

Committee Administrator: Democratic Services Officer (01609 767015)

Monday, 16 January 2023

Dear Councillor

Notice of Meeting

Meeting **Audit, Governance and Standards Committee**

Date **Tuesday, 24 January 2023**

Time **9.30 am**

Venue **Council Chamber, Civic Centre, Stone Cross, Rotary Way, Northallerton,
DL6 2UU**

Yours sincerely

J. Ives.

Dr Justin Ives
Chief Executive

To: Councillors
N A Knapton (Chairman)
P Atkin
P Bardon
D B Elders (Vice-Chairman)

Councillors
Mrs B S Fortune
K G Hardisty
R W Hudson

Other Members of the Council for information

Note: Members of the press and public are also able to observe the meeting virtually via Teams. Please click on the link on the website or dial 020 3855 5195 followed by the Conference ID: 119 686 650 # For further information please contact Democratic Services on telephone 01609 767015 or email committeeservices@hambleton.gov.uk

Agenda

Page No

1. Minutes

To confirm the minutes of the meeting held on 27 September 2022 (AGS.7 to AGS.16), previously circulated.

2. Apologies for Absence

3. Internal Audit and Counter Fraud Second Progress Report 2022/23

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Report of the Chief Executive

Relevant Ward(s): All Wards

4. Matters of Urgency

Any other business of which not less than 24 hours prior notice, preferably in writing, has been given to the Chief Executive and which the Chairman decides is urgent.

Hambleton District Council

Report To: Audit, Governance and Standards Committee

Date: 24 January 2023

From: Chief Executive

Subject: **Internal Audit and Counter Fraud Second Progress Report 2022/23**

Portfolio Holder: Economic Development and Finance
Councillor P R Wilkinson

Wards Affected: All Wards

1.0 Purpose and Background

- 1.1 Under the Accounts & Audit Regulations 2015, it is a statutory requirement for councils to have effective internal audit that complies with public sector internal audit standards.
- 1.2 The council has formalised its arrangements for internal audit within the Audit Charter. In accordance with these standards and requirements the Head of Internal Audit is required to report to the council on the programme of internal audit work and to highlight any emerging significant risks and/or control issues that they have become aware of.
- 1.3 The purpose of this report is to provide Members with an update on audit work planned and undertaken, and counter fraud activity since the last report to this committee.

2.0 The Report

- 2.1 The internal audit progress report to 16 December 2022 is contained in annex 1. Two final reports on General Ledger and Crematorium Governance have been issued. Currently, fieldwork is in-progress for seven audits , and three other pieces of work are at the planning stage. There are no specific significant risks or significant control issues which we have become aware of, that need to be highlighted to the committee.
- 2.2 Annex 2 contains the counter fraud progress report. Updates are provided on recent counter fraud activity undertaken. This includes work to raise awareness of fraud with staff, progress on work with external agencies, investigative outcomes, and the level of fraud reported to date.

3.0 Link to Council Priorities

3.1 The work of internal audit and counter fraud 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 That the Committee note the work undertaken by internal audit and the counter fraud team in the year to date.

Justin Ives
Chief Executive

Background papers: None

Author ref: SC/DC

Contacts: Stuart Cutts, Assistant Director – Audit Assurance
The Veritau Group
stuart.cutts@veritau.co.uk

Daniel Clubb, Corporate Fraud Manager
The Veritau Group
daniel.clubb@veritau.co.uk

INTERNAL AUDIT PROGRESS REPORT 2022/23

Date: 24 January 2023

Annex 1





BACKGROUND

- 1 The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS) and the Council's Audit Charter. In accordance with the PSIAS, the Head of Internal Audit is required to report progress to the committee on the programme of internal work to support the annual internal audit opinion, and to highlight any emerging significant risks and/or control issues we have become aware of.
- 2 The proposed 2022/23 areas of work for internal audit, and the approach to flexible audit planning, were summarised in the Internal Audit Plan, which was agreed by members in March 2022.
- 3 It is important that audit resources are used effectively and continue to focus on those areas which add the most value. The plan and our work are designed to be flexible so that as new risks are identified, or priorities change the audit programme can be updated.
- 4 A primary focus of internal audit delivery in 2022/23 is linked to Local Government Reorganisation (LGR), and on those systems which are directly and indirectly affected by the transfer. Maintaining an effective control environment for existing key systems is also a key focus for officers and for our work.
- 5 The purpose of this report is to update the committee on internal audit activity between 1 April 2022 and 16 December 2022.



