

Hambleton District Council

Report To: Audit, Governance and Standards Committee

Date: 23 March 2021

From: Director of Finance and Commercial (s151 Officer)

Subject: **Internal Audit and Counter Fraud Progress Report 2020/21**

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. 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 An updated internal audit plan was prepared, and agreed by the Director of Finance and Commercial (s151 officer), under delegated responsibility in July 2020 and was reported to this committee in October 2020. In October 2020 we updated this plan in line with Members comments to include a piece of work covering Commercial and Economic Development Initiatives.
- 1.3 This is the second Internal Audit and Counter Fraud progress report to be received by the Audit, Governance and Standards Committee in 2020/21.

2.0 The Report

- 2.1 Annex 1 provides a summary of progress with delivering internal audit work for 2020/21. In the period between 1 January 2021 and 5 March 2021 three final internal audit reports (covering Sundry Debtors and Debt Recovery, General Ledger and ICT Asset Management) relating to the 2020/21 audit year have been issued.
- 2.2 All work continues to be carried out remotely, for example through virtual meetings with officers and sharing of information electronically. Work has been progressing and we are working closely with officers to help ensure as much work is completed as possible. Eight pieces of work are currently in progress and only one planned piece of work has yet to start.
- 2.3 It is important that agreed actions are fully implemented by managers, following an internal audit review. The internal audit team follows-up previously agreed actions throughout the year. We escalate 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.

2.4 Annex 2 provides a summary of counter fraud work undertaken up to 19 February 2021. The team has ongoing investigations in a range of areas. In addition, the team continues to provide support with Covid-19 grant schemes. Assistance was provided with a post-payment assurance plan for the Department of Business, Enterprise and Industrial Strategy and sample checking of payments from the first schemes is almost complete.

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

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

Background papers: None

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Hambleton District Council
Internal Audit Progress Report 2020/21
Period to 5 March 2021

Assistant Director – Audit Assurance:
Head of Internal Audit:

Stuart Cutts
Max Thomas

Circulation List:

Members of the Audit, Governance and Standards Committee
Director of Finance and Commercial (s151 Officer)

Date:

23 March 2021



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 An updated internal audit plan was prepared, and agreed by the Director of Finance and Commercial (s151 officer), under delegated responsibility in July 2020 and was reported to this committee in October 2020. In October 2020 we updated this plan in line with Members comments to include a piece of work covering Commercial and Economic Development Initiatives.
- 3 This is the second Internal Audit progress report to be received by the Audit, Governance and Standards Committee in 2020/21. This report updates the Committee on the work relating to the 2020/21 audit year completed to 5 March 2021.

Internal Audit work in 2020/21

- 4 In the period between 1 January 2021 and 5 March 2021 three final internal audit reports (covering Sundry Debtors and Debt Recovery, General Ledger and ICT Asset Management) have been issued. 8 pieces of work are currently in progress. Detailed information on these audits is included in appendix B.
- 5 All work continues to be carried out remotely, for example through virtual meetings with officers and sharing of information electronically. Work has been progressing and we are working closely with officers to help ensure as much work is completed as possible. There is only one planned area (Customer Services) where we have yet to start work.
- 6 We have agreed with officers that work planned on the newly introduced budgetary systems would be best completed in the summer of 2021. Whilst the new budget system has been introduced, and used to help prepare the 2021/22 budget, some additional improvements are planned. Monitoring, review and reporting using the new system will also start in 2021/22. Work on Revenues and Benefits has been arranged for April and May 2021 (at the request of the Director of Finance and Commercial, s151 Officer), to help manage the high levels of work being experienced by the department.
- 7 Further information on the planned 2020/21 areas of work, and the progress made, is included in appendix A. Where a specification for the work has been agreed and fieldwork is in progress, this has been classified as 'specification issued'.
- 8 Overall there are no areas of emerging significant risks and/or significant control issues we have become aware of, that we need to highlight to the committee.

Audit Opinions

- 9 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. As reported in October 2020, our opinions in 2020/21 have changed and there are now four levels of opinion, compared to the previous five. Details of the definitions used are included in appendix C.

Follow up of management actions

- 9 Responsibility to resolve issues and implement agreed actions lies with management. Public Sector Internal Audit Standards (PSIAS) require internal auditors to have a follow up process to monitor what is happening to the results of audit engagements.
- 10 It is important that agreed actions to address previously reported findings and internal control matters are regularly and formally followed up. This helps to provide assurance to Management and Members that control weaknesses have been properly addressed, and also provides assurance for our overall Head of Internal Audit Opinion.
- 11 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.

