

Hambleton District Council

Report To: Audit, Governance and Standards Committee

Date: 20 July 2021

From: Director of Finance and Commercial (s151 Officer)

Subject: **Annual Head of Internal Audit Report and Counter Fraud Annual Report 2020/21**

Portfolio Holder: Economic Development and Finance
Councillor P R Wilkinson

Wards Affected: 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 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 (included at annex 1) summarises the outcomes of audit work undertaken in 2020/21. The report provides an opinion on the overall adequacy and effectiveness of the authority's framework of governance, risk management and control. An annual report setting out counter fraud activity and performance is also included at annex 2.

2.0 The Report

- 2.1 The results of completed audit work have been reported to relevant officers during the year. Appendix 1 in annex 1 provides details of the 2020/21 completed work. Appendix 2 contains further details on the audits finalised since the last report to this committee in March 2021.
- 2.2 The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating within the Council is that it provides Substantial Assurance. No reliance was placed on the work of other assurance bodies in reaching this opinion and there are 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.

- 2.3 The work of the counter fraud team was adapted to include provision of relevant support for and investigation of Covid-19 business grant frauds. Annex 2 provides a summary of the work undertaken in 2020/21 and the outcomes.

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 Equality and Diversity Issues have been considered. There are no issues associated with this report.

8.0 Recommendation

- 8.1 Members of the Committee are asked to
- a) Note the results of the audit and counter fraud work undertaken in 2020/21
 - b) Accept the opinion of the Head of Internal Audit on the framework of governance, risk management and control operating within the Council

Louise Branford-White
Director of Finance and Commercial (s151 Officer)

Background papers: None

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ANNUAL HEAD OF INTERNAL REPORT 2020/21

20 July 2021
ANNEX 1

HAMBLETON
DISTRICT COUNCIL



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Stuart Cutts
Assistant Director - Audit Assurance



Max Thomas
Head of Internal Audit



BACKGROUND

- 1 The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS) and the Council's audit charter. These require the Head of Internal Audit to bring an annual report to the Audit, Governance and Standards Committee.
- 2 The report must include an opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control. The report should also include:
 - (a) any qualifications to the opinion, together with the reasons for those qualifications (including any impairment to independence or objectivity)
 - (b) any particular control weakness judged to be relevant to the preparation of the annual governance statement
 - (c) a summary of work undertaken to support the opinion including any reliance placed on the work of other assurance bodies
 - (d) an overall summary of internal audit performance and the results of the internal audit service's quality assurance and improvement programme, including a statement on conformance with the Public Sector Internal Audit Standards (PSIAS).



INTERNAL AUDIT WORK CARRIED OUT IN 2020/21

- 3 During the last year, the Covid pandemic has had a significant impact on the Council's working practices. In addition, a lot of the Council's resources have been directed towards responding to Covid related issues. This has also impacted upon the work of internal audit.
- 4 In March 2020 work on core audit assignments was suspended at the request of the Council. This included finalisation of work from the previous year and follow up of previously agreed actions. During this period, Veritau continued to provide support to the Council to help them to manage the fraud risks and other challenges caused by the pandemic. We provided support and advice and assisted with Covid-19 related matters, such as business support grants (led by the counter fraud team) and guidance covering new government requirements, on areas such as supplier relief. Audit work recommenced in August 2020, with all audit work being undertaken remotely.
- 5 We took a pragmatic approach to finalising work suspended during the early part of the 2020/21 year. Where we could, and it was appropriate to do so, we finished and agreed work covering areas such as Flexible Working, Benefits and Risk Management. In other cases, we have rolled forward the knowledge gathered into new work undertaken or planned. Our 2020/21 plan of work, agreed with the Director of Finance and Commercial (s151 Officer) in August 2020 continued to focus on the council's key risk areas and an overview of our work this year is included in Appendix A.
- 6 The majority of planned work has been completed, although the delay in starting work in 2020/21 means we currently have two audits in progress which we aim to bring to draft report stage within the next month.

- 7 Appendix B, below, provides details of the key findings arising from internal audit assignments completed, that we have not previously reported to the committee. Appendix C provides an explanation of our assurance levels and priorities for management action.



FOLLOW UP OF AGREED ACTIONS

- 8 It is important that agreed actions are followed up to ensure that they have been implemented. Veritau has followed up agreed actions 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. There are no significant weaknesses to report to the Committee.



