

Hambleton District Council

Report To: Audit, Governance and Standards Committee

Date: 25 January 2022

From: Interim Director of Finance (s151 Officer)

Subject: **Internal Audit and Counter Fraud Second Progress Report 2021/22**

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 17 December 2021 is contained in annex 1. Work is ongoing in five areas and two further pieces of work are being planned. Fieldwork for two audits (Revenues and Benefits, and CIPFA Financial Management Code) is close to completion. There are no specific significant risks and/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. It reports on progress against the counter fraud work programme up to 30 November 2021. Details are provided on activity undertaken to promote awareness of fraud, ongoing work with external agencies, 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.

Noel ONeill
Interim Director of Finance (s151 Officer)

Background papers: None

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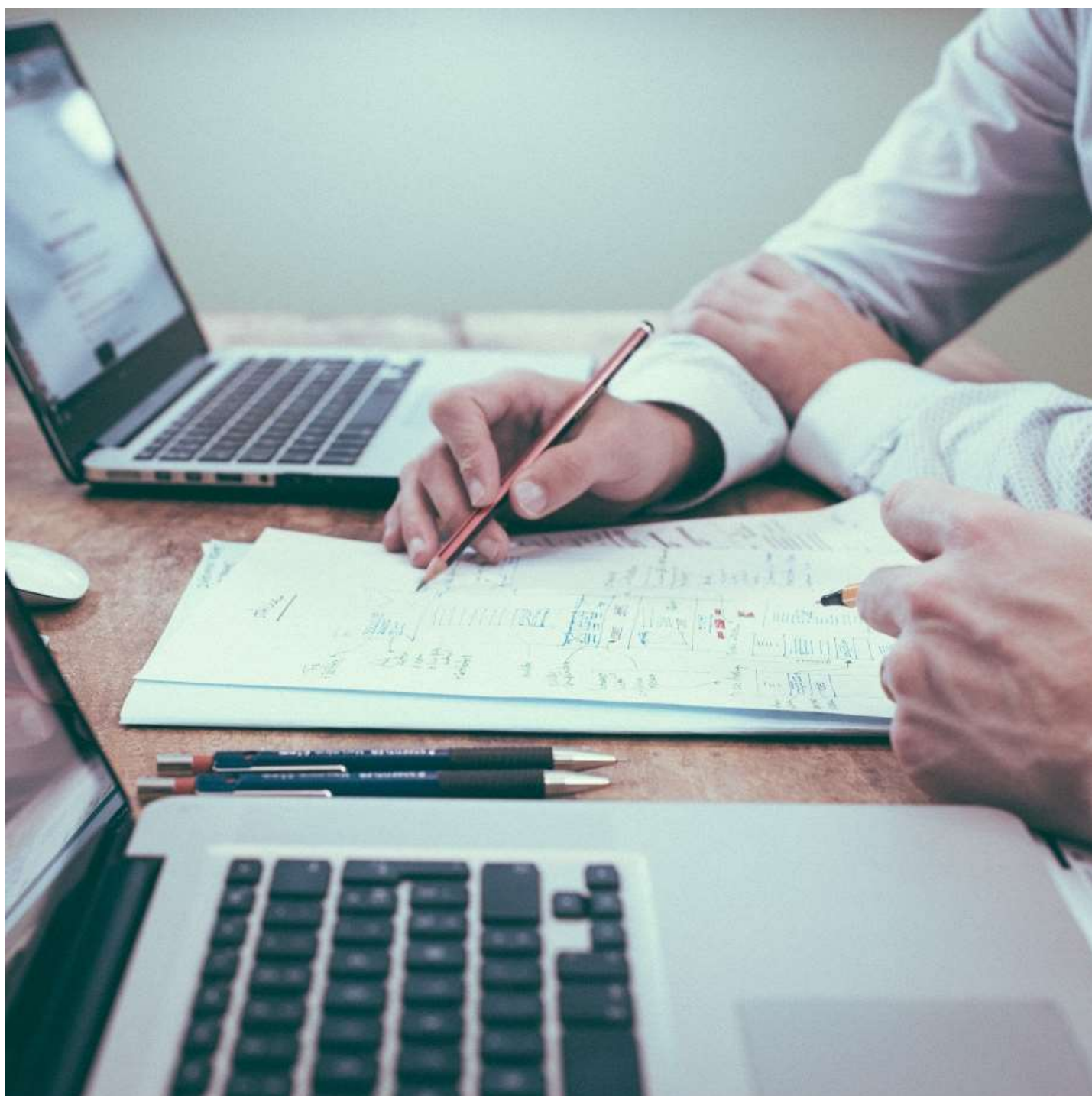
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INTERNAL AUDIT PROGRESS REPORT 2021/22

Date: 25 January 2022

Annex 1

HAMBLETON
DISTRICT COUNCIL





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 2021/22 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 2021.
- 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 is designed to be flexible so that as new risks are identified or priorities change the audit programme can be updated.
- 4 The purpose of this report is to update the committee on internal audit activity between 1 April 2021 and 17 December 2022.



