actions being taken to prevent it. • Area specific fraud awareness training has been delivered to the Council Tax and Benefit Teams this year. Further training for staff across the council is planned for October. • The counter fraud team alerts council departments to emerging local and national threats through a monthly bulletin and specific alerts over the course of the year. <p>We are also pleased to report that the counter fraud team have been named as a finalist in two categories of the Institute of Revenues Rating & Valuation (IRRV) 2018 performance awards – Excellence in Counter Fraud and Excellence in Innovation.</p>