

RYEDALE
DISTRICT
COUNCIL



Ryedale District Council

Internal Audit and Counter Fraud Progress Report 2017/18

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Circulation List: Members of the Overview and Scrutiny Committee
Chief Executive
Resources and Enabling Services Lead (s151)

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Assurance Services for
the Public Sector

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 Head of Internal Audit is required to report progress against the internal audit plan and to identify any emerging issues which need to be brought to the attention of the Committee.
- 2 Members of this Committee approved the 2017/18 Internal Audit and Counter Fraud Plan at their meeting on the 20 April 2017. The total number of planned days for 2016/17 was 345. This report summarises the progress made in delivering the agreed plan.
- 3 This is the second Internal Audit progress report to be received by the Overview and Scrutiny Committee in 2017/18. This report therefore updates the Committee on the audit work completed between 1 April 2017 and 10 January 2018 and the fraud work completed between 1 April 2017 and 31 December 2017.

Internal Audit work completed

- 4 In the period between 1 April 2017 and 10 January 2018 we have completed three pieces of work. All three reports have been finalised since the last committee. The work covered Data Protection and Security (visit 1), Housing Benefits and Council Tax/ NNDR. One report is completed to draft report stage (Taxi Licensing).
- 5 For those audits we have yet to start then these will be started within January or February. We have agreed timings with management for all 2017/18 audits. We are on target to have completed all audits and issued all draft reports by the end of April 2018. Further information is included in Annex A.
- 6 Information on the findings from the audits completed since we reported at the last Overview and Scrutiny Committee on 3 November 2017 is included in Annex B.

Audit Opinions

- 7 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. Details of the opinion and priority rankings are included in Annex C.

Follow up of previous audit recommendations

- 8 It is important agreed actions are regularly and formally followed up. This helps to provide assurance to management and members that control weaknesses have been properly addressed.
- 9 A total of nine agreed actions have been followed up with the responsible officers relating to four of the 2016/17 audit reports. These agreed actions had an agreed date for completion of 30 November 2017 (or earlier). Two of those actions have been completed.

- 10 In some instances it has taken officers longer than originally envisaged to fully address the issues raised. On payroll for example then technical challenges still remain to introduce the necessary system changes. We feel the delays (where happening) are not causing significant increased risks to the control environment. Further information on the follow up findings is included in Annex D.

Wider Internal Audit work

- 11 In addition to undertaking assurance reviews, Veritau officers are involved in a number of other areas relevant to corporate matters:
- **Support to the Overview and Scrutiny Committee;** this is mainly ongoing through our attendance at meetings of the Committee and the provision of advice, guidance and training to members as required.
 - **Ongoing support to management and officers;** we meet regularly with management to identify emerging issues and provide advice on a range of specific business and internal control issues. These relationships help to provide 'real time' feedback on areas of importance to the Council. We have been working with senior management as part of the ongoing 'Towards 2020 Programme', providing support, advice and challenge.
 - **Risk Management;** Veritau provides support and advice on the Council's risk management arrangements and processes.
 - **Investigations;** We perform special or ad-hoc reviews or investigations into specific issues.

Counter Fraud

- 12 Veritau provides the council's counter fraud service. The counter fraud team investigate a range of fraud against the authority, including council tax fraud, council tax support fraud, and internal fraud issues.
- 13 Up to 31 December 2017 the fraud team has achieved £44k in savings for the council as a result of investigative work. There are currently 11 ongoing investigations. A full summary of fraud activity is included in Annex E.

Updates to the 2017/18 Internal Audit and Counter Fraud Plan

- 14 Following the last Overview and Scrutiny Committee we have agreed some revisions to the 2017/18 plan with the Director of Finance (s151 Officer). Overall there is no change to the total number of days. A summary and explanation of the changes are included below:

	Days
Taxi Licensing	+12
Audit follow up review	+6
Data Protection and Security – visit 2	+3
Fraud	+15
Partnerships	-6
Programme and Project Management	-15
HR Performance Management and Training	-15
Total	0

- 15 We have completed more work on Licensing, Audit follow ups and Counter Fraud than was initially envisaged in the 2017/18 original plan. The extra time has enabled the work to provide added value to the Council by providing more detailed reporting and review. Following the first Data Protection and Security visit the s151 officer has also requested another visit be completed in 2017/18.
- 16 We have used the time originally allocated to complete work on Partnerships, Programme and Project Management and HR Performance Management and Training to help complete the additional work. Work on these three areas will be considered as part of the upcoming 2018/19 internal audit planning process. With the continued work, post transformation, to embed the new organisation arrangements, audits in these areas are better being considered in future years when Council arrangements are further developed.