INTERNAL AUDIT PROGRESS

- 5 Work is ongoing in a number of areas. We are in the latter stages of fieldwork for the revenues and benefits and the CIPFA Financial Management Code audits. We expect to be able to fully report the findings from this work within the next progress report in March 2022.
- 6 We have had regular discussions with the s151 officer to help target and focus ongoing and future work. We agreed to complete work on the CIPFA Financial Management Code in November and December 2021 to help support the review of council arrangements being done in that area by the s151 officer. We will next be attending Management Board in January 2022 to help to inform the focus of work for the first half of 2022.
- 7 There are no specific areas of emerging significant risks and/or significant control issues which we have become aware of, that we need to highlight to the committee.
- 8 A summary of internal audit work currently underway, as well as work finalised in the year to date, is included in appendix A. The work programme showing current priorities for internal audit work is included at appendix B. Appendix C lists our current definitions for action priorities and overall assurance levels.



FOLLOW-UP OF AGREED 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 action taken to address issues identified as part of internal audit work.
- 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 to members as a result of our follow up work.

APPENDIX A: 2021/22 INTERNAL AUDIT WORK

Audits in progress

Audit	Status
Revenues and Benefits	In progress
CIPFA Financial Management Code	In progress
Cyber Risk Management	In progress
Payroll	In progress
Sundry Debtors and Debt Recovery	In progress
Risk Management	Planning
Creditors	Planning

Final reports issued

Audit	Reported to Committee	Opinion
Creditors	July 2021	Reasonable Assurance
Microsoft Office 365	July 2021	No opinion (project support)
Commercial and Economic Developments	July 2021	Substantial Assurance
Depot Security, Policies and Training	July 2021	No opinion (follow up work)
Leisure Centres	October 2021	Substantial Assurance
Health and Safety Management	October 2021	Reasonable Assurance
Lifeguard Training	October 2021	Reasonable Assurance

Other work completed in 2021/22

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

- Certification of the Local Authority Compliance and Enforcement Grant
- Regular discussion with management, including ongoing discussions linked to local government reorganisation
- Ongoing review of key documentation and meetings/minutes to help inform our future work and provide assurance/insight for our 2021/22 opinion.

APPENDIX B: CURRENT PRIORITIES FOR INTERNAL AUDIT

Audit	Status		
	Do now	Do next	Do later
Strategic and Corporate risks			
Local Government Reorganisation (LGR) preparedness and emerging risk areas	✓	✓	✓
Post Covid-19 recovery and response plans		✓	✓
Medium term financial planning and the CIPFA Financial Management Code	✓		✓
Risk management	✓		
HR and workforce planning		✓	
Project Management			✓
Performance management and data quality			✓
Business continuity and disaster recovery		✓	
Procurement and contract management			✓
Climate change		✓	
Training and Development			✓
Financial Systems			
Payroll	✓		
Creditors	✓		
Sundry Debtors, including debt recovery	✓		
Income Collection		✓	
Budgetary Control		✓	
Revenues and Benefits	✓		
Treasury Management		✓	
Service Area Reviews			
Leisure Services		✓	
Environmental Health - food inspections and water safety inspections.		✓	
Customer Services			✓
Technical/Project Risks			
Cyber security	✓		
ICT Change Management			✓
Digitalisation / automation			✓
Support and review of specific key projects		✓	
Other Audit Assurance Areas			
Continuous Audit planning and assurance gathering to support our opinion.	✓	✓	✓
Follow up of management actions	✓	✓	✓

Further explanation on the work status

The programme of work is subject to ongoing review and will be adjusted in response to changes in the Council's activities, risks, operations, systems and controls. During the year, planned work is prioritised on the basis of:

- Do first – work of the highest value, priority, or urgency
- Do next – work to be started after current audit work is completed
- Do later – work to be scheduled for consideration later in the audit year

Changes in the priority and timings of work are agreed with council officers.

Individual audit assignments can also move between the categories as required. For example an audit scheduled for quarter 3 to minimise the impact on a service area may initially be classed as to "do later", but will become "do now" as we move into quarter 3. Similarly, an audit classed as "do now" because it represents an area of high importance to the Council may move from "do now" to "do next" or "do later", if the project slips or planned work cannot be undertaken until a specific point is reached. Towards the end of the year, some audits classed as "do later" are likely to be deferred until the next year.

Work to support our Annual Opinion

As reported when the programme of internal audit was agreed by Members at the March 2021 Committee, the programme of internal audit work is prepared on the basis of an initial assessment of risk and to ensure there is sufficient coverage of the framework of governance, risk management and internal control.

We have defined the following as areas where assurance is required in order to enable us to provide an evidence based opinion:

- Strategic planning
- Organisational governance
- Financial governance
- Risk management
- Information governance
- Performance management and data quality
- Procurement and contract management
- People management
- Asset management
- Programme and project management
- ICT governance

The requirement for providing assurance across these areas is taken into account when prioritising work.