PROFESSIONAL STANDARDS

- 9 In order to comply with Public Sector Internal Audit Standards (PSIAS) the Head of Internal Audit is required to develop and maintain an ongoing quality assurance and improvement programme (QAIP). The objective of the quality assurance and improvement programme (QAIP) is to ensure that working practices continue to conform to professional standards. The results of the quality assurance and improvement programme (QAIP) are reported to the committee each year as part of the annual report. The programme consists of various elements, including:
- maintenance of a detailed audit procedures manual and standard operating practices
 - ongoing performance monitoring of internal audit activity
 - regular customer feedback
 - training plans and associated training and development activities
 - periodic self-assessment of internal audit working practices (to evaluate conformance to the standards).
- 10 External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The most recent external assessment of Veritau internal audit working practices was undertaken in November 2018¹. This concluded that Veritau internal audit activity generally conforms to the Public Sector Internal Audit Standards (PSIAS)².
- 11 The outcome of the recently completed self-assessment demonstrates that the service continues to generally conform to the Public Sector Internal Audit Standards (PSIAS), including the Code of Ethics and the Standards. Further details of the QAIP are given in appendix D.

¹ Reported to the Audit, Governance and Standards committee in January 2019.

² Public Sector Internal Audit Standards (PSIAS) guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.

- 12 The Internal Audit Charter sets out how internal audit at the Council will be provided in accordance with the Public Sector Internal Audit Standards (PSIAS). The Charter is reviewed on an annual basis and any proposed changes are brought to the Audit, Governance and Standards Committee. No changes are proposed at this time.



OPINION OF THE HEAD OF INTERNAL AUDIT

- 13 The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating at the Council is that it provides **Substantial Assurance**. No reliance was placed on the work of other assurance providers in reaching this opinion, and there are 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.
- 14 The opinion given is based on work that has been undertaken directly by internal audit, and on cumulative knowledge gained through our ongoing liaison and planning with officers. However, in giving the opinion, we would note that Covid-19 has significantly affected the Council over the last year, with a wide ranging impact on business operations and controls. While the work of internal audit is directed to the areas that are most at risk, or provide most value for the Council, it is not possible to conclude on the full extent of the impact of Covid-19 on the Council's operations.

Audit	Status	Assurance Level
General Ledger	Final report issued	Substantial Assurance
Creditors	Final report issued	Reasonable Assurance
Sundry Debtors	Final report issued	Substantial Assurance
Microsoft Office 365	Final report issued	No opinion given (Project support and advice)
ICT Asset Management	Final report issued	Substantial Assurance
Commercial and Economic Development Initiatives	Final report issued	Substantial Assurance
Communications	Final report issued	Substantial Assurance
Community Safety and Safer Hambleton Hub	Final report issued	Substantial Assurance
Depot Security, Policies and Training	Final report issued	No opinion given (Follow up work)
Leisure Centres	Draft report issued	
Health and Safety Management	Draft report issued	
Lifeguard Training	Fieldwork in progress	-
Revenues and Benefits	Fieldwork in progress	-

Other work

Internal audit work has been undertaken in a range of other areas during the period, including those listed below.

- Covid related advice and support
- Follow up of management actions to address findings/risks from previously agreed reports.
- Work to support the Council closedown of accounts, using data analytics.
- Supporting internal investigations.
- Support and advice provided through the year on controls and processes.
- Covid 19 related revenue grant certification work (LA Compliance and Enforcement) for Ministry of Housing Communities and Local Government.
- Collation and review of various sources of evidence (e.g. from Council committee papers and minutes, the risk register) to help support our assessment of the Council's governance, risk management and control arrangements.

APPENDIX B: SUMMARY OF KEY ISSUES FROM AUDITS FINALISED SINCE THE LAST REPORT TO THE COMMITTEE

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System/area	Opinion	Area reviewed	Date issued	Comments	Management actions agreed
Creditors	Reasonable Assurance	<p>We reviewed the new Civica Financials Creditors system to ensure that:</p> <ul style="list-style-type: none"> • Payments are made for goods and services that have been appropriately ordered and received. • Invoices are paid in a timely manner, and are authorised by an appropriate officer. • Duplicate payments are prevented. • Changes to the bank accounts of suppliers are altered in accordance with Council procedures and guidelines. 	April 2021	<p>Strengths</p> <p>Payments were being made for goods and services that have been appropriately ordered and received. Invoices were also being paid in a timely manner.</p> <p>Good progress has been made towards a fully automated 'Purchase to Pay' system which should be introduced for all transactions from 2021/22.</p> <p>Areas for improvement</p> <p>An invoice of £22,483 was authorised for payment by an officer without the necessary delegated authority. This invoice is one which was manually authorised.</p> <p>A payment of £3,015 was made twice for the same item in April 2020. The duplicate payment had not been initially identified and prevented by Council controls. The amount was recovered by the Council in June 2020.</p> <p>Some improvements to the reporting being used from the new system and what information to retain, in respect of changes to bank accounts were suggested and agreed.</p>	<p>One Priority 2 action and two Priority 3 actions were agreed.</p> <p>As the Council moves to a 'no purchase order, no pay policy', the in-built authorisation limits within the Civica Financials system should help to prevent future instances of inappropriate authorisations. The Corporate Finance Manager has also stressed to the Business Support Team the importance of adhering to the delegated authority amounts.</p> <p>Changes to procedures have been made following the duplicate payment.</p> <p>Work is ongoing with Civica financials on bank account reporting and processes. It is expected this will be completed by 30 September 2021.</p>

