

## **Hambleton District Council**

**Report To:** Audit, Governance and Standards Committee

**Date:** 27 September 2022

**From:** Chief Executive

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

**Portfolio Holder:** Economic Development and Finance  
Councillor P R Wilkinson

**Wards Affected:** All Wards

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### **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 26 August 2022 is contained in annex 1. Two final reports on Revenues and Benefits and Payroll and Employee Overtime have been issued. Other pieces of work, such as certification of government returns and providing feedback on the 2021/22 Annual Governance Statement has also been completed. Currently one audit has fieldwork in-progress, and four other pieces of work have started and are at the planning stage. 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 counter fraud activity up to 19 August 2022. Details are provided on activity undertaken to promote awareness of fraud, ongoing 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

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# INTERNAL AUDIT PROGRESS REPORT 2022/23

Date: 27 September 2022

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 most 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 26 August 2022.



## INTERNAL AUDIT PROGRESS

- 6 In the period to 26 August 2022, two final internal audit reports (payroll, and revenues and benefits) have been issued. We have also completed certification work on the Local Authority Test and Trace Support Payment Scheme grant.
- 7 New work has started on the general ledger audit and the Annual Governance Statement. Planning for four other pieces of work (crematorium governance arrangements, environmental health, ICT disaster recovery, and payroll data transfer) is also underway.
- 8 Key work since the last committee includes discussion with officers, and planning, of 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.
- 9 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.

- 10 A summary of internal audit work currently underway, and 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 provides details of the audit reports finalised since the last committee. Appendix D lists our current definitions for action priorities and overall assurance levels.



## FOLLOW-UP OF AGREED ACTIONS

- 11 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.
- 12 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
General ledger	In progress
Crematorium governance	Planning
Payroll data migration	Planning
Environmental health	Planning
ICT disaster recovery	Planning

### Final reports issued

Audit	Reported to Committee	Opinion
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.
- 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 meetings/minutes to help inform our future work and provide assurance/insight for our annual audit opinion.
- A review of the draft 2021/22 Annual Governance Statement with expected guidance and our wider knowledge of Hambleton's arrangements was completed. We shared our comments and suggestions for improvement to the deputy s151 officer which led to some updates being undertaken which are reflected in the final version being presented to the September 2022 committee.

## APPENDIX B: CURRENT PRIORITIES FOR INTERNAL AUDIT

Audit	Status		
	Do now	Do next	Do later
<b>Strategic and Corporate risks</b>			
Local Government Reorganisation (LGR) preparedness and emerging risk areas	✓	✓	✓
Post Covid-19 recovery and response plans	✓		
Risk management		✓	✓
HR and workforce planning			✓
Data quality (LGR)	✓		
Business continuity and disaster recovery			✓
Procurement and contract management		✓	
Climate change			✓
Crematorium governance	✓		
<b>Financial Systems</b>			
Payroll	✓		✓
Creditors	✓		✓
Sundry Debtors, including debt recovery	✓		✓
Income Collection		✓	
Budgetary Control	✓		
Council Tax and National Non-Domestic Rates (NNDR)	✓		
Housing Benefits		✓	
General Ledger	✓		
<b>Service Area Related</b>			
Environmental Health	✓		
Various – linked to LGR			✓
<b>Technical/Project Risks</b>			
Cyber Risk Management		✓	
ICT Disaster Recovery	✓		
ICT Asset Management			✓
ICT Risk Management			
Support and review of specific key projects		✓	
Public Sector Decarbonisation		✓	
<b>Other Audit Assurance Areas</b>			
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 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.

Some audits are assigned multiple priorities. For example, where work will be ongoing through the year or where reviews are expected to be undertaken in multiple stages at different times.

### **Work to support our Annual Opinion**

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: 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
Revenues and benefits	Substantial Assurance	<p>The purpose of the audit was to provide assurance that:</p> <ul style="list-style-type: none"> <li>the appropriate amount of Council Tax and National Non-Domestic Rates (NNDR) had been collected</li> <li>business grants had been allocated to ratepayers in accordance with Government guidance</li> <li>only claims which meet the requirements for Council Tax Reduction were paid</li> <li>data within the revenues &amp; benefits system was compliant with regulations.</li> </ul>	July 2022	<p><b>Strengths:</b></p> <p>Collection targets for both Council Tax and NNDR were met during 2021-22. Reliefs and discounts were being applied correctly.</p> <p>The vast majority of Covid-19 grant applications from businesses had been paid appropriately and in line with Government and Council requirements.</p> <p>No anomalies were found when the system was checked for correct application of Council Tax Reduction and other disregards and discounts.</p> <p>Duplicate housing benefit claims were reviewed. No issues were identified.</p> <p><b>Areas for improvement:</b></p> <p>A small number of Council Tax and NNDR claimants who have received reliefs / discounts for a significant number of years were highlighted for officer review, to confirm these long-standing reliefs/discounts remain valid.</p>	<p><b>1x Priority 3 finding was agreed with the Interim Director of Finance (s151 Officer).</b></p> <p>The cases referenced within the report will be reviewed to ensure the correct reliefs and discounts are applied. Officers plan to have completed this by 30 September 2022.</p>