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.

COUNTER FRAUD PROGRESS REPORT 2021/22

Date: 25 January 2022

Annex 2





BACKGROUND

- 1 Fraud is a significant risk to local government. Losses to councils are estimated to exceed £7.8 billion annually in the United Kingdom.¹
- 2 Veritau delivers a corporate fraud service to the Council which aims to prevent, detect and deter fraud and related criminality. A total of 120 days of counter fraud work has been agreed for 2021/22. This time will be used to investigate allegations of fraud, plan and take part in counter fraud campaigns, undertake fraud awareness activities with staff and the public, and maintain and update the Council's counter fraud framework and associated policies.
- 3 The purpose of this report is to update the Committee on counter fraud activity between 1 September 2021 and 30 November 2021.



FRAUD MANAGEMENT

- 4 The Council's Counter Fraud Framework was reviewed and updated in October 2021. This included an updated strategy action plan, and fraud risk assessment.
- 5 Veritau have noted an increase in both regional and national attempts by organised criminals operating from overseas to divert genuine payments made to council suppliers (i.e. mandate or payment diversion fraud). Veritau are reviewing the Council's processes for verifying changes to supplier's details to ensure they are robust enough to counter the latest threats posed by fraudsters.
- 6 A key objective for the counter fraud team is to raise awareness of fraud with members of staff and the public, and to inform them of how to report fraud if they suspect it is happening. Fraud awareness sessions on mandate fraud and cyber security were delivered to finance staff in November 2021. Whistleblowing training continues to be provided to staff.
- 7 A campaign to mark Cyber Security Awareness Month was delivered to staff in October. Another campaign to mark International Fraud Awareness Week was delivered to staff and the public in November.
- 8 Veritau attends the Council's Covid-19 grant assurance group. The team and council officers meet to ensure that the Council completes the government mandated verification, investigation and recovery requirements for Covid-19 related grant payments.



MULTI-AGENCY WORK

- 9 The counter fraud team continues to support council officers addressing the data matches produced by the National Fraud Initiative. Instances of

¹ Annual Fraud Indicator 2017, Crowe Clark Whitehill

suspected fraud have been reported to Veritau so that investigation can be considered. Further data is to be submitted to the National Fraud Initiative in January 2022 in relation to Covid-19 business grant payments.

INVESTIGATIVE WORK

- 10 The number of referrals received so far in 2021/22 is a return to pre-pandemic levels. To date 58 instances of suspected fraud have been reported compared to 37 in 2020/21.
- 11 Seventeen cases are currently under investigation by the team. In addition, one Covid-19 support payment is being verified.
- 12 Investigation has resulted in five warnings being issued – three relating to Covid-19 grant applications, and two relating to claims for council tax single person discounts. Two attempts by organised criminals to gain Covid-19 business grants were prevented.
- 13 A summary of investigation work is included in appendix A, below.

APPENDIX A: SUMMARY OF INVESTIGATION ACTIVITY

Activity to date includes the following:

	2021/22 (As at 30/11/21)	2021/22 (Target: Full Yr)	2020/21 (Actual: Full Yr)
Amount of actual savings (quantifiable savings - e.g. repayment of loss) identified through fraud investigation	£5,230	£16,000	£4,741
% of investigations completed which result in a successful outcome (for example payments stopped or amended, sanctions, prosecutions, properties recovered, housing allocations blocked)	56%	30%	29%
Amount of savings from the prevention of Covid-19 grant fraud	£5,681	n/a	£140,000

Caseload figures for the period are:

	2021/22 (As at 30/11/21)	2020/21 (Full Year)
Referrals received	58	37
Number of cases under investigation	17	22 ²
Number of investigations completed	18	22
Number of verification case completed	5 ³	9

² As at the end of the financial year (i.e. 31/03/2021)

³ These cases related to Covid-19 grant applications.

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 completed in 2021/22 includes the following:

- **Covid-19 related fraud** – Seven applications for Covid-19 business grants have been investigated to date. Investigation resulted in a payment of £4.7k being stopped, and recovery of over £900. Two scams were identified and reported to the National Anti-Fraud Network. Three businesses were issued warnings in relation to grant payments. Eight reports of Covid-19 grant related fraud have been received to date.
- **Council Tax Reduction fraud** – The team has received 22 council tax reduction referrals to date. Four investigations have been completed and three remain under investigation.
- **Council Tax Fraud** – Eight referrals for potential council tax fraud have been received to date. Seven investigations have been completed in this area. Two people have been issued with warnings in relation to receiving a Single Person Discount incorrectly. Investigative work helped the council achieve £5.2k in savings in this area.
- **NNDR fraud** - There are no business rates cases currently under investigation. Three referrals have been received this year.
- **Internal fraud** – No internal fraud referrals have been received in 2021/22.