

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
22 January 2019

From: Director of Finance (s151 Officer)

Subject: **SECOND 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 (PSIAS).
- 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 14 December 2018 Veritau has completed four planned internal audit reviews to final stage. One report on Sickness Absence has been finalised since the last committee. Three draft reports on Digitalisation, Community Infrastructure Levy and Revenues and Benefits integration have been issued. For those audits we have yet to start these will be started before the end of February 2019. We have agreed timings with management for all 2018/19 audits and no significant delays are anticipated. We are on target to complete all audits and issue all draft reports by the end of April 2019. 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 As noted in the last monitoring report, internal audit practices were subject to an external assessment in November 2018. The report from the assessors has now been received and concludes that internal audit is being delivered in line with the PSIAS. The full report, and proposed actions to address areas highlighted for development, is included in annex 1.
- 2.4 Counter fraud work has been undertaken in accordance with the approved plan. The team have achieved £9.9k savings against a target of £16k in the year to date. 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:-

- (1) Members note the work undertaken by internal audit and the counter fraud team in the year to date; and
- (2) the Committee comment on the outcomes from 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 14 December 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: 18 December 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 second 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 14 December 2018.

Internal Audit work completed

- 4 In the period between 1 April and 14 December 2018 we have completed four pieces of work. One report on Sickness Absence has been finalised since the last committee. Three draft reports have also been issued.
- 5 For those audits we have yet to start these will be started within the next two months. We have agreed timings with management for all 2018/19 audits. We are on target to have completed all audits and issued all draft reports by the end of April 2019. We will work with officers to seek to ensure all reports are finalised by the end of May 2019. Further information is included in **Appendix A**.
- 6 Information on the findings from the 2018/19 audits completed since 1 April 2018 is included in **Appendix B**.

Audit Opinions

- 7 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

- 8 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

- 9 To comply with 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. An external assessment of Veritau Limited and VNY Limited internal audit practices was undertaken in November 2018 by the South West Audit Partnership (SWAP). A copy of the assessors report is included at **Appendix D**.
- 10 The report concludes that internal audit activity generally conforms to the PSIAS¹ and, overall, the findings were very positive. The feedback included comments that the internal audit service was highly valued by its member councils and other clients, and that services had continued to improve since the last external assessment in 2014. However, the report does include some areas for further development. These areas, and initial draft proposed actions, are summarised in figure 1 below. Further comment on the proposed actions would be welcomed.

Figure 1: external assessment - action plan

Matter for Consideration	Response	Responsibility	Action by
Guidance from the IIA recommends that the Audit Committee (Board) “Meets with the Head of Internal Audit at least once a year without the presence of management.” This does not happen as a matter of course with all clients of	While IIA guidance recommends this approach, there is no explicit requirement for annual meetings in the standards. And existing audit charters for each client already recognise that the	NA	NA

¹ PSIAS guidance suggests a scale of three ratings, ‘generally conforms’, ‘partially conforms’ and ‘does not conform’. ‘Generally conforms’ is the top rating.

Matter for Consideration	Response	Responsibility	Action by
Veritau, however, the Charter allows this to happen and all Chairs of Audit Committees feel that if they wanted such a meeting, it would happen. Some teams have taken a 'purest' approach and hold at least one meeting a year with the Audit Committee or Chair without management being present. The HoIA audit should consider if Veritau should adopt a similar approach or be satisfied that such meeting will take place should it become necessary to do so. (Attribute Standard 1111).	<p>Head of Internal Audit will meet with members of the relevant committee in private, as required.</p> <p>No formal changes to current arrangements are proposed.</p> <p>Although formal annual meetings will be arranged if individual committees express a preference for this arrangement.</p>		
The self-assessment identified that Council CEO's or Audit Committee Chairmen do not contribute to the performance appraisal of the HoIA. The responsibility for this rests with the Board of Directors, many of whom are Section 151 Officers for the representative Councils. In addition, reliance is placed on Customer Satisfaction results. To ensure that this is reflective of the key clients, the Chairman of the Board may want to consider the introduction of a 360-degree feedback process when assessing the HoIA's performance. (Attribute Standard 1100).	The chairman of the Veritau board will be asked to consider whether further input from client Chief Executives and Chairs of Audit Committees (or equivalent) is needed to meet the requirements of the standards.	Veritau Chair	May 2019
While the annual planning process is well documented, the self-assessment acknowledged that each piece of audit work is not prioritised. Doing so assists when decisions need to be taken on bringing in new pieces of work due to new and emerging risks.	All work included in annual audit plans is considered a priority for audit in the coming year. However, it is recognised that further prioritisation may support decision making, for example where changes to	Deputy Head of Internal Audit and Audit Managers	April 2019