System/area	Opinion	Area reviewed	Date issued	Comments	Management actions agreed
Microsoft Office 365	No opinion	<p>During 2020/21 the Council has been undertaking a project to introduce Microsoft Office 365. Work on the project has continued into 2021/22.</p> <p>We have been providing ongoing support and challenge to the project, helping the Council in real time with our involvement. Specifically our work this year has covered whether:</p> <ul style="list-style-type: none"> • There was a clear structured approach to implementing Microsoft Office 365. • The Council have followed Microsoft guidance on the implementation of Microsoft Office 365. • There are strong data governance arrangements in place so access to data is limited to authorised individuals. • The Council have procedures to monitor Microsoft subscription utilisation. 	June 2021	<p>There has been a clear approach with work split into phases. Migration of email to the Microsoft cloud, (phase 1) has been completed for the majority of mailboxes.</p> <p>Phase 2 (the implementation of Microsoft Teams) was carried out months ahead of schedule due to the Covid 19 pandemic. The implementation had no serious issues and has been set up securely.</p> <p>The third stage of the project is to implement Microsoft OneDrive which is work in progress. The Council are currently exploring the features and functionality of Microsoft OneDrive. Conversations with the service areas should be part of this work, to help ensure what could/should be achieved from the use of Microsoft OneDrive.</p> <p>In 2020 Veritau carried out a data impact assessment on Microsoft Office 365 with an emphasis on file sharing agreements. A number of recommendations were made, which will be considered as the project progresses further.</p> <p>The Council has reviewed each service area's IT requirements to establish how many licences are appropriate. Once someone leaves the Councils IT are automatically notified via the HR system and the licence will be removed from that user.</p>	There was no actions for management to agree.

System/area	Opinion	Area reviewed	Date issued	Comments	Management actions agreed
Commercial and Economic Development Initiatives	Substantial Assurance	<p>Some of the Council's key projects are in respect of redeveloping the Northallerton Prison site (Treadmills Phase 1 and 2a and 2b) and building a crematorium in the local area.</p> <p>We reviewed these Commercial and Economic Development initiatives to ensure that:</p> <ul style="list-style-type: none"> The set up and governance of these initiatives were appropriate. Risk management and monitoring was effective. <p>Work also covered the Commercial Investment Strategy which had been suspended by Cabinet in September 2020.</p>	July 2021	<p>Strengths</p> <p>The suspension of the Commercial Investment Strategy followed appropriate process and considered the latest information from HM Treasury and the latest CIPFA prudential code guidance.</p> <p>Information in Cabinet papers gave assurance the set-up of Treadmills and the Crematorium was appropriate. The decisions received appropriate scrutiny and sign off and the Council demonstrated they had the powers to proceed for economic development and regeneration purposes, and to help fulfil a local need that was not otherwise being met.</p> <p>Governance arrangements are established for Treadmills with a Joint Venture Company Board, and an internal Treadmills Project Board which represents the Council's interests.</p> <p>Risks relating to Treadmills and the Crematorium had been effectively identified, documented and were being managed at a corporate, service and project level.</p> <p>Areas for improvement</p> <p>Some improvements could be made to the level of detail in actions on the Council's Key Corporate Project Risks register.</p> <p>As part of the governance arrangements for Treadmills, the Board may benefit from</p>	<p>One Priority 3 action was agreed.</p> <p>The Key Corporate Project Risks register will be reviewed for all Treadmills related risks and further detail will be included where appropriate</p> <p>For the Crematorium project the risk register will be reviewed and discussed with Willmott Dixon (the council's property and construction consultants) with an aim to increase information on the current Net risk to the council (the risk after the actions currently included in the register).</p> <p>For all future projects the Council's risk register template will refer to the Gross and Net risk.</p> <p>The above actions are planned to be completed by November 2021.</p>

System/area	Opinion	Area reviewed	Date issued	Comments	Management actions agreed
				a wholly independent member to help ensure both parties are acting in the interests of the Company.	
Depot Security, Policies and Training	No opinion	<p>In 2018/19 two audits were completed at the Depot; one covered Depot Policies and Security, and the second covered Depot Training.</p> <p>Seven areas for improvement (including five priority 2 findings) were raised and agreed by management. Officers were to put in place appropriate actions to address weaknesses in areas such as training records, stock checks and the fuel management system.</p> <p>The purpose of this work was to follow up the progress made to address the previously identified areas for improvement.</p>	June 2021	<p>Good progress has been made in addressing the weaknesses highlighted in the previous audit reports. The majority of actions have now been addressed and in those instances, internal control weaknesses have been resolved.</p> <p>The issues previously raised regarding stock check policies, systems and processes remain outstanding. It was explained these have been significantly affected by the pandemic.</p> <p>Further improvements could be made to improve controls around the utilisation of the staff training matrix.</p>	Management are aware of these outstanding issues and work remains ongoing to resolve these weaknesses.