INTERNAL AUDIT PROGRESS

- 6 In the period to 16 December 2022, since the last progress report, two final internal audit reports (General Ledger and Crematorium governance) have been issued.
- 7 Work has started in a number of areas. We have 7 audits in progress and another 3 audits are being planned and will start in January 2023. All fieldwork is planned to be completed by the end of February 2023.
- 8 We have been meeting regularly to discuss risks and ongoing work with the interim Head of Finance and Corporate Finance Manager. The timing and focus of work have been informed by our ongoing assessment of risk.
- 9 The main priority remains targeted work on the Council's key financial systems. This work involves testing the continued operation of key controls, reviewing identified areas of weakness, and considering specific data quality, system transfer and development matters linked to LGR.
- 10 There are no specific areas of emerging significant risks or significant control issues which we have become aware of, that we need to highlight to the committee.

- 11 A summary of internal audit work currently underway, and finalised in the year to date, is included in appendix A. Appendix B provides details of the audit reports finalised since the last committee. Appendix C lists our current definitions for action priorities and overall assurance levels.
- 12 We will continue to assess and monitor risk and discuss key areas with senior management. Work will be adjusted in response to changes in the Council's activities, risks, operations, systems and controls, if required.



FOLLOW-UP OF AGREED ACTIONS

- 13 It is important that actions agreed to address previously reported findings and internal control matters are regularly and formally followed up. The Public Sector Internal Audit Standards (PSIAS) require internal auditors to have a follow up process to monitor action taken to address issues identified as part of internal audit work. This helps to provide assurance to senior managers and Councillors that control weaknesses have been properly addressed. It also provides assurance for our overall Head of Internal Audit Opinion. Service managers are responsible for resolving issues and implementing agreed actions.
- 14 We have followed up agreed actions either as part of our ongoing audit work, or in separate reviews. We currently have no matters to report to the Committee as a result of our follow up work.

APPENDIX A: 2022/23 INTERNAL AUDIT WORK

Audits in progress

Audit	Status
Creditors	Work in progress
Sundry debtors and debt recovery	Work in progress
Payroll migration	Work in progress
ICT disaster recovery	Work in progress
Business Rates and Council Tax	Work in progress
Environmental health	Work in progress
Risk management	Work in progress
Housing Benefits	Planning
Budgetary monitoring	Planning
Annual Governance Statement	Planning

Final reports issued

Audit	Reported to Committee	Opinion
Crematorium governance	January 2023	Substantial Assurance
General Ledger	January 2023	Reasonable Assurance
Revenues and benefits	September 2022	Substantial Assurance
Payroll and employee overtime	September 2022	Reasonable Assurance
Sundry debtors and debt recovery	July 2022	Reasonable Assurance
Risk management	July 2022	Substantial Assurance
Cyber risk management	July 2022	Substantial Assurance
Creditors	July 2022	Substantial Assurance
Public sector decarbonisation	July 2022	No opinion (project risk review)

Other work in 2022/23

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

- Certification of the Local Authority Test and Trace Support Payment Scheme grant was completed in July 2022. Work on the Contain Outbreak Management Fund (COMF) is ongoing.
- Regular discussion with management, including ongoing discussions linked to local government reorganisation and in respect of the financial based audits to help ensure work has sufficient coverage, for our 2022/23 opinion.
- Ongoing review of key documentation and meeting minutes to help inform our future work and provide insight for our annual audit opinion.
- Involvement in a number of the Local Government Reorganisation workstreams to help develop and understand new arrangements and share knowledge with Hambleton management and officers.
- We reviewed a draft of the 2021/22 Annual Governance Statement and shared our comments and suggestions for improvement to the deputy s151 officer which led to updates that were reflected in the final version presented to the September 2022 committee.