Matter for Consideration	Response	Responsibility	Action by
Consideration should be given to priority ranking audit work. (LGAN requirement).	<p>audit plans are required.</p> <p>As part of the development of audit plans for 2019/20, we will explore how audits included in each plan are given a priority rating.</p>		
Whilst reliance may be placed on other sources of assurance, the self-assessment brought attention to the fact that there has not been an assurance mapping exercise to determine the approach to using other sources of assurance. Completion of such an exercise would ensure that work is coordinated with other assurance bodies and limited resources are not duplicating effort. (Attribute Standard 2050).	<p>A review of potential sources of assurance for each client will be undertaken during the course of 2019/20. This will be used to assess the scope for more detailed assurance mapping at each client; and to help develop a standard approach if appropriate.</p>	Deputy Head of Internal Audit and Audit Managers	April 2020
It is clear that the actions from the last review have been completed; however, the resulting Quality Assessment Improvement Programme (QAIP) should remain a live document to demonstrate continuous improvement. While the process of the QAIP is reported to the Audit Committee annually, the report does not outline the detailed actions with SMART targets for completion. (Attribute Standard 1320).	<p>Actions included in 2018/19 annual reports will be SMART.</p> <p>Progress against actions will be reported to the Veritau and VNY boards during the course of the year.</p>	Head of Internal Audit	June 2019 (annual report)

Stuart Cutts
Audit Manager
Veritau Ltd

18 December 2018

Table of 2018/19 audit assignments to 14 December 2018**Appendix A**

Audit	Status	Assurance Level	Audit Committee
Director of Finance (s151 Officer)			
Revenues and Benefits			
Benefits	In Progress	-	
Corporate Finance			
Payroll	In Progress	-	
Creditors	Not Started	-	
Income and Receipting	In Progress	-	
General Ledger	Not Started	-	
Treasury Management	In Progress	-	
Performance and Information Technology			
Risk Management	Not Started	-	
Performance Management Framework	Not Started	-	
Digitalisation	Draft Report	-	
Transparency Code	Final Report	High Assurance	October 2018
Director of Law and Governance			
Sickness Absence	Final Report	Reasonable Assurance	January 2019
Contract Management	Not Started	-	
Director of Leisure and Communities			
Depot policies and security	In Progress	-	
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	-	
Director of Economy and Planning			
Planning – systems development	In Progress	-	
Planning Enforcement	In Progress	-	
Community Infrastructure Levy	Draft Report	-	
Project Support			
Risk Management – development and support	In Progress	-	
Payment Card Industry Data Security Standards	Not Started	-	
Revenues and Benefits Integration	Draft Report	-	
ICT- Network Infrastructure refresh	In Progress	-	
Follow-Ups	Ongoing		

Summary of Key Issues from audits completed to 14 December 2018; not previously reported to Committee

Appendix B

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Sickness Absence	Reasonable Assurance	<p>Hambleton District Council recently implemented an updated Sickness Absence Management Policy and Procedure. We reviewed the application of these updated arrangements to ensure</p> <ul style="list-style-type: none"> • Managers are compliant with the authorities sickness absence procedure • Employee absence is recorded and processed accurately, inline with established procedure • Appropriate evidence is retained relating to sickness absence management 	December 2018	<p>Strengths: We found the sickness absence policy was up to date, thorough and adequate. There are templates to support the policy for recording sickness absence available to managers on the Council's intranet.</p> <p>Quarterly reports are created by the HR Officer and HR Manager to help manage sickness and review overall sickness levels. These will help to identify the main causes of sickness and any patterns of absence amongst employees/teams.</p> <p>Areas for Improvement: Our testing identified documentation relating to employee sickness absence was not always being recorded on the sickness absence system (iTrent). Some managers were not always documenting return to work interviews. Some relevant paperwork was also missing from personnel files in 7/10 we tested. There was an instance where the 'first formal meeting stage' trigger was hit due to a long term period of absence. This trigger had been missed and the meeting not taken place. There are currently no internal procedures to highlight the instances of non compliance highlighted during the audit.</p>	<p>The HR Manager is to:</p> <ul style="list-style-type: none"> • Use the quarterly sickness meetings with service delivery managers to ensure return to work interviews are taking place as per the policy. • undertake spot checks every quarter to 'dip test' to establish the level of compliance with internal procedures • devise and send to all managers involved in sickness absence management a 'checklist' to cover the key issues that should be managed on sickness absence <p>The above is planned to be completed by the end of March 2019.</p> <p>Some updates to the iTrent system functionality and some updates to the policy will be undertaken by 30 June 2019.</p>

