

Audit, Governance and Standards Committee

27 September 2018

INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORT 2018/19

Report of Corporate Director, Resources (s151Officer)

**All Wards
Key Decision N**

1.0 Purpose of Report

- 1.1 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and relevant professional standards.
- 1.2 The Audit, Governance and Standards Committee approved the internal audit and counter fraud plans for 2018/19 at its meeting held on the 27 March 2018. The purpose of this report is to inform members of the progress made to date in delivering internal audit and counter fraud work.

2.0 Decisions Sought

- 2.1 The Audit, Governance and Standards Committee is asked to consider the work undertaken by internal audit and the counter fraud team to date.

3.0 Link to Corporate Priorities

- 3.1 This reports links to the council priority of being a 'Fit for Purpose' council.

4.0 Internal Audit and Counter Fraud Progress Report

- 4.1 The reports enclosed in **Annexes 1 and 2** summarise internal audit and counter fraud work undertaken in 2018/19 respectively.
- 4.2 This is the first progress report to be received by the committee during 2018/19. In the period between April and 7 September inclusive, we have completed 2 out of 14 planned internal audit reviews to final report stage (14.3%). There is a further audit completed to draft stage (7.1%) and a further 3 audits are in progress. Work has commenced on 43% of planned audits and dates have been agreed with management for the commencement of all other audit assignments. It is therefore expected that the plan will be completed on time. Details of progress against the plan and completed work is shown in **Appendix A to Annex 1**.
- 4.3 In order to comply with the Public Sector Internal Audit Standards (PSIAS), providers are required to have an external assessment of their working practices at least once every five years. A further external assessment of Veritau will be undertaken by SWAP in November 2018. SWAP is a not for profit public services company operating primarily in the South West of England

4.4 Counter fraud work has been undertaken in accordance with the approved plan. **Annex 2** provides a summary of the work undertaken so far in 2018/19.

5.0 Recommendations

5.1 It is recommended that the progress on the delivery of the audit and counter fraud plans is noted.

5.2 It is recommended that the arrangements for the external assessment are noted.

6.0 Corporate Implications

Scrutiny Consultation	Not applicable
Community Engagement	None
Environment & Sustainability	Not applicable
Financial Implications	Failure to prevent and detect fraudulent activity will lead to additional cost to the council, and the possibility that the final accounts are not approved by the council's external auditors.
Legal Implications	There are no legal implications associated with report but the council has a duty to protect the public purse.
Risk Implications	There are no major risks associated with this report.
Human Resource Implications	None
Equalities Implications	None
Health & Safety Implications	None

7.0 Further Information

7.1 Background Papers – 2018/19 Internal Audit and Counter Fraud Plans
Public Sector Internal Audit Standards
Audit Charter

7.2 File Reference – None/Reference

7.3 Appendices - **Appendix 1** – Internal Audit Progress Report 2018/19
- **Appendix 2** – Counter Fraud Report 2017/18

Contact Officers: Ian Morton, Audit Manager
Jonathan Dodsworth, Counter Fraud Manager
Max Thomas, Head of Internal Audit

Email/Extension: Ian.Morton@veritau.co.uk
Jonathan.Dodsworth@veritau.co.uk
Max.Thomas@veritau.co.uk



Richmondshire District Council

Internal Audit Progress Report 2018-19

Audit Manager: Ian Morton
Head of Internal Audit: Max Thomas

Circulation List: Members of the Audit, Governance and Standards Committee
Corporate Director (S151 Officer)

Date: 27 September 2018

Background

- 1 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the PSIAS, the chief audit executive (Head of Internal Audit) must report periodically to the board (Audit, Governance and Standards Committee) on performance.
- 2 Members approved the 2018/19 internal audit plan at their meeting on the 27 March 2018. The total number of planned internal audit days for 2018/19 is 212 days. The performance target for Veritau is to deliver 93% of the agreed audit plan by the end of April 2019.

Internal Audit work performed in 2018/19

- 3 This is the first progress report to be received by the committee during 2018/19. In the period between April and 7 September inclusive, we have completed 2 out of 14 planned internal audit reviews to final report stage (14.3%). There is a further audit completed to draft stage (7.1%) and a further 3 audits are in progress. Work has commenced on 43% of planned audits and dates have been agreed with management for the commencement of all other audit assignments. It is therefore expected that plan will be completed on time. Details of progress against the plan and completed work is shown in **Annex A**.
- 4 Veritau officers are involved in a number of other areas relevant to corporate governance including:
 - **Support to the Audit, Governance and Standards Committee;** this is mainly ongoing through our support and advice to members. We facilitate the attendance of managers to respond directly to members questions and concerns arising from audit reports and the actions that managers are taking to implement agreed actions.
 - **Contractor Assessment;** this work involves supporting the assurance process by using financial reports obtained from Experian (credit rating agency) in order to assess the financial suitability of potential contractors.
 - **Risk Management;** Veritau advise on the council's risk management arrangements and processes.
 - **Systems Development;** Veritau attend development group meetings in order to ensure that where there are proposed changes to processes or new ways of delivering services, that the control implications are properly considered .