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

Audit	Opinion	Area reviewed	Date issued	Comments / Issues identified	Management actions agreed
General Ledger	Reasonable Assurance	<p>The General Ledger records all financial activity and is used to prepare the annual financial statements and support effective financial management. The Council uses Civica Financials as the General Ledger.</p> <p>The purpose of the audit was to ensure that:</p> <ul style="list-style-type: none"> • Access to the ledger was appropriately restricted • Feeder systems are reconciled prior to upload • Processes and responsibilities for journals were appropriately defined • suspense accounts were monitored and cleared • Bank reconciliations were performed and authorised in line with Council rules 	October 2022	<p>Strengths:</p> <p>Access to the Civica Financials system is restricted to appropriate officers. Processes are in place to help ensure changes to access are reviewed and authorised.</p> <p>Feeder systems were reconciled prior to upload.</p> <p>Transactions posted to suspense accounts were being investigated and cleared out promptly in line with procedures.</p> <p>Areas for improvement:</p> <p>All journals above £25,000 should be authorised by another member of staff in Corporate Finance. There are no in-built ledger controls to prevent someone from posting a journal which had not been authorised. We noted five journals over £25,000 which had not been authorised prior to posting.</p> <p>At the time of the main fieldwork in August 2022, for the 2022/23 year to date, the expenditure bank reconciliation had not been performed due to prioritisation of other work. By October 2022 reconciliations to 8 August had been completed.</p>	<p>2 areas for improvement discussed and actions agreed with the Corporate Finance Manager.</p> <p>All of the journals which had not been authorised have subsequently been authorised.</p> <p>Since our fieldwork the Corporate Finance Manager ensured that expenditure bank reconciliations were brought fully up to date, and subsequent reconciliations to the end of the year have also been promptly completed.</p>

Audit	Opinion	Area reviewed	Date issued	Comments / Issues identified	Management actions agreed
				The income bank reconciliation had been completed and was up to date.	
Crematorium Governance	Substantial Assurance	<p>The Maple Park Crematorium opened for services in March 2022. The purpose of the audit was to ensure that:</p> <ul style="list-style-type: none"> • Governance arrangements over the crematorium were in line with best practice and operating effectively. • A process was in place to effectively identify, document and respond to risks facing the crematorium and the Council. • The crematorium was operating in line with legislation and complied with relevant regulations. 	November 2022	<p>Strengths:</p> <p>Governance arrangements for the crematorium were robust and operating effectively. Arrangements were in line with the UK Corporate Governance Code (a best practice governance framework).</p> <p>A risk register is maintained and updated and shared with Council management quarterly. The register contains sufficient level of details and there is a risk reduction register in place to track progress against improvement actions.</p> <p>As part of Local Government Reorganisation (LGR) the governance of Council-owned companies is being considered. At both HDC and as part of LGR, there is good awareness of the specific risks in respect of the Crematorium, which included board composition and succession planning.</p> <p>Best practice guidance from the Federation of Burial and Cremation Authorities (FBCA) was used to help guide and support governance arrangements. The FBCA inspected the crematorium in May 2022 and gave a high level of compliance score. Two improvement areas were highlighted by the visit and steps have already taken steps to progress these.</p>	<p>1 area for improvement was agreed with the Crematorium Business Manager.</p> <p>Internal procedure notes will be developed by the 31 March 2023.</p>

Audit	Opinion	Area reviewed	Date issued	Comments / Issues identified	Management actions agreed
				Area for improvement: Internal procedure notes have not yet been developed for all processes performed at the crematorium.	

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.

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.