Appendix C

Audit Opinions and Priorities for Actions

Audit Opinions	
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.

FINAL REPORT

SELF-ASSESSMENT WITH EXTERNAL INDEPENDENT VALIDATION

VERITAU GROUP

NOVEMBER 2018

COMPLETED BY:
SWAP INTERNAL AUDIT SERVICES



INTRODUCTION

In accordance with the International Standards for the Professional Practice of Internal Auditing “The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity” (*Performance Standard 1300*). In order to achieve this, the Head of Internal Audit Partnership commissioned a Quality Review of Veritau.

There are two suggested approaches to conducting the review:

- ➊ External Quality Assessment
- ➋ Self-Assessment with Independent Validation

Due to the prohibitive costs of an External Quality Assessment, recognised as achieving the highest level of quality assurance, Veritau opted for the second option, with independent validation being carried out through peer review. For the process to pass the ‘independence’ test the Manual recommends that “at least three organisations come together to form a pool of professionals, all of whom are qualified to conduct external assessments”.

In order to achieve this Veritau worked together with the South West Audit Partnership (SWAP), the Devon Audit Partnership (DAP) and Hertfordshire’s Shared Internal Audit Service (SIAS), whereby each Audit Team would carry out a self-assessment and then SWAP would act as Validators for Veritau, Veritau for SIAS, SIAS for DAP and DAP for SWAP.

SCOPE AND METHODOLOGY

As part of the preparation for the Quality Assurance Review (QAR), Veritau prepared a self-assessment document (utilising the Checklist for Assessing Conformance with the Public Sector Internal Auditing Standards (PSIAS) and the Local Government Application Note (LGAN)), providing links to necessary evidence to support their findings. The self-assessment team conducted a QAR of the internal audit (IA) activity undertaken by Veritau across its client organisations in preparation for validation by an independent assessor. The team also reviewed the IA activity’s risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes as well as the service Procedure Manuals for the delivery of Internal Audit reviews.

The principal objective of the QAR was to assess the IA activity’s conformance to the International Standards for the Professional Practice of Internal Auditing (Standards), incorporating the PSIAS and LGAN.

The QAR Team from SWAP was made up of their Company Chief Executive – Gerry Cox who is a Chartered Auditor and Certified Auditor with c.30 years management experience in Internal Auditing. The second member of the team was SWAP’s Director of Quality - Ian Baker, a Chartered Auditor and Fellow Member of the Institute of Management Services with over 15 years management experience in Internal Auditing.

In addition to reviewing the evidence supplied by the Self-Assessment Team the Review Team were on site for three days meeting with Veritau staff, client officers and Committee Members. In addition to interviewing the Head of Internal Audit and his Deputy a further twenty-two interviews were held, with eighteen of these representing client organisations and the other five being staff members.

OPINION AS TO CONFORMITY TO THE STANDARDS

It is our overall opinion that the Veritau IA activity ‘Generally Conforms’ to the *Standards* and *Code of Ethics*.

For a detailed list of conformances to individual standards, please see Attachment A. The Self-Assessment and QAR team identified opportunities for further improvement, details of which are provided in this report.

The IIA’s *Quality Assessment Manual for the Internal Audit Activity* suggests a scale of three rankings when opining on the internal audit activity:

- ① “Generally Conforms,” “Partially Conforms,” and “Does Not Conform.” The ranking of “Generally Conforms” means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards* and the *Code of Ethics*.
- ② “Partially Conforms” means that deficiencies in practice are noted that are judged to deviate from the *Standards* and the *Code of Ethics*; however, these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
- ③ “Does Not Conform” means that deficiencies in practice are judged to deviate from the *Standards* and the *Code of Ethics*, and are significant enough to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

A detailed description of conformance criteria can be found at the end of Appendix B.

