

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
26 March 2019

From: Director of Finance (s151 Officer)

Subject: **THIRD 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 22 February 2019 Veritau has completed six planned internal audit reviews to final stage. Two reports on Community Infra-structure Levy and Revenues, Benefits and Recovery integration have been issued. One report on Digitalisation is at draft report stage. All audits in the plan have been started. We are on target to complete all audits and issue all draft reports by the end of April 2019. One minor update to the plan has also been agreed with the Director of Finance (s151 officer). 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 Counter fraud work has been undertaken in accordance with the approved plan. The team have achieved £15.9k 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 members note the work undertaken by internal audit and the counter fraud team in the year to date.

LOUISE BRANFORD WHITE
DIRECTOR OF FINANCE S151 OFFICER

Background papers: None

Author ref: SC/JD

Contacts: Stuart Cutts; Audit Manager; Veritau North Yorkshire
Stuart.Cutts@veritau.co.uk

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



Hambleton District Council
Internal Audit Progress Report 2018/19
Period to 22 February 2019

Audit Manager: Stuart Cutts
Deputy Head of Internal Audit: Richard Smith
Head of Internal Audit: Max Thomas

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

Date: 26 March 2019



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 third 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 22 February 2019.

Internal Audit work completed

- 4 In the period between 1 April 2018 and 22 February 2019 we have completed six pieces of work. Two reports on Community Infrastructure Levy and Revenues, Benefits and Recovery integration have been finalised since the last committee. One report on Digitalisation is currently at draft status.
- 5 All audits in the plan have been started, with the exception of risk management (see paragraphs 8 and 9 below). We are on target to have completed all of the other audits and issued 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 two 2018/19 audits finalised since the last progress report 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**.

Changes to the 2018/19 internal audit plan

- 8 Following the last Audit, Governance and Standards Committee we have agreed some minor revisions to the 2018/19 plan with the Director of Finance (s151 Officer). Overall there is no change to the total number of audit days.

- 9 The council is currently reviewing its Risk Management arrangements. This work will not be fully completed and introduced until after March 2019. The audit of risk management planned for 2018/19, to review the new arrangements, will now be included in the 2019/20 Internal Audit plan. We have used the 10 days originally planned for the audit of risk management, to provide support to the work on Revenues, Benefits and Recovery integration, Payroll, the planning audits and some additional support and advice on the development of the updated approach to Risk Management.

Wider Internal Audit work

- 10 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.

Stuart Cutts
Audit Manager
Veritau Ltd

26 March 2019

Table of 2018/19 audit assignments to 22 February 2019

Appendix A

| Audit | Status | Assurance Level | Audit Committee |
|---|--|------------------------------|---------------------|
| Director of Finance (s151 Officer) | | | |
| Revenues and Benefits | | | |
| Benefits | In Progress (20% completed) | | |
| Corporate Finance | | | |
| Payroll | In Progress (70% completed) | | |
| Creditors | In Progress (60% completed) | | |
| Income and Receipting | In Progress (80% completed) | | |
| General Ledger | In Progress (30% completed) | | |
| Treasury Management | In Progress (40% completed) | | |
| Performance and Information Technology | | | |
| Risk Management | To be completed as part of 2019/20 Audit Plan. | | |
| Performance Management Framework | In Progress (20% completed) | | |
| 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 | In Progress (20% completed) | | |
| Director of Leisure and Communities | | | |
| Depot policies and security | In Progress (90% completed) | | |
| Depot Training | Final Report | Limited Assurance | October 2018 |
| Leisure Services 24/7 access | Final Report | High Assurance | October 2018 |
| Business Continuity and Disaster Recovery | In Progress (80% completed) | | |
| Director of Economy and Planning | | | |
| Planning – systems development | In Progress (80% completed) | | |
| Planning Enforcement | In Progress (90% completed) | | |
| Community Infrastructure Levy | Final Report | Substantial Assurance | March 2019 |
| Project Support | | | |
| Risk Management – development and support | Ongoing | - | |
| Payment Card Industry Data Security Standards | Ongoing | - | |
| Revenues, Benefits and Recovery Integration | Final Report | No opinion | March 2019 |
| ICT- Network Infrastructure refresh | Ongoing | - | |
| Follow-Ups | Ongoing | | |

Summary of Key Issues from audits completed to 22 February 2019; not previously reported to Committee