APPENDIX C: AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

Audit opinions	
Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit. Our overall audit opinion is based on 4 grades of opinion, as set out below.	
Opinion	Assessment of internal control
Substantial assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control, to effectively manage risks to the achievement of objectives in the area audited.
No assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

*There are circumstances when it is not appropriate to give an opinion/assurance level on completed work, for example on project and other support, consultancy, grant certification and follow up work. When '**no opinion**' is our conclusion this is not to be confused with a no assurance opinion.

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.

APPENDIX D: 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
- attendance on relevant courses and access to e-learning material
- the maintenance of training records and training evaluation procedures
- membership of professional networks
- 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 (Sword Audit Manager)
- file review by senior auditors and audit managers and sign-off at 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
- regular client liaison meetings to discuss progress, share information and evaluate performance

On an ongoing basis, samples of completed audit work are subject to internal peer review by a Quality Assurance group. The review process is designed to ensure audit work is completed consistently and to the required quality standards. The work of the Quality Assurance group is overseen by an Assistant Director. 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

where required (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 Public Sector Internal Audit Standards (PSIAS) self-assessment checklist and obtain evidence to demonstrate conformance with the Code of Ethics and the Standards. As part of ongoing performance management arrangements, 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, Public Sector Internal Audit Standards (PSIAS) self-assessment, professional networking, and ongoing quality assurance and performance management arrangements 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 Public Sector Internal Audit Standards (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 2021

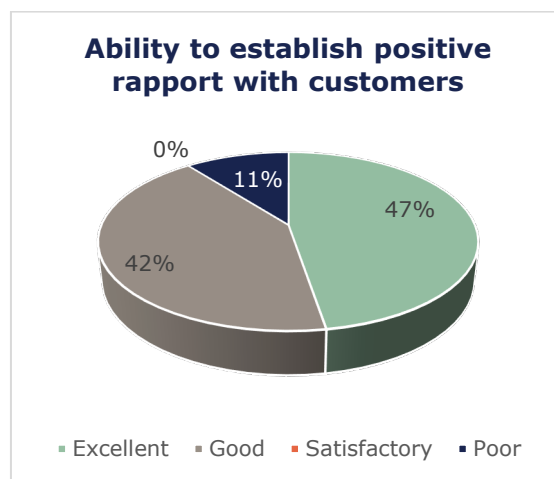
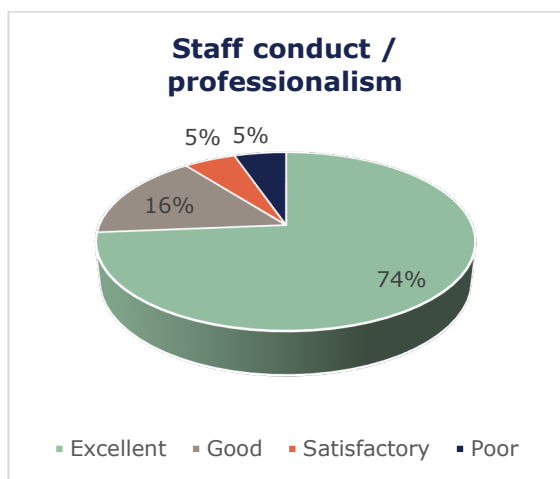
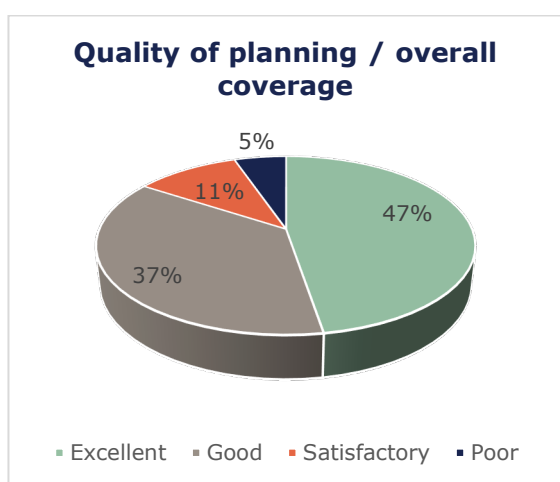
In March 2021 we asked clients for feedback on the overall quality of the internal audit service provided by Veritau. Where relevant, the survey also asked questions about counter fraud and information governance services. A total of 165 surveys (2020 – 136) were issued to senior managers in client organisations. A total of 19 responses were received representing a response rate of 12% (2020 – 11%). The surveys were sent using Survey Monkey and the

³ As defined by the relevant audit charter

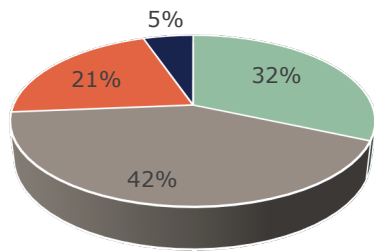
respondents were required to identify who they were. Respondents were asked to rate the different elements of the audit process, as follows:

- 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. These are presented as percentages, for consistency with previous years. However, it is recognised that the low number of respondents means that the percentage for each category is sensitive to small changes in actual responses (1 respondent represents about 5%).