SUMMARY OF POSITIVE OBSERVATIONS

It is our view that the IA activity environment provided by Veritau is well-structured and continues in its progression. The Standards are clearly understood, and management is taking a number of initiatives to ensure the service continues to provide added value to its clients. The vast majority of those interviewed spoke about the significant improvements they have seen in the service provided over recent years; providing evidence that the service is staying ‘relevant’ in ever changing times. A key contributor to this is that the Head of Internal Audit continues to be highly valued and respected by both client officers and staff; the Audit Managers and staff are also clearly valued with clients mentioning how quickly junior members of the IA team are brought up to speed.

To demonstrate how the service is viewed we have captured a flavour of some of the comments made to us:

- ⌚ “Very professional.... the Head of IA is exceptional” - s.151 Officer
- ⌚ “I have a good relationship with the Audit Manager, interaction is good, and we have an open door” – Audit Committee Chair
- ⌚ “They tell me what I need to hear, not what I want to hear” – s.151 Officer
- ⌚ “The Head of IA is the personification of professionalism” – s.151 Officer
- ⌚ “Their reports are valuable, never trivia and never lacking in substance” – Audit Committee Chair

Other positive observations include:

- ⌚ The Head of Internal Audit is highly respected by both staff and client representatives.
- ⌚ We received exceptionally positive feedback about Audit Managers and staff working on audits.
- ⌚ Feedback indicates that the service is trusted and maintains a good organisational profile.
- ⌚ We asked each of the eighteen client representatives to rate the internal audit service provided by Veritau, out of 10. The service received an average score of 8.2 which indicates it is highly valued by its clients.
- ⌚ Veritau offer good internal training and development for new auditors.
- ⌚ We identified in the last QAR that IT audit in Annual Plans was low. This has been addressed and Veritau have a pragmatic approach for developing and maintaining skills in this area of expertise.
- ⌚ Other issues raised in the last QAR have been addressed.

Consequently, the observations and recommendations by the QAR Team captured below are intended to build on the foundations already in place in the IA activity.

OBSERVATIONS AND RECOMMENDATIONS

PART I – MATTERS FOR CONSIDERATION OF VERITAU MANAGEMENT

1. The IA Charter states that “The Head of Internal Audit will informally meet in private with members of the Audit and Governance Committee, or the committee as a whole as required. Meetings may be requested by committee members or the HoIA.”

Guidance from the IIA recommends that the Audit Committee (Board) “Meets with the Head of Internal Audit at least once a year without the presence of management.” This does not happen as a matter of course with all clients of Veritau, however, the Charter allows this to happen and all Chairs of Audit Committees feel that if they wanted such a meeting, it would happen. Some teams have taken a ‘purest’ approach and hold at least one meeting a year with the Audit Committee or Chair without management being present. The HoIA audit should consider if Veritau should adopt a similar approach or be satisfied that such meeting will take place should it become necessary to do so. (*Attribute Standard 1111*).

2. The self-assessment identified that Council CEO's or Audit Committee Chairmen do not contribute to the performance appraisal of the HoIA. The responsibility for this rests with the Board of Directors, many of whom are Section 151 Officers for the representative Councils. In addition, reliance is placed on Customer Satisfaction results. To ensure that this is reflective of the key clients, the Chairman of the Board may want to consider the introduction of a 360-degree feedback process when assessing the HoIA's performance. (*Attribute Standard 1100*).
3. While the annual planning process is well documented, the self-assessment acknowledged that each piece of audit work is not prioritised. Doing so assists when decisions need to be taken on bringing in new pieces of work due to new and emerging risks. Consideration should be given to priority ranking audit work. (*LGAN requirement*).
4. Whilst reliance may be placed on other sources of assurance, the self-assessment brought attention to the fact that there has not been an assurance mapping exercise to determine the approach to using other sources of assurance. Completion of such an exercise would ensure that work is coordinated with other assurance bodies and limited resources are not duplicating effort. (*Attribute Standard 2050*).
5. It is clear that the actions from the last review have been completed, however, the resulting Quality Assessment Improvement Programme (QAIP) should remain a live document to demonstrate continuous improvement. While the process of the QAIP is reported to the Audit Committee annually, the report does not outline the detailed actions with SMART targets for completion. (*Attribute Standard 1320*).