Table of 2020/21 audit assignments to 5 March 2020

Appendix A

Audit	Status	Assurance Level	Audit Committee
Director of Finance and Commercial (s151 Officer)			
Revenues and Benefits			
Revenues and Benefits	In Progress		
Corporate Finance			
General Ledger	Final Report	Substantial Assurance	March 2021
Creditors	Specification issued		
Sundry Debtors and Debt Recovery	Final Report	Substantial Assurance	March 2021
Budgetary Control		Deferred to 2021/22	
Commercial, Performance and Information Technology			
Customer Services	Not Started		
Microsoft Office 365	Specification issued		
ICT Asset Management	Final Report	Substantial Assurance	March 2021
Commercial and Economic Development Initiatives	Specification issued		
Director of Economy and Planning / Deputy Chief Executive¹			
Communications	Final Report	Substantial Assurance	January 2021
Director of Leisure and Communities			
Leisure Centres	In Progress		
Community Safety and Safer Hambleton Hub	Final Report	Substantial Assurance	January 2021
Lifeguard Training	Specification issued		
Director of Environment			
Depot Security, Policies and Training	In Progress		
Health and Safety Management	Specification issued		
Other			
Covid 19	Ongoing		
Follow-Ups	Ongoing		

¹ Director of Economy and Planning post is now vacant so refer to Deputy Chief Executive.

Summary of Key Findings from 2020/21 audits completed to 5 March 2021; not previously reported to Committee

Appendix B

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Sundry Debtors & Debt Recovery	Substantial Assurance	<p>Civica Financials was introduced in April 2020 as the Council's new financial system, which includes a module for sundry debtors.</p> <p>We reviewed the procedures and controls on sundry debtors and debt recovery to ensure:</p> <ul style="list-style-type: none"> Invoices were requested and raised accurately and in a timely manner. Outstanding debt was actively pursued and correct procedures were followed. Correct procedures were followed when placing accounts on hold. Controls were in place to prevent the occurrence of duplicate accounts within the system. 	February 2021	<p>Strengths:</p> <p>Procedures and controls within the new sundry debtors system were found to be working well. Access arrangements to the new system were appropriate.</p> <p>Invoices were being raised within expected timescales.</p> <p>Tasks such as issuing reminder letters are now automated helping to reduce staff time processing these.</p> <p>Temporary debt recovery procedures were implemented from March to November 2020 due to the pandemic. Instructions were received from senior management to guide this process. No significant issues were noted from our testing on debt recovery.</p> <p>Robust procedures were in place when accounts were placed on hold.</p> <p>Areas for improvement:</p> <p>No recovery action had been taken for one case for over two years. In this case there had been a lack of communication between the Recovery Team and the relevant department.</p> <p>Some invoices we reviewed had minor inaccuracies in the supplier information.</p> <p>The Council's VAT guide was not comprehensive and was not being shared with all staff. We noted VAT training had not been provided to Finance staff for a number of years.</p>	<p>2 x Priority 3 findings were agreed.</p> <p>Officers are to review communication between the Recovery Team and other departments to establish what communication is required, how often, and how the new finance system could be used to support timely debt recovery. This review is planned to be completed by the end of 2021.</p> <p>Training will be provided to staff requesting debtor invoices to be raised during 2021/22. A VAT training guide will be made accessible on the Council's Intranet to enable staff to input the correct VAT category when raising debtor invoices.</p>
General Ledger	Substantial Assurance	The audit reviewed the Civica Financials General Ledger system to ensure:	March 2021	<p>Strengths:</p> <p>Access to the Civica Financials system was restricted and was reviewed for appropriateness before the new system went live.</p>	<p>2 x Priority 3 findings were agreed.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
		<ul style="list-style-type: none"> • Access to the system was restricted to appropriate officers. • Responsibilities and processes for journal entries were defined. • Interface holding/suspense accounts were monitored and cleared regularly. • Appropriate bank reconciliations were performed • Feeder systems were reconciled prior to upload. 		<p>Responsibilities and processes for journal entries were appropriately defined and allocated. All journals had a creator and an authoriser. We used our data analysis software to assess whether there had been duplicate journals posed. No valid duplicate journals were found.</p> <p>Transactions posted to suspense accounts were being investigated and cleared-out promptly in line with procedures.</p> <p>Appropriate bank reconciliations were being carried out and counter signed.</p> <p>Our review of feeder systems saw that these were being reconciled.</p> <p>Areas for Improvement:</p> <p>Seven members of staff within Corporate Finance had full access to the General Ledger, as well as Cashbook, Creditors and Debtors. This level of access was granted (and was appropriate) linked to the installation and testing of the new system in 2020. However now, in some instances, the level of access may not continue to be appropriate.</p> <p>We identified (from the whole population of journals posted at the time of our work) that 6 journals over £25,000 had been created and authorised by the same staff member. Financial regulations require these to be authorised by a different officer.</p>	<p>Following our discussions during the audit some Finance Team, access rights were changed and the number of full access levels reduced. Full access may be provided to some additional users on a temporary basis during the second phase of the new systems implementation. The need for full access in the future will be considered on a case by case basis.</p> <p>A process of countersigning journals over £25,000 if mistakenly authorised by the person creating the journal is to be introduced by the end of April 2021.</p>
ICT Asset Management	Substantial Assurance	The work focused on assets (laptops, mobile phones and Ipads) that are used off site, store data and where the volume distributed by the council increased following	March 2021	<p>Strengths:</p> <p>An inventory of ICT assets is maintained and all devices were registered on the ICT asset register. Appropriate controls are in place to ensure the asset register is complete and accurate.</p>	No management actions