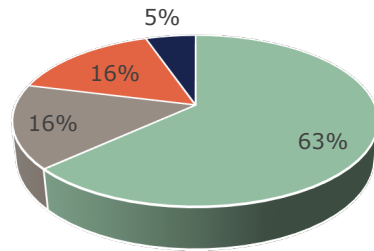


Knowledge of system / service being audited



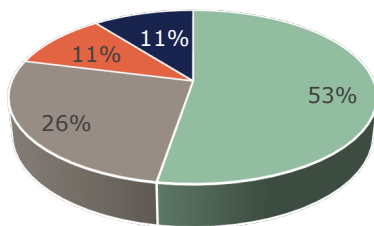
■ Excellent ■ Good ■ Satisfactory ■ Poor

Minimising disruption to the service being audited



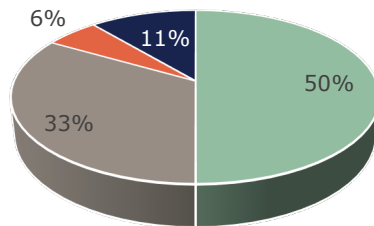
■ Excellent ■ Good ■ Satisfactory ■ Poor

Communicating issues during the audit



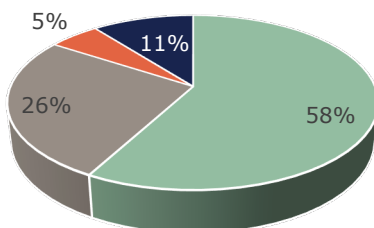
■ Excellent ■ Good ■ Satisfactory ■ Poor

Quality of feedback at end of audit



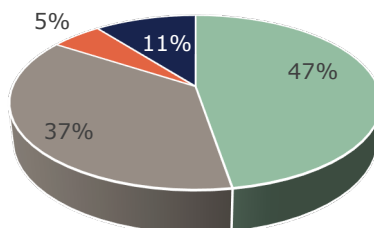
■ Excellent ■ Good ■ Satisfactory ■ Poor

Accuracy, format, length & style of audit report

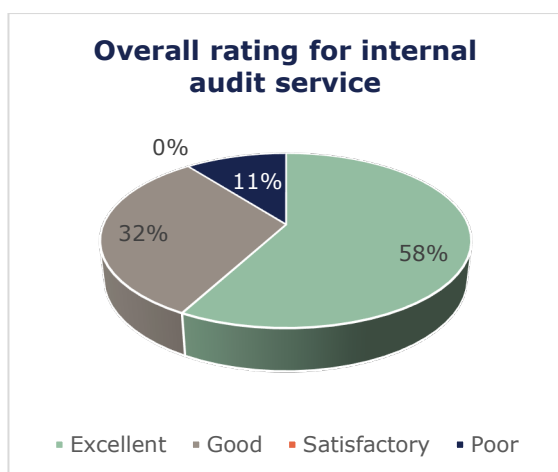


■ Excellent ■ Good ■ Satisfactory ■ Poor

Relevance of audit opinions & conclusions



■ Excellent ■ Good ■ Satisfactory ■ Poor



The overall ratings in 2021 were:

	2021		2020	
Excellent	11	58%	3	20%
Good	6	32%	11	73%
Satisfactory	0	0%	0	0%
Poor	2	11%	1	7%

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

3.0 Self-Assessment Checklist 2021

CIPFA has prepared a detailed checklist to enable conformance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note to be assessed. The checklist was originally completed in March 2014 and 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. A comprehensive update of the checklist was undertaken in 2020, following revisions by CIPFA.

Current working practices are considered to be at standard. However, as in previous years there are a few areas of non-conformance. 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. Existing arrangements are considered appropriate for the circumstances and require no further action.

The following areas of non-compliance remain largely unchanged from last year.

Conformance with standard	Current position
Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was	Consultancy services are usually commissioned by the relevant client officer (generally the s151 officer). The scope (and charging

Conformance with standard	Current position
approval sought from the audit committee before the engagement was accepted?	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 respective priorities of audit work?	<p>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).</p> <p>Work is currently ongoing to introduce flexible audit planning arrangements. As part of this exercise, we will be seeking to assign priorities to audit activities on an ongoing basis during the course of the relevant reporting period. Once complete, the new arrangements will remove this area of non-compliance.</p>
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?	An approach to using other sources of assurance, where appropriate is currently being developed (see below).