The following two matters are not related necessarily to Conformance with the Standards but are matters we picked up during our three-day visit that should be on the radar of the Veritau Board and be highlighted as part of the Company's risk exposure:

- ⌚ **SUCCESSION PLANNING** – there is no doubt that the HoIA is highly respected and valued by clients. Whilst other audit managers are respected as well, it became clear to us that a lot of emphasis was placed on the existing HoIA, with one client asking, "*what will happen post Max*". Clearly this could be a matter for serious concern, having all eggs in one basket, so to speak. The Veritau Board should satisfy themselves that there is a clear succession plan in place in the event of the current HoIA not being available to the Company for any reason.
- ⌚ **STAFF RETENTION** – a number of clients raised concerns around the retention of staff. They were, as reflected in our discussions, very complimentary about the quality of the more junior staff being introduced to the Company, which is a credit to IA Managers and their induction of these individuals. However, it should be recognised that whilst some good initiatives have been taken in the recruitment and development of these staff, for example in the area of IT Audit, in a highly competitive market for Internal Auditors, and in particular those with specialist skills, the Company may become a 'nursery' for other providers paying higher salaries for experienced audit staff. The Veritau Board should consider whether their retention policies are robust and that the organisation structure allows sufficient progression to occur in order to retain staff as their experience and knowledge grows.

PART II – ISSUES SPECIFIC TO THE INTERNAL AUDIT ACTIVITY OF VERITAU

1. As identified earlier, the service provided by Veritau is highly rated (8.2 out of 10). Of course, we know with any service there will be results above or below this perception and it is the same for some audit reviews. For those who said why such reviews would be considered for a lower score, feedback generally related to reporting, as follows:
 - ⌚ Audit assessments could be more robust or more forceful. This came from a number of individuals who felt that sometimes the reporting may ‘placate’ the service too much. There is a difficult balance to find between not alienating people from the audit process, but robustly ‘telling it as it is’.
 - ⌚ Closely aligned to this was the some felt reports could do with more ‘context’ rather than just straight in to the findings.
 - ⌚ Finally, one minor ‘irritation’ was when auditors report “we have found”, when often it is the service that brought this to their attention.
2. All the staff interviewed were very happy with their role within the Company. We did, however, agree to feedback any points raised during these interviews for suggested improvement; some of which may already be on management’s radar and recognising that in each suggestion there is a balance to be reached:
 - ⌚ Ensure the Auditor who completed the review completes the follow up. The individual who raised this was doing so from an efficiency point of view.
 - ⌚ Allow more time to learn about the clients and become more organisationally aware.
 - ⌚ Better sharing of findings and information across clients.

RECOMMENDATIONS

We recommend that:

- ⌚ the Head of Internal Audit presents this report to the Veritau Board and each of its client organisations Audit Committees;
- ⌚ the Head of Internal Audit incorporates the Observations and Recommendations from this report into the Quality Assessment Improvement Programme (QAIP) and that the QAIP is maintained as a live document;
- ⌚ the Head of Internal Audit presents the QAIP to the Veritau Board and each of its client organisations Audit Committees and thereafter reported periodically to monitor progress and to demonstrate the continuous improvement of the service.

ATTACHMENT A
STANDARDS CONFORMANCE
EVALUATION SUMMARY

SWAP INTERNAL AUDIT SERVICES

Standards Conformance Evaluation Summary		("X" Evaluator's Decision)		
		GC	PC	DNC
OVERALL EVALUATION				
ATTRIBUTE STANDARDS				
Definition of Internal Auditing		X		
IIA Code of Ethics		X		
1000 Purpose, Authority, and Responsibility		X		
1100 Independence and Objectivity		X		
1110 Organisational Independence		X		
1111 Direct Interaction with the Board		X		
1120 Individual Objectivity		X		
1130 Impairments to Independence or Objectivity		X		
1200 Proficiency and Due Professional Care				
1210 Proficiency		X		
1220 Due Professional Care		X		
1230 Continuing Professional Development		X		
1300 Quality Assurance and Improvement Program				
1310 Requirements of the Quality Assurance and Improvement Program		X		
1311 Internal Assessments		X		
1312 External Assessments		X		
1320 Reporting on the Quality Assurance and Improvement		X		
1321 Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "		X		
1322 Disclosure of Non-conformance		X		
PERFORMANCE STANDARDS				
2000 Managing the Internal Audit Activity				
2010 Planning		X		
2020 Communication and Approval		X		
2030 Resource Management		X		
2040 Policies and Procedures		X		
2050 Coordination			X	
2060 Reporting to Senior Management and the Board		X		