Audit Opinions

- 5 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. For work where we do not appraise internal controls then no opinion is provided. We also apply a priority to all actions agreed with management. Details of the definitions used when we provide an opinion and the priorities for actions are included in **Annex B**.

Revisions to the 2018/19 Audit Plan

- 6 At the request of the Corporate Director (Strategy & Regulatory, and Monitoring Officer) the Section 106 audit has been changed to Development Control. The audit will look specifically at planning applications where an extension of time has been granted, and the processes for agreeing the extension of time.

Follow up of agreed actions

- 7 Progress in reviewing the follow up of previously agreed actions is underway, and will be reported in more detail to the next audit committee.

External Assessment

- 8 In order to comply with the Public Sector Internal Audit Standards (PSIAS), internal auditors working in local government are required to maintain a quality assurance and improvement programme (QAIP). As part of this programme, providers are required to have an external assessment of their working practices at least once every five years. The last external assessment of Veritau was undertaken in April 2014 by the South West Audit Partnership (SWAP).
- 9 A further external assessment of Veritau will be undertaken by SWAP in November 2018. 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 will include a review of documentary evidence, including self-assessments completed by Veritau, and face to face interviews with a number of senior officers at each of the Veritau clients and Veritau auditors. The assessors may also wish to speak to the chair of the audit committee as part of the assessment process. The results of the assessment will be included in future internal audit progress reports to the committee, once a report has been received from the assessor. Any specific areas identified as requiring further development and/or improvement will also be included in the QAIP.

Table of 2018/19 audit assignments to 7 September 2018

Audit	Status	Assurance Level	Audit Committee
Strategic Risks			
Health and Safety	In Progress		
Financial Systems			
Payroll	Final	High Assurance	September
Housing Benefits			
Council Tax and NNDR			
General Ledger			
Credit Cards and VAT			
Regularity Audits			
Flexi Time system	Final	Reasonable Assurance	September
Housing Rents			
Council House Repairs			
Information Security Compliance Checks			
Technical/Project Audits			
ICT			
Cash Programme	In Progress		
Contract Management – Leisure Trust	Draft		
Development Control	In Progress		

Summary of Key Issues from audits completed to 7 September 2018

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed and Follow-Up
Payroll	High Assurance	<p>The purpose of this audit was to provide assurance to management that procedures and controls within the system would ensure that:</p> <ul style="list-style-type: none"> • payments to employees are correct and made in a timely and efficient manner • the specification set out in the service level agreement is adhered to, with adequate contract and performance monitoring taking place 	September 2018	<p>Strengths</p> <p>Payroll records were accurate, well documented and the processing well controlled. There were no issues identified with the sample of starters and leavers that were checked, and all had been processed accurately and in line with the authorities' procedures. All of the relevant paperwork was collected and stored on personnel files; manual overtime claims checked were all processed accurately and authorised in line with procedures.</p> <p>The service level agreement is being adhered to and the contractor is meeting all of the timescales stipulated in the contract. Payroll error rates are within acceptable levels and are monitored and reported quarterly to the Corporate Board as part of the service plan.</p> <p>Areas for Improvement</p> <p>No areas for improvement were identified.</p>	-
Flexi Time System	Reasonable Assurance	<p>The audit reviewed the processes in place to ensure:</p> <ul style="list-style-type: none"> • staff are completing their time sheet in accordance with the flexi time procedure 	September 2018	<p>Strengths</p> <p>Significant improvements have taken place since the previous audit. A new template has been produced, and new guidance issued for staff and managers. All calculations are locked, and audit testing has identified that no calculations have been changed within the</p>	<p>Further advice to be provided to all managers on the issues identified within the report.</p> <p>The specific cases highlighted will be</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed and Follow-Up
		<ul style="list-style-type: none"> • managers are reviewing completed sheets effectively • information on flexi sheets is consistent with I-Trent. 		<p>individual flexi sheets tested. Sheets are now formally signed off by employee and manager and then locked so no further changes can be made.</p> <p>Areas for Improvement</p> <p>The requirements for managers are clearly communicated within the procedure document, but it was identified that a number of sheets had not been locked, or recorded as reviewed by the manager. Even where a review had taken place there were occasions where the review had not corrected errors or issues of non-compliance with the scheme.</p> <p>Occasions were identified where leave or sickness was recorded on the flexi sheet, but not on I-Trent, which could result in excess leave or unrecorded sickness.</p>	<p>investigated with the individuals identified.</p> <p>Arrangements will be monitored by the HR team on an ongoing basis, and progress will be regularly reported to SMT.</p>

Audit Opinions and Priorities for Actions

Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

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.