4.0 External Assessment

As noted above, the Public Sector Internal Audit Standards (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.

An external assessment of Veritau internal audit working practices was last undertaken in November 2018 by the South West Audit Partnership (SWAP). 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 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 audit committee chairs.

A copy the external assessment report was reported to this committee on 22 January 2019.

The report concluded that Veritau internal audit activity generally conforms to the Public Sector Internal Audit Standards (PSIAS)⁴ 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.

5.0 Improvement Action Plan

The external assessment identified a number of areas for further consideration and possible improvement. An action plan was developed to address these areas. These actions have all been completed, other than one area (shown below) which remains in progress.

Recommendation	Current Position
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).	This work is in progress. Work has been undertaken over the last two years to identify other sources of assurance for each client. This exercise is ongoing, and more detailed actions have been incorporated into a longer term development strategy for Veritau internal audit services (see below).

In 2020/21, the Quality Assurance group reviewed internal processes for the follow up of actions agreed during internal audit assignments. It found that follow up work is generally being undertaken routinely, and in line with

⁴ Public Sector Internal Audit Standards (PSIAS) guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.

expected procedures. In the majority of cases, actions raised in our reports are completed by the client and these actions address the issues originally raised. Findings from follow up work are recorded on the Veritau internal audit management system. In most cases, sufficient evidence is held on the system to show that actions have been completed. However there are some cases where responses received from clients do not fully demonstrate that those actions have addressed the original findings. We also found that some improvements are needed to documenting and updating of information on the system. In particular, records were not always up to date, with some actions which had passed the agreed deadline remaining outstanding. This is partly due to the impact of Covid 19 – with a number of clients requesting an easing of follow up work during the pandemic. In 2021 we will review all outstanding actions, to bring details up to date. We will also be providing further training to the audit teams on documenting evidence to support the findings from follow up work.

In the last year, we have also recognised the need for a more fundamental review of internal audit practices within Veritau. While current arrangements meet the standards, the pace of change in local government and the wider public sector mean that we need to update aspects of the service to ensure it stays up to date and continues to deliver good value. We have therefore developed a three year strategy to help us improve the service. The strategy sets out the actions we will be taking within Veritau to modernise our practices, from April 2021. The five key areas we are focussing on are:

- increasing engagement across all clients
- further development of strategic planning frameworks
- redesign and modernisation of audit processes (for example flexible work planning and reducing the time to deliver findings)
- increasing investment in high value data analytics work
- introducing better measures of outcomes from audit work, to enable us to direct resources to areas of most value to our clients

6.0 Overall Conformance with Public Sector Internal Audit Standards (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 (PSIAS), 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.

COUNTER FRAUD ANNUAL REPORT 2020/21

Date: 20 July 2021

ANNEX 2

HAMBLETON
DISTRICT COUNCIL



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Detailed Summary of Performance 2020/21

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Daniel Clubb
Corporate Fraud Manager



Max Thomas
Head of Internal Audit



BACKGROUND

- 1 Fraud is a significant risk to the public sector. Annual losses are estimated to exceed £40 billion in the United Kingdom. Financial loss due to fraud can reduce a council's ability to support public services and can cause reputational damage.
- 2 Veritau delivers a corporate fraud service to the Council which aims to prevent, detect and deter fraud and related criminality. We use qualified criminal investigators to support departments with fraud prevention, proactive data matching exercises, and investigate any suspected fraud found. To deter fraud, offenders face a range of outcomes, including prosecution in the most serious cases.
- 3 This purpose of this report is to provide the Audit, Governance and Standards Committee with a summary of counter fraud work undertaken in 2020/21.