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Veritau Ltd

January 2018

Annex A

Table of 2017/18 audit assignments to 12 January 2018

Audit	Status	Assurance Level (if Completed)	Audit Committee
Strategic Risk Register			
Business Continuity and Disaster Recovery	Not started		
HR Performance Management and Training	Cancelled	-	
Data Protection and Security – visit 1	Final Report	Reasonable Assurance	January 2018
Data Protection and Security – visit 2	Planning		
IT Information Security	Not started		
Partnership Arrangements	Cancelled	-	
Fundamental/Material Systems			
Housing Benefits	Final Report	High Assurance	January 2018
Payroll	Planning		
Council Tax and NNDR	Final Report	High Assurance	January 2018
Sundry Debtors	Planning		
Creditors	Planning		
Income	Planning		
General Ledger	Planning		
Regularity Audits			
Procurement	In Progress		
Risk Management	Planning		
Lettings Income	In Progress		
Taxi Licensing	Draft Report		
Development Management	Not started		
Technical/Project Audits			
Transformation Programme	In Progress		
Project and Programme Management	Cancelled	-	
Follow-Ups			
	In Progress		

Summary of Key Issues from audits completed to 10 January 2018; not previously reported to Committee

Annex B

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Data Protection and Security visit 1	Reasonable Assurance	<p>The Council holds and processes large amounts of personal and sensitive data. Senior management recognise there are information governance risks associated with holding this information and appropriate practices need to be followed.</p> <p>We performed an unannounced visit and review of Ryedale House on 23 October 2017.</p> <p>The objective of the visit was to assess the extent to which data was being held securely in the Council's offices. This included hard copy personal and sensitive information as well as electronic items such as laptops and removable media.</p> <p>We have undertaken previous visits with our last assessment being in January 2017.</p>	November 2017	<p>Strengths Key safes are being used. The Clear Desk policy was being observed in most cases. There was a number of doors locked preventing access to areas of Ryedale House.</p> <p>The T2020 reorganisation resulted in many officers moving to other parts of the building. Some areas are now unoccupied. Large amounts of paperwork that isn't immediately required has been left in these areas if officers are short of storage space in their new locations. Three 'Tidy Days' were organised before Christmas to ensure these documents could be safely and appropriately disposed of, or secured.</p> <p>Areas for Improvement The number of adverse findings has increased from 4 found in January 2017 to 9 on this occasion. These findings were not confined to any particular part of the building. To place this finding into context then in previous visits to January we had seen slightly more instances of adverse findings.</p> <p>There were some instances where Personal and sensitive information had been left on desks, filing trays, unlocked drawers and cupboards.</p> <p>So whilst progress has been made in some areas there is still a need to fully embed good information security practice at Ryedale House.</p>	<p>Officers responsible for the areas where unsecured sensitive information was found were reminded of their responsibilities to keep information secure.</p> <p>Veritau stressed the importance of data security as part of General Data Protection Regulation training delivered to Ryedale officers in November 2017.</p> <p>The s151 officer has requested Veritau complete a second unannounced visit which is to be undertaken in 2018.</p>
Housing Benefits	High Assurance	<p>We reviewed the Housing Benefits system to ensure:</p> <ul style="list-style-type: none"> Data recorded in the system is 	January 2018	<p>Strengths Data analytics software was used to check the accuracy and completeness of claimant</p>	-

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
		<p>accurate and complete.</p> <ul style="list-style-type: none"> Suitable access controls are in place to ensure the integrity of the system and the data held. Regular reconciliations are completed between the benefits data, council tax data (for Council Tax Support) and the general ledger; Support applications and changes of circumstances are assessed and processed within a reasonable timeframe; There is a robust system in place to deal efficiently with the collection of overpayments. 		<p>information held. No issues were found.</p> <p>Appropriate access controls to systems and data were in place and are documented.</p> <p>Regular reconciliations are carried out between the Benefits system and the Ledger. These reconciliations help to ensure the two systems agree. Our testing identified no matters arising.</p> <p>In previous years we had seen some claims not processed within prescribed timescales. Recent use of contractors and partnership working has shown improvements and reduced processing times for new claims and changes in circumstances to within target timescales. These arrangements have also led to some resilience being built into the Benefits team.</p> <p>There is a good process in place to ensure invoices raised to recover overpayment of benefits are checked before being issued. Debts are regularly reviewed. Write-offs had been written-off in accordance with standing orders.</p> <p>Areas for Improvement There were no areas for improvement noted.</p>	
Council Tax / NNDR	High Assurance	<p>We reviewed the Revenues system to ensure that</p> <ul style="list-style-type: none"> Government funding is correctly applied to those businesses that have seen the most significant increases as a result of revaluation The 2017/18 relief for Public Houses has been correctly applied. 	January 2018	<p>Strengths Checks had been made to ensure the Revenues system was updated to agree with the new valuation list provided by the Valuation Office, following the national business rate revaluation.</p> <p>The Council has a comprehensive and up to date Discretionary Non-Domestic Rate Relief Policy. Calculations of the Discretionary Revaluation Relief (DRR) were accurate.</p>	We are actively exploring the potential to enter into reciprocal working arrangements with a neighbouring authority to build service resilience. We also have options to procure temporary resources from specialist agencies if required.