Richmondshire District Council

Counter Fraud Progress Report 2018-19

Counter Fraud Manager:
Head of Internal Audit:

Jonathan Dodsworth
Max Thomas

Circulation List:

Members of the Audit, Governance and Standards
Committee
Corporate Director (S151 Officer)

Date:

27 September 2018

Background

- 1 Fraud is significant risk to the public sector. Annual losses are estimated to exceed £40 billion in the United Kingdom.
- 2 Councils are encouraged to prevent, detect and deter fraud in order to safeguard public finances.
- 3 Veritau are engaged to deliver a corporate fraud service for Richmondshire District Council. A corporate fraud service aims to prevent, detect and deter fraud and related criminality affecting an organisation. Veritau deliver counter fraud services to the majority of councils in the North Yorkshire area as well as local housing associations and other public sector bodies.

Counter Fraud Performance 2018/19

- 4 Up to 28 August, the fraud team achieved £3.3k in savings for the council as a result of investigative work. There are currently 16 ongoing investigations. A summary of counter fraud activity is included in the tables below.

COUNTER FRAUD ACTIVITY 2018/19

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

	2018/19 (As at 28/8/18)	2018/19 (Target: Full Year)	2017/18 (Full Year)
% of investigations completed which result in a successful outcome (for example benefit stopped or amended, sanctions, prosecutions, properties recovered, housing allocations blocked).	66%	30%	41%
Amount of actual savings (quantifiable savings - e.g. CTS) identified through fraud investigation.	£3,389	£12,000	£36,104

Caseload figures for the period are:

	2018/19 (As at 28/8/18)	2017/18 (Full Year)
Referrals received	16	54
Referrals rejected	9	24
Number of cases under investigation	16	22 ¹
Number of investigations completed	6	17

¹ As at 31/3/18

Summary of counter fraud activity:

Activity	Work completed or in progress
Data matching	<p>The 2018/19 National Fraud Initiative (NFI), a regular datamatching exercise run by the Cabinet Office, will begin shortly. Preparations to gather data are underway ahead of an early October submission date.</p> <p>The NFI are also running a pilot exercise looking at business rate fraud. The council successfully bid to participate in the project alongside a number of regional partners. Data has been extracted and matches are expected to be returned this month.</p>
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"> • Council Tax Support fraud – To date the team has received 14 referrals for possible CTS fraud. In 2018/19 one person has been given a warning relating to fraud in this area. There are currently 7 cases under investigation. • Council Tax/Non Domestic Rates fraud – 1 referral for council tax fraud has been received in 2018/19. There are currently 6 cases under investigation. As a result of a datamatching exercise undertaken to identify council tax fraud an investigation was begun last year which resulted in a successful prosecution. A Richmondshire resident was found to have falsely claimed a single person discount over a 5 year period. They submitted false documents to the council in order to conceal the crime. In July, they pleaded guilty to all charges at Northallerton Magistrates Court and were fined almost £700.

Activity	Work completed or in progress
	<ul style="list-style-type: none"> • Housing fraud – The team has received 1 referral for investigation in the year. There are currently 2 ongoing investigations in this area. • Internal fraud – An investigation into a whistleblowing report received during the last financial year was completed in May 2018. No fraud or wrongdoing was found. No internal fraud referrals have been received this year.
Fraud liaison	The fraud team acts as a single point of contact for the Department for Work and Pensions and is responsible for providing data to support their housing benefit investigations. The team have dealt with 19 requests on behalf of the council in 2018/19.
Fraud Management	<p>In 2018/19 a range of activity has been undertaken to support the Council's counter fraud framework.</p> <ul style="list-style-type: none"> • In May, the council's counter fraud transparency data was updated to include data on counter fraud performance in 2017/18 meeting the council's obligation under the Local Government Transparency Code 2015. • The council participated in the annual CIPFA Counter Fraud and Corruption Tracker (CFaCT) survey in June 2018. Information provided will form part of an upcoming CIPFA report which aims to provide a national picture of fraud, bribery and corruption in the public sector and the actions being taken to prevent it.

Activity	Work completed or in progress
	<ul style="list-style-type: none"><li data-bbox="465 256 1995 336">• 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. <p data-bbox="421 384 1984 507">We are also pleased to report that the counter fraud team have been named as a finalist in two categories of the Institute of Revenues Rating & Valuation (IRRV) 2018 performance awards – Excellence in Counter Fraud and Excellence in Innovation.</p>