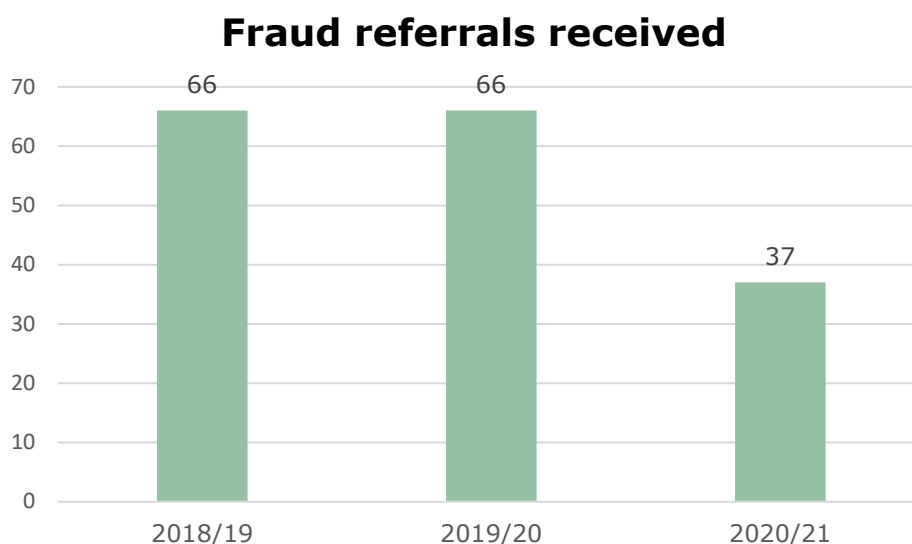
KEY PERFORMANCE FIGURES

- 4 The counter fraud team helped the Council make £4.7k of counter fraud savings in 2020/21. This was below the target of £16k in counter fraud savings, primarily due to the impact of Covid-19 on the work of the team. As a result of the pandemic we were unable to undertake some core elements of investigation work requiring direct contact with the public. However, resources were reprioritised to provide support to the Council's Covid-19 response – primarily through supporting Covid grant administration.
- 5 The team supported Council colleagues by reviewing over 140 applications for Covid-19 related business grants in post-payment checking exercises throughout the course of the year. In addition to the savings detailed above £140k of payments relating to business grants were either stopped or recovered.
- 6 The team received 37 referrals of suspected cases of fraud in the course of the financial year from the public and Council staff. This is a decline on previous years. The counter fraud team completed 31 investigations in 2020/21, including cases of potentially fraudulent Covid-19 grant applications. Successful outcomes¹ were achieved in 29% of fraud investigations.
- 7 Undue payments or discounts were identified and/or recovered in eight cases. Three people received warnings for their conduct.
- 8 A detailed summary of performance can be found in appendix A, below.

¹ Actual outcomes vary by case type but include, for example, benefits or discounts being stopped or amended, sanctions, prosecutions, or management action taken.

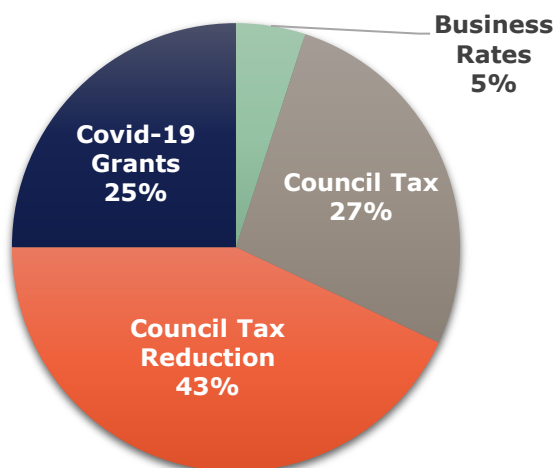
ANALYSIS OF RESULTS

- 9 The team adapted to the Council's counter fraud needs relating to Covid-19 grant funding. Working practices were impacted by the pandemic with in-person activities such as visits to properties and interviews under caution having to be curtailed. To address this, we introduced Covid-19 secure procedures, which included progressing matters through correspondence and exploring online alternatives.
- 10 The figure below shows the number of referrals received by the team over the last three years. There was a 44% drop in referrals in 2020/21 compared to the previous two years. This is believed to be principally as a result of Covid-19 – for example less social interaction between members of the public may have resulted in less suspicions being raised. The deployment of Council staff on Covid-19 related activities may also have reduced opportunities to report fraud.



- 11 The following chart illustrates that more than half of the referrals received in 2020/21 were allegations of revenues related fraud. A quarter of all referrals were about Covid-19 grants, highlighting the significant impact this had on the work of the team.

Referrals by fraud type



COVID-19

- 12 The Council has played a key role in distributing government grants to local businesses in 2020/21. It distributed over £50.5 million across a range of grant schemes that provided support during the pandemic. This was a difficult task, with pressure to distribute grants quickly to provide essential support whilst keeping the risk of fraud to an acceptable level. The grant schemes have been targeted by criminals operating locally, nationally, and internationally. However, checking arrangements in place within the Council, supported by the work of the counter fraud team, has helped to minimise and recover incorrect payments. Veritau reviewed a sample of successful grant applications to assist the Council in fulfilling government mandated post-event assurance work.
- 13 A working group that includes Council officers and Veritau was set up to coordinate assurance actions required by government departments for grant payments. Assurance requirements for the earliest grants focused on post-payment activity, however, this changed for schemes at the end of 2020/21 where specified pre-payment checks were mandated. The group continues to meet monthly to monitor assurance actions and ongoing investigations.
- 14 Potentially fraudulent claims for Covid-19 related grants were investigated by the counter fraud team. Four investigations were completed in 2020/21 which prevented £25k being paid where the applicant did not qualify and a further £15k of incorrectly awarded grants was recovered. In addition, sharing of intelligence on organised criminal attempts to access grants prevented payments totalling £100k. Since March 2021, investigations have resulted in recovery of a further £5.5k. A number of investigations are still ongoing.