Appendix D

Standards Conformance Evaluation Summary

		("X" Evaluator's Decision)		
		GC	PC	DNC
2100	Nature of Work			
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
2200	Engagement Planning			
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
2300	Performing the Engagement			
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
2400	Communicating Results			
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		
2430	Use of "Conducted in conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X		
2431	Engagement Disclosure of Non-conformance	X		
2440	Disseminating Results	X		
2500	Monitoring Progress	X		
2600	Communicating the Acceptance of Risks	X		

Definitions

GC – “Generally Conforms” means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics and has not applied them effectively or has not achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

PC – “Partially Conforms” means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics, or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organisation.

DNC – “Does Not Conform” means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics, or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit activity’s effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board.

ATTACHMENT B
INDEPENDENT VALIDATOR
STATEMENT

The validator was engaged to conduct an independent validation of the Veritau self-assessment. The primary objective of the validation was to verify the assertions made by the self-assessment team concerning adequate fulfilment of the organisation's basic expectations of the IA activity and its conformity to the International Standards for the Professional Practice of Internal Auditing (Standards) with reference to the Public Sector Internal Auditing Standards (PSIAS) and incorporating the Local Government Application Notes (LGAN).

In acting as validator, I am fully independent of the organisation and have the necessary knowledge and skills to undertake this engagement. The validation started on 12th October 2018 and culminated with a three-day site visit between the 5th and 7th November 2018. The validation consisted primarily of a review and testing of the procedures and results of the self-assessment. In addition, interviews were conducted with twenty-four individuals, including the Head of Internal Audit and his Deputy. These individuals are considered key stakeholders and included Audit Committee Chairs, Chief Executives, Section 151 Officers, Senior Service Managers and Veritau staff at various levels in the Company.

I concur fully with the IA activity's conclusions in the self-assessment from where some of the observations were identified.

Consideration of the matters raised, and implementation of the recommendations contained in this report will serve only to improve the effectiveness and enhance the value of the IA activity, which is already highly regarded, and ensure its full conformity to the *Standards*.

Gerry Cox CMIIA

Chief Executive – SWAP Internal Audit Services

Date 26th November 2018



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: 22 January 2019

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 30 November, the fraud team achieved £9.9k in savings for the council as a result of investigative work. There are currently 23 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 30/11/18)	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).	45%	30%	50%
Amount of actual savings (quantifiable savings - e.g. CTS) identified through fraud investigation.	£9,942	£16,000	£11,625

Caseload figures for the period are:

	2018/19 (As at 30/11/18)	2017/18 (Full Year)
Referrals received	37	28
Referrals rejected	11	6
Number of cases under investigation	23	22 ¹
Number of investigations completed	22	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 is underway. A range of council data was gathered and sent to the Cabinet Office by council colleagues in October. Resulting data matches are expected to be issued at the end of January. Any matches indicating fraud will be investigated by the Counter Fraud team.</p> <p>The council participated in an NFI Business Rates pilot alongside regional partners. In total, almost 6,000 matches were returned at the beginning of October. A sample of matches has been extracted across 9 different reports. These have been reviewed by the members of the Counter Fraud Team and the Taxation and Benefits Department. The exercise has, to date, highlighted a number of businesses to visit as well as data errors within the business rates database.</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">• Council Tax Support fraud – To date the team has received 24 referrals for possible CTS fraud. Four people have been issued warnings relating to fraud in this area. There are currently 13 cases under investigation. £4,403 of savings has been identified through CTS fraud investigation in the current financial year.• Council Tax/Non Domestic Rates fraud – 12 referrals for council tax fraud have been received to date in 2018/19. There are currently 9 cases under investigation. £5,539 of 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 their conduct relating to Council Tax fraud.• Internal fraud – No internal fraud referrals have been received this year.

Activity	Work completed or in progress
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. The information contributed to a recently released 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. In addition, three general fraud awareness sessions were delivered to council staff from across the organisation in October. • As part of International Fraud Week in November, the counter fraud team raised awareness of fraud with staff via intranet articles published throughout that week. • 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.