Audit	Opinion	Area reviewed	Date issued	Comments / Issues identified	Management actions agreed
Payroll and employee overtime	Reasonable Assurance	<p>We reviewed the arrangements, to ensure that:</p> <ul style="list-style-type: none"> <li>• system procedure notes were up-to-date and access controls were appropriate</li> <li>• the information contained within the payroll system was accurate and controls were in place to prevent duplicate entries</li> <li>• payments were processed and authorised correctly and appropriate exception reports were produced and reviewed</li> <li>• overtime payments were appropriate, and overtime and staffing levels were monitored effectively.</li> </ul>	August 2022	<p><b>Strengths:</b></p> <p>Up-to-date system procedure notes were in place. Access to the payroll system was restricted to appropriate personnel.</p> <p>The payroll process appeared appropriate, with key exception reports run and saved each month.</p> <p>Our data interrogation found that no duplicate names, addresses or national insurance numbers existed on the payroll system.</p> <p><b>Areas for improvement:</b></p> <p>Some employees sampled were working regular and significant levels of overtime.</p> <p>Working time regulations opt out forms had not been completed for some employees working more than 48 hours a week. Not completing these forms risks a breach of legislation.</p> <p>The Overtime and TOIL Policy should be reviewed regularly and made more applicable to those employees not based at the Civic Centre (for example, in Waste and Street Scene (WaSS) and Leisure).</p> <p>An error was noted with a flexi credit within the sample we reviewed.</p>	<p><b>2x Priority 2 and 2x Priority 3 findings were agreed with the Chief Executive (s151 officer).</b></p> <p>Steps such as regular department monitoring of hours worked, recruitment drives and a review of WaSS rounds will be carried out to help reduce overtime levels.</p> <p>Opt-out forms will be completed where not currently being done, to comply with legislation.</p> <p>The Overtime and TOIL policy will be reviewed, and work will commence with Leisure and WaSS to ensure documented procedures are in place across the council.</p> <p>The flexi credit issue has been resolved and Team Leader flexi sheets will be regularly checked going forward.</p> <p>All actions are due to be completed by 30 November 2022.</p>

## APPENDIX D: 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 2022/23

Date: 27 September 2022

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 year<sup>1</sup>. 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 up to 19 August 2022.



## FRAUD MANAGEMENT

- 4 Veritau undertakes a range of non-investigative activity to support the development of counter fraud arrangements at the Council. Preparation for Local Government Reorganisation (LGR) in North Yorkshire will be a focus for 2022/23. The counter fraud team is working with all Councils to ensure that strong counter fraud policies and procedures are in place when the new authority forms.
- 5 There is a significant risk of increased fraud in the run-up to LGR occurring. Criminals may try to take advantage of staff and members of the public during the transition to the new Council. The counter fraud team has produced an e-learning package for staff at all of the Councils involved. The package which focuses on threats that staff may experience before and after the new Council is formed is planned to be released in September.
- 6 The counter fraud team raised awareness of whistleblowing on World Whistleblowers' Day in June. It is important that workers are aware that they should raise concerns in the public interest and that there are protections in place if they do. It is equally important that managers respond to whistleblowing concerns in the correct way.
- 7 In May the Council's counter fraud transparency data was updated to include data on counter fraud work completed in 2021/22. This helps the Council meet obligations under the Local Government Transparency Code 2015.



## MULTI-AGENCY WORK

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<sup>1</sup> Fraud and Error (Ninth Report of Session 2022/23), Public Accounts Committee, House of Commons

- 8 The Cabinet Office have set the timetable for 2022/23 National Fraud Initiative exercise. Data from Council systems will be gathered at the end of September, processed, and then securely sent to the National Fraud Initiative in October.

## INVESTIGATIVE WORK

- 9 The counter fraud team receive reports of suspected fraud from Council staff, other public sector agencies, and members of the public. Nineteen referrals have been received 2022/2023. These include reports relating to council tax support, council tax and business rates discounts/exemptions, and covid-19 grant claims.
- 10 The team has helped the Council to save £15.4k as a result of counter fraud work during the year. Incorrect award of council tax and NNDR discounts and exemptions were corrected in five cases. Warnings were issued to two individuals in relation to failing to provide up to date information to the Council.
- 11 Fifteen suspected cases of fraud are 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:

	<b>2022/23 (As at 19/08/22)</b>	<b>2022/23 (Target: Full Yr)</b>	<b>2021/22 (Actual: Full Yr)</b>
Amount of actual savings (quantifiable savings - eg repayment of loss) identified through fraud investigation	£15,424	£16,000	£12,294
% of investigations completed which result in a successful outcome (for example payments stopped or amended, sanctions, prosecutions)	50%	30%	47%

Caseload figures for the period are:

	<b>2022/23 (As at 19/08/22)</b>	<b>2021/22 (Full Year)</b>
Referrals received	19	85
Number of cases under investigation	15	18 <sup>2</sup>
Number of investigations completed	10	38

<sup>2</sup> 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** – Four investigations into Covid-19 grant awards have been completed in the year to date. A warning was issued to an individual for failing to update the Council of a change in circumstances that affected their entitlement to Small Business Rates Relief – their submission for a Covid-19 grant was upheld. Five cases remain under investigation.
- **Council Tax Reduction fraud** – The team has three investigations ongoing in this area, and one case has been concluded.
- **Council tax fraud** – Five council tax investigations have been completed resulting in the removal of discounts in two cases. One person has been issued with a warning for failing to declare members of their household turning 18 which affected entitlement to a single person discount. The incorrectly obtained discount of £2.4k is now being recovered by the Council. Four investigations are ongoing.
- **NNDR fraud** – One referral for NNDR fraud remains under investigation. Linked investigations relating to Covid-19 grants (noted above) have resulted in the removal of exemptions which are subject to recovery. New liabilities of £14.6k have also been raised.
- **Internal fraud** – No referrals of internal fraud have been received in 2022/23.