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
		<ul style="list-style-type: none"> Local people are being made fully aware of the Severely Mentally Impaired (SMI) Discount and rules are being consistently applied. Access to the Northgate Revenues system is restricted to authorised users. 		<p>The Council sought to consult on DRR with major preceptors (although there was no response). The Public Houses relief for 2017/18 had been correctly applied in accordance with legislation and Policy.</p> <p>Details about the Severely Mentally Disabled (SMI) council tax discount were available on the Council's website. There is a relatively wide uptake of the discount in Ryedale. The SMI had been reviewed by the Senior Revenues Officer prior to the audit and the national publicity.</p> <p>The procedures and controls over access to the Northgate Benefits and Revenues system were reviewed. Appropriate password and other access controls are set in the Northgate system. System users are reviewed on an annual basis.</p> <p>Areas for Improvement We highlighted a point relevant to most areas at the Council, including NNDR/Council Tax. The Senior Revenues Officer is highly knowledgeable which helps to ensure the Council has appropriate arrangements. However, as is sometimes inevitable with a Council the size of Ryedale, the Council is highly reliant on his knowledge and experience. There is a risk the Council will have a Revenues knowledge gap if the current post holder were to leave or be absent for any period of time.</p>	We have estimated a deadline of 31 March 2018 to complete this action.

Audit Opinions and Priorities for Actions

Audit Opinions	
<p>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.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
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.

An overview of progress made implementing agreed actions with 30 November 2017 deadline (or earlier)

Audit	Assurance Rating	Total	Completed	Comments
Payroll	Limited Assurance	3	0	In addressing one action (to use GCSX accounts for extra security) officers have found some issues with external supplier systems which require additional work and which impact on other findings. There have also been some issues with the self service pilot where errors have been identified. Roll out will only be undertaken when the issues have been fully resolved. Revised deadlines for the three actions are now 31 March 2018.
Business Continuity and Disaster Recovery	Reasonable Assurance	3	2	Ryedale's service area business continuity plans have now been completed. The remaining action relates to the Corporate Business Continuity plan which has not yet been completed.
Income	Substantial Assurance	1	1	The remaining action in respect of a supervisory check on transfers and reversals being carried out monthly has been introduced.
Risk Management	No opinion	2	0	Two actions (adding mitigating actions to medium/high risks and maintaining a programme of priority projects on Covalent together with the associated risk plans) with end of October 2017 deadlines have not yet been completed.
Total		9	3	

Counter Fraud Activity 2017/18

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

	2017/18 (As at 31/12/17)	2016/17 (Full Year)
% of investigations completed which result in a successful outcome (for example benefit stopped or amended, sanctions, prosecutions, properties recovered, and housing allocations blocked).	30%	53%
Amount of actual savings (quantifiable savings - e.g. CTS) identified through fraud investigation.	£43,990	£38,642

Caseload figures for the period are:

	2017/18 (As at 31/12/17)	2016/17 (Full Year)
Referrals received	60	70
Referrals rejected	15	15
Number of cases under investigation	11	25 ¹
Number of investigations completed	25	30

¹ As at 31/3/17

Summary of counter fraud activity:

Activity	Work completed or in progress
Data matching	<p>Work on the 2016/17 National Fraud Initiative (NFI) data matching exercise is almost complete. There were 91 recommended matches to investigate covering a range of council services.</p> <p>A new NFI Council Tax Single Person Discount data matching exercise is currently underway. Data has been securely sent to the NFI and results are expected shortly.</p>
Fraud detection and investigation	<p>The service continues to promote the use of 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 20 referrals for possible CTS fraud. Over £18,000 in overpayments have been identified in the current financial year. There are currently 5 cases under investigation. One person has been prosecuted for CTS fraud this year. • Council Tax/Non Domestic Rates fraud – 39 referrals for council tax or business rates fraud have been received in 2017/18. There are currently 5 cases under investigation.
Fraud liaison	<p>The counter fraud team acts as a single point of contact for the Department for Work and Pensions (DWP) and is responsible for providing data to support their housing benefit investigations. The team has dealt with 79 requests to date in 2017/18.</p> <p>In addition housing benefit fraud concerns from within the council as well as from members of the public have been referred to the DWP for investigation. These referrals are tracked to ensure that the Council is aware of the results of any DWP investigations. Where financial penalties are recommended by the DWP the circumstances of each case is reviewed and advice is given to the Council to assist decision making.</p>
Fraud management	<p>In 2017/18 a range of activity has been undertaken to the support the Council's counter fraud framework.</p> <ul style="list-style-type: none"> • In July an annual counter fraud report was brought to the Overview and Scrutiny Committee. As part of the annual report the counter fraud and corruption policy and counter fraud strategy were both reviewed. No updates were required to the policy and strategy however a counter fraud risk assessment and associated action plan were updated to reflect current fraud threats facing the council.

Activity	Work completed or in progress
	<ul style="list-style-type: none"> • As part of International Fraud Week in November, the counter fraud team raised awareness of fraud with staff via intranet articles published throughout that week. • The counter fraud team continues to alert council departments to emerging local and national threats through a monthly bulletin and specific alerts.