- 15 Throughout the year the counter fraud team assisted the Council by supporting access to and interpretation of national data matching resources. These checks were made to help ensure that payments were made to bank accounts matching the businesses applying for support. They also helped to ensure that the businesses applying for grants were eligible under the rules of the government schemes.
- 16 The counter fraud team has shared and received information relating to national scams by organised criminal gangs with government departments, national bodies, and regional partners.

COUNTER FRAUD MANAGEMENT

- 17 Veritau undertakes a range of non-investigative activity to support the development of counter fraud work at the Council. In 2020/21 a new counter fraud strategy for the Council was developed.
- 18 This year's council tax billing included a leaflet that raised the profile of the Council's counter fraud stance and advised the public on how to report fraud if they have concerns.
- 19 Veritau contributes to national counter fraud publications. Data was provided to CIPFA for inclusion in the national annual counter fraud tracker, which documents fraud against local authorities. In addition, Veritau contributed to and supported development of the national counter fraud strategy for local authorities, Fighting Fraud and Corruption Locally, which was released in April 2020.
- 20 The counter fraud team ensures that the Council meets its legal obligations surrounding counter fraud work. It supported Council officers with responsibilities for the National Fraud Initiative, an exercise run by the Cabinet Office, in which Council participation is mandatory. It also provides annual transparency data on fraud, for publication by the Council.
- 21 The work of the counter fraud team was recognised in October when it was nominated as a finalist for outstanding team in the Tackling Economic Crime Awards.

APPENDIX A: COUNTER FRAUD ACTIVITY 2020/21

The table below shows the success rate of investigations and levels of savings achieved through counter fraud work in 2020/21.

	2020/21 (Actual: Full Yr)	2020/21 (Target: Full Yr)	2019/20 (Actual: Full Yr)
Amount of actual savings (quantifiable savings - e.g. repayment of loss) identified through fraud investigation	£4,741	£16,000	£15,885
% of investigations completed which result in a successful outcome (for example payments stopped or amended, sanctions, prosecutions, properties recovered, housing allocations blocked)	29%	30%	46%
Amount of savings from the prevention of Covid-19 grant fraud	£140,000	n/a	n/a

Caseload figures for the period are:

	2020/21 (Full Year)	2019/20 (Full Year)
Referrals received	37	66
Number of cases under investigation	25	24 ²
Number of investigations completed	22	28
Number of verification case completed	9	n/a

² As at end of year, i.e. 31/03/2020 and 31/03/2021.

Summary of counter fraud activity

Activity	Work completed or in progress
Data matching	A new National Fraud Initiative data matching exercise took place in 2020/21. The Council submitted a number of data sets to the Cabinet Office and matching outputs were released from February 2021. Further matches relating to Covid-19 business grants were made available to the Council in May 2021.
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 completed in 2020/21 includes the following:</p> <ul style="list-style-type: none"> • Covid-19 related fraud – The team received nine referrals relating to Covid-19 grant fraud and completed four investigations. As a result, an incorrect payment of £25k was prevented and £15k of undue grant payments were recovered. One business was issued a warning for obtaining a grant they were not entitled to. • Council Tax Support fraud – The team investigated nine cases of Council Tax Support fraud and received 16 referrals in this area. Two people were issued with warnings for failing to provide the Council with up to date information while receiving support. Investigative work generated savings of over £3.5k. • Council Tax Fraud – Ten referrals relating to council tax fraud were received last year. Eight cases were completed. One warning was given for failing to provide up to date information to the Council. • Business Rates fraud – Two referrals of business rates fraud were reported during the year. • Internal, External & Third Party fraud – No referrals of this nature were received in 2020/21.
Fraud Management	<p>In 2020/21 a range of activity has been undertaken to support the Council's counter fraud framework.</p> <ul style="list-style-type: none"> • The counter fraud team alerts Council departments to emerging local and national threats through bulletins and alerts over the course of the year.

Activity	Work completed or in progress
	<ul style="list-style-type: none"> • In May 2020, the Council's counter fraud transparency data was updated to include data on counter fraud performance in 2019/20. The Council is obliged to publish this information under the Local Government Transparency Code 2015. • In September 2020, the Council participated in the annual CIPFA Counter Fraud and Corruption Tracker (CFaCT) survey. The information contributes to an annual CIPFA report which provides a national picture of fraud, bribery and corruption in the public sector and the actions being taken to prevent it. • The Veritau counter fraud team was nominated as a finalist for Outstanding Team in the Tackling Economic Crime Awards in October 2020. • In March 2021, a leaflet was included in the annual council tax billing making the public aware of how to report concerns of fraud to the Council. • Throughout the Covid-19 pandemic, the counter fraud team have provided support to the Council in preparing for and administering government funded grant schemes. This has included reviewing government guidance and advising on best practice.