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
		<p>Covid-19 and the move to home working arrangements. We reviewed the Council's procedures and controls to ensure that</p> <ul style="list-style-type: none"> • An inventory of ICT assets was maintained and designated custodians identified. • Information storage media is managed, controlled, moved and disposed appropriately. • Assets are upgraded when they have reached the end of their lifecycle. 		<p>There is a clear procedure of assigning ICT assets to individuals and returning them to ICT when a member of staff leaves the Council.</p> <p>Information storage media was being secured. Laptops have a standard build applied where only council approved software is installed. Other security measures are in place to help prevent unauthorised individuals using the device and make the asset less appealing for theft.</p> <p>Smart phones are managed using Microsoft's Intune. There is a password lock on all phones and software is limited to approved applications.</p> <p>To support home working in 2020 the council replaced a large proportion of the ICT assets with laptops. Under normal circumstances the ICT Asset team would plan a replacement programme to cover a 4 year time period and replace devices in a phased approach. However due to the uncertainty and possibility of Local Government Reorganisation, at this time the council has, understandably, not prepared an asset replacement programme.</p> <p>Areas for Improvement: No significant areas for improvement were identified.</p>	

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's not appropriate to give an opinion, for example fact finding work, grant claims, projects, and consultancy work. When no opinion is given 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.



Hambleton District Council
Counter Fraud Progress Report
2020/21

Corporate Fraud Manager: Daniel Clubb
Head of Internal Audit: Max Thomas

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

Date: 23 March 2021



Background

- 1 Fraud is significant risk to the public sector. Annual losses are estimated to exceed £40 billion in the United Kingdom.
- 2 Financial loss due to fraud can reduce a council's ability to support public services and cause reputational damage.
- 3 Hambleton District Council engages Veritau to deliver a corporate fraud service which aims to prevent, detect and deter fraud against the organisation. The Council, through Veritau, works with a large group of councils and other public sector bodies in North Yorkshire and the North East to combat fraud and corruption.

Covid-19 Grant Funds

- 4 In January, the counter fraud team provided support with the council's post-payment assurance plan. Post-assurance checks on the first grant schemes are reaching their conclusion in line with government targets. This work will be supplemented by outputs from the National Fraud Initiative that will be reviewed and investigated as necessary.
- 5 Veritau are continuing to provide input with pre-payment assurance to current schemes through the use of government verification tools and undertaking investigation in cases of suspected fraud.

Counter Fraud Performance 2020/21

- 6 Up to 19 February 2021, investigation prevented an incorrect payment of a £25k Covid-19 business grant and recovered a £10k payment. Intelligence sharing prevented £100k of grant payments to organised criminals. As a result of investigative work £4.1k in savings have been achieved. 21 cases are currently under investigations. A summary of counter fraud activity is included in the tables below.

COUNTER FRAUD ACTIVITY 2020/21

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

	2020/21 (As at 19/02/21)	2020/21 (Target: Full Year)	2019/20 (Full Year)
% of investigations completed which result in a successful outcome (for example benefit stopped or amended, sanctions, prosecutions).	30%	30%	46%
Amount of actual savings (quantifiable savings - e.g. repayment of loss and stopping ongoing fraudulent claims) identified through fraud investigation.	£4,149	£16,000	£15,885
Amount of savings from the prevention of Covid-19 grant fraud.	£135,000	n/a	n/a

Caseload figures for the period are:

	2020/21 (As at 19/02/21)	2019/20 (Full Year)
Referrals received	36	66
Referrals rejected	20	20
Number of cases under investigation	21 ¹	24 ²
Number of investigations completed	20	28

¹ In addition there are nine Covid-19 grant verification cases.

² As at end of financial year, ie. 31/03/2020.

Summary of counter fraud activity:

Activity	Work completed or in progress
Data matching	The 2020/21 National Fraud Initiative exercise is underway. Initial match outputs have been released by the Cabinet Office and work has commenced to review these. Further matches, including those relating to Covid-19 grants, are due to be released in the coming months.
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">• Covid-19 Grants – Two Covid-19 grant applications have been investigated which resulted in a payment of £25k being stopped, and recovery of a £10k payment. As a result of intelligence sharing with national partners, four further payments to organised criminals totalling £100k were prevented. There are four ongoing investigations.• Council Tax Support fraud – The team has completed eight investigations into council tax support fraud and there are currently eight investigations ongoing. One person have been issued with a formal warning. 15 referrals for council tax support fraud have been received to date in 2020/21.• Council Tax fraud – Ten referrals for council tax fraud have been received to date. Seven investigations have been completed in this area and nine are ongoing.• NNDR fraud – Two business rate fraud referral has been received this year. There are no cases ongoing in this area.• Internal fraud – No internal fraud referrals have been received in 2020/21 to date.

Activity	Work completed or in progress
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 a monthly bulletin and specific alerts over the course of the year.• 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.• 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.