Appendix B

| System/Area | Opinion | Area Reviewed | Date Issued | Comments | Management Actions Agreed |
|---|-----------------------|---|---------------|---|--|
| Community Infrastructure Levy | Substantial Assurance | <p>The Community Infrastructure Levy (CIL) came into force in April 2010. It allows local authorities in England and Wales to raise funds from developers undertaking new building projects in their area</p> <p>We reviewed the CIL to ensure that:</p> <ul style="list-style-type: none"> adequate policies and procedures were in place and being followed CIL liability and demand notices were timely and correct all income had been collected promptly regular and accurate monitoring arrangements were in place. | February 2019 | <p>Strengths: Detailed policies and procedures are in place for the CIL. These have been reviewed since our last work in 2017. New self-build and liability guidance have been written and are available on the HDC website.</p> <p>Sample review of planning applications found all cases had been processed in accordance with HDC's policies and procedures. CIL liability and demand notices were also found to be timely and correct.</p> <p>Sample review of income collection and payment of amounts to Parish Councils found no matters arising.</p> <p>Areas for Improvement: The progress of CIL applications and any payments made is monitored using a manual spreadsheet. The spreadsheet system is complicated, time-consuming and difficult to maintain. (NB: The IDOX Uniform planning system holds some of the information included in the spreadsheet but the IDOX CIL related software 'Uniform tracker' is now no longer supported by the software supplier.)</p> <p>The amount recorded as received on the CIL spreadsheet is not being reconciled to the finance system. There is also no regular reconciliation of payments made to Parish Councils between the finance system and CIL planning records.</p> | <p>By March 2019 the spreadsheet will be simplified in line with the suggestions included in the audit report.</p> <p>Planning Management will identify if an alternative appropriate electronic CIL monitoring system is available. If one is they will identify costs and implement as part of the Development Management improvement programme. All of this will be undertaken over the next year.</p> <p>On the reconciliations Planning will work jointly with Finance and Customer Services to identify a way which can access and record data on one mutual system. It is envisaged this area will be addressed by the end of April 2019.</p> |
| Revenues, Benefits and Recovery Integration | No opinion | The Revenues and Benefits service at Hambleton District Council has three teams; Revenues, Benefits and Recovery. | January 2019 | Work reviewed the key tasks of each team including the updating of Council Tax and Housing Benefits accounts and billing, and the collection and debt recovery processes for Council Tax and Housing Benefits overpayments. | The next step is for the project plan for Revenue and Benefits Integration to be fully considered and finalised by Management. This is planned to be completed by the end of March 2019. |

| System/Area | Opinion | Area Reviewed | Date Issued | Comments | Management Actions Agreed |
|-------------|---------|--|-------------|--|---|
| | | <p>Each team has their own Team Leader and works independently from each other. The council are considering integrating all three teams.</p> <p>The purpose of the project support work was to:</p> <ul style="list-style-type: none"> • review, document and assess the key functions within Revenues, Benefits and Recovery. • support the Council's future decision making on the nature of the systems, processes and controls in any integrated service. <p>As this work was project support it was not appropriate for us to provide an overall audit opinion.</p> | | <p>Each process was reviewed from an internal control, efficiency and risk viewpoint. This work highlighted potential areas of inefficiency. For example we noted:</p> <ul style="list-style-type: none"> • The transfer of manual information between the teams and systems created delays in processing recovery of some overpayments. • The use of officers who are skilled and specialised who complete a number of generic administrative duties in the Council Tax and Benefits teams <p>In respect of internal control then schemes of authorisation and separation of duties are key areas to have clearly defined in any new 'ways of working'.</p> <p>It is important the Council applies appropriate risk management and project management when introducing the project of integration to the Revenues, Benefits and Recovery teams.</p> | <p>Management will apply the Council's project management framework in introducing any changes to working arrangements on Revenues, Benefits and Recovery.</p> <p>It is expected that integration and new ways of working will be introduced by 31 December 2019.</p> |