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COUNTER FRAUD PROGRESS REPORT 2022/23

Date: 24 January 2023

Annex 2





BACKGROUND

- 1 Fraud is a significant risk to the public sector. The government estimates that the taxpayer loses up to £51.8 billion to fraud and error in public spending every year¹. Financial loss due to fraud can reduce a council's ability to support public services and 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 employ qualified criminal investigators to support departments with fraud prevention, proactively identify issues through data matching exercises, and investigate any suspected fraud. To deter fraud, offenders face a range of outcomes, including prosecution in the most serious cases.
- 3 The purpose of this report is to update the Committee on counter fraud activity in 2022/23.



FRAUD MANAGEMENT

- 4 In October information was released to members of staff to mark cybersecurity awareness month. The material focussed on mandate fraud (also known as payment diversion fraud) a form of cybercrime that has been increasing nationally in terms of sophistication, frequency, and success. Staff were updated on the latest tactics and tools used by criminals to commit this type of fraud as well as warning signs to look out for.
- 5 A campaign to remind staff of fraud that can affect the Council, and how to report it, took place for International Fraud Awareness Week in November. Details for contacting the fraud team were circulated.
- 6 An e-learning package for staff that highlights potential fraud threats in the transition to the new North Yorkshire Council was completed in September. The training is now available for staff to complete.
- 7 An awareness campaign informing staff about the Council's anti-bribery and anti-money laundering policies took place in December.



MULTI-AGENCY WORK

- 8 In November, the Council submitted data to the Cabinet Office for the 2022/23 National Fraud Initiative exercise. Outputs from these national matches will be released in 2023. The Council are now in the process of submitting data for the annual Single Person Discount exercise.

¹ Fraud and Error (Ninth Report of Session 2021/22), Public Accounts Committee, House of Commons

INVESTIGATIVE WORK

- 9 The counter fraud team encourage staff and members of the public to report any concerns they have about fraud affecting the Council. Up to the end of November 2022, 38 referrals of suspected fraud were reported to Veritau. These relate to council tax support, council tax and business rates discounts/exemptions, and covid-19 grant claims.
- 10 Investigative work has helped the Council to save £17.5k through recovery of incorrectly obtained funds and by preventing erroneous payments. In addition to the removal of five incorrect discounts and exemptions, new liabilities for business rates have been established. Four people have received warnings in cases where issues were identified.
- 11 The counter fraud team have ten suspected cases of fraud currently under investigation.
- 12 A summary of investigative work is included in appendix A, below.

APPENDIX A: SUMMARY OF INVESTIGATION ACTIVITY

Activity to date includes the following:

	2022/23 (As at 30/11/22)	2022/23 (Target: Full Yr)	2021/22 (Actual: Full Yr)
Amount of actual savings (quantifiable savings - eg repayment of loss) identified through fraud investigation	£17,589	£16,000	£12,294
% of investigations completed which result in a successful outcome (for example payments stopped or amended, sanctions, prosecutions)	53%	30%	47%

Caseload figures for the period are:

	2022/23 (As at 30/11/22)	2021/22 (Full Year)
Referrals received	38	85
Number of cases under investigation	10	18 ²
Number of investigations completed	17	38

² As at 31/03/2022

Work completed or in progress

The service promotes the use of criminal investigation techniques and standards to respond to any fraud perpetrated against the Council. Activity in 2022/23 includes the following.

- **Covid-19 related fraud** – Eight investigations into Covid-19 grant awards have been completed in the year to date. Warnings have been issued to two individuals. In one case, a power of attorney provided incorrect information that led to £17.6k of grants being incorrectly obtained. Two investigations are ongoing.
- **Council Tax Reduction fraud** – One case has been completed – no fraud was identified. Two cases remain under investigation.
- **Council tax fraud** – The team have completed eight council tax investigations. Two people have been issued warnings for failing to provide information about changes in circumstances while receiving a council tax discount. Five claims for single person discount are currently under investigation.
- **NNDR fraud** – Covid-19 grant investigations led to rate reliefs being cancelled at three premises and new liabilities of £14.6k being raised. One investigation is ongoing.
- **Internal fraud** – No referrals of internal fraud have been received in 2022/23.

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