Audit Opinions and Priorities for Actions

Audit Opinions

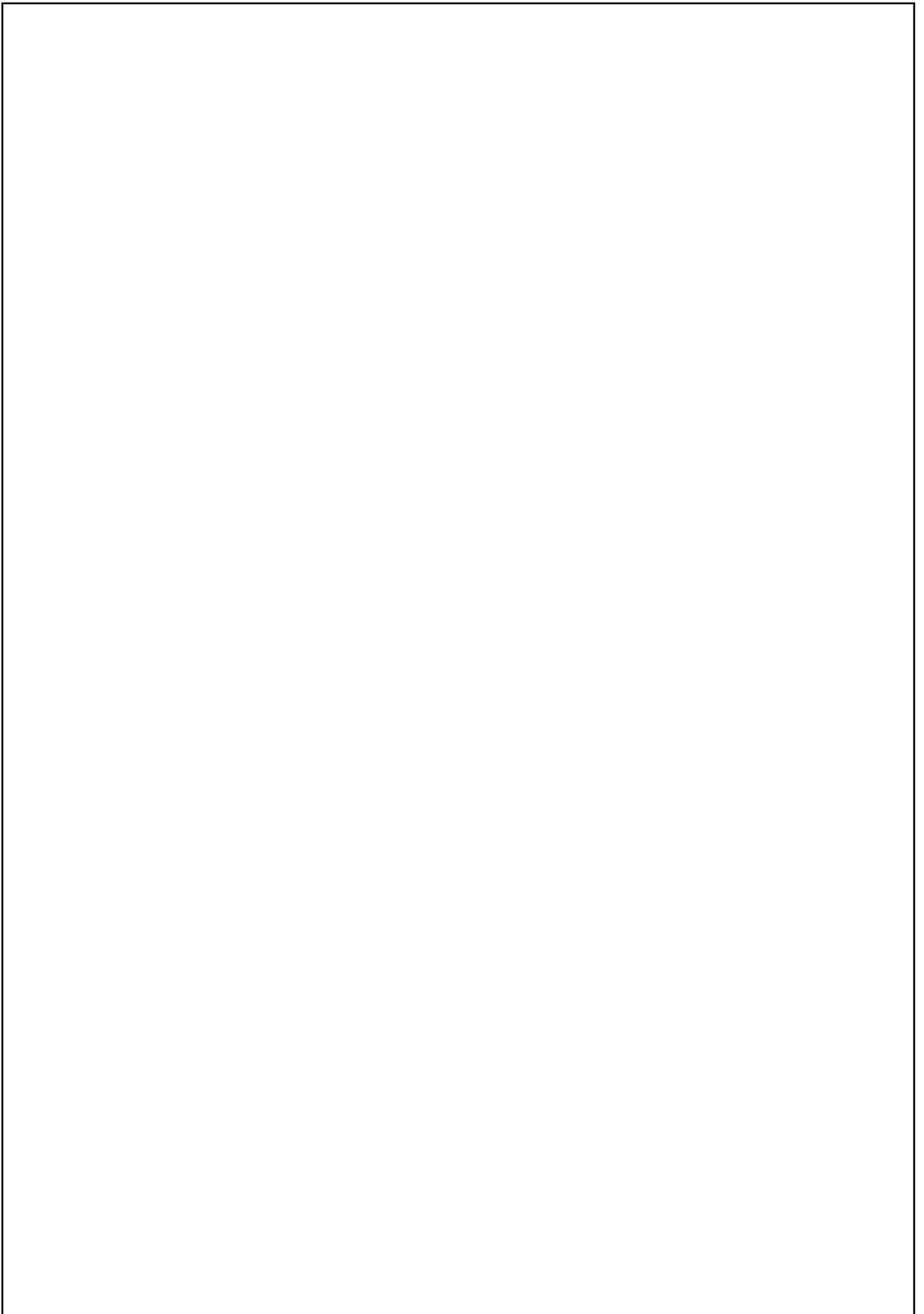
Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

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
Deputy Head of Internal Audit: Richard Smith
Head of Internal Audit: Max Thomas

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

Date: 26 March 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 15 February 2019, the fraud team achieved £15.9k in savings for the council as a result of investigative work. There are currently 24 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 15/02/19) | 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). | 36% | 30% | 50% |
| Amount of actual savings (quantifiable savings - e.g. CTS) identified through fraud investigation. | £15,915 | £16,000 | £11,625 |

Caseload figures for the period are:

| | 2018/19 (As at 15/02/19) | 2017/18 (Full Year) |
|-------------------------------------|-------------------------------------|--------------------------------|
| Referrals received | 52 | 28 |
| Referrals rejected | 15 | 6 |
| Number of cases under investigation | 24 | 22 ¹ |
| Number of investigations completed | 26 | 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. An initial 682 matches were released at the beginning of February with more expected over the next two months. The matches are currently being reviewed by council staff. Any suspected fraud arising from the matches will be investigated by the Counter Fraud team.</p> <p>The council participated in an NFI Business Rates pilot alongside regional partners this year. The exercise 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 – In 2018/19 the team has received 27 referrals for possible CTS fraud. Four people have been issued warnings relating to fraud in this area. There are currently 13 cases under investigation. £9,842 of savings has been identified through CTS fraud investigation in the current financial year.• Council Tax/Non Domestic Rates fraud – 25 referrals for council tax fraud have been received to date. There are currently 11 cases under investigation. £6,472 of loss due to fraud and error has been identified through Council Tax fraud investigation in the current financial year. In 2018/19 four 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 data-bbox="421 240 1845 272">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"> <li data-bbox="465 331 2000 437">• 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. <li data-bbox="465 483 2000 627">• 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. <li data-bbox="465 673 2000 778">• 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. <li data-bbox="465 825 2000 888">• 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. <li data-bbox="465 935 2000 999">• In February meetings were held with the Department for Work and Pensions (DWP) to discuss possible joint working arrangements due to commence in the Yorkshire and Humber region in May 2019. <li data-bbox="465 1045 2000 1150">• In March a leaflet was included in the annual council tax and business rates billing. The leaflet detailed different types of fraud that could affect the council and encouraged the public to report their suspicions of fraud via the fraud hotline. <li data-bbox="465 1197 2000 1260">• 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. |