

RYEDALE
DISTRICT
COUNCIL



Ryedale District Council

Internal Audit and Counter Fraud Third 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. This report summarises the progress made in delivering the agreed plan.
- 3 This is the third Internal Audit progress report to be received by the Overview and Scrutiny Committee in 2017/18. This report updates the Committee on the audit work completed between 10 January 2018 and 31 March 2018 and the fraud work completed between 1 April 2017 and 31 March 2018.

Internal Audit work completed

- 4 In the period between 1 April 2017 and 31 March 2018 we have completed eight pieces of work. Three audit reports have been finalised since the last committee. The work covered Data Protection and Security (visit 2), Lettings Income and Taxi Licensing. Work is ongoing on all other audits. Further information is included in Annex A.
- 5 Information on the findings from the audits completed since we reported at the last Overview and Scrutiny Committee on 25 January 2018 is included in Annex B.

Audit Opinions

- 6 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

- 7 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.
- 8 Three audits had agreed actions with a date for completion of 28 February 2018 (or earlier). Further information is provided in Annex D.

Wider Internal Audit work

- 9 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 transformation 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

- 10 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.
- 11 In the 2017/18 year the fraud team has achieved £55k in savings for the council as a result of investigative work. There are currently 12 ongoing investigations. A full summary of fraud activity is included in Annex E.

Stuart Cutts
Audit Manager
Veritau Ltd

Jonathan Dodsworth
Counter Fraud Manager
Veritau Ltd

April 2018

Annex A

Table of 2017/18 audit assignments to 31 March 2018

Audit	Status	Assurance Level (if Completed)	Audit Committee
Strategic Risk Register			
Business Continuity and Disaster Recovery	In Progress		
HR Performance Management and Training	Cancelled	-	
Data Protection and Security – visit 1	Final Report	Reasonable Assurance	January 2018
Data Protection and Security – visit 2	Final Report	Substantial Assurance	April 2018
IT Information Security	In Progress		
Partnership Arrangements	Cancelled	-	
Fundamental/Material Systems			
Housing Benefits	Final Report	High Assurance	January 2018
Payroll	In Progress		
Council Tax and NNDR	Final Report	High Assurance	January 2018
Sundry Debtors	In Progress		
Creditors	In Progress		
Strategic Income	In Progress		
General Ledger	In Progress		
Regularity Audits			
Risk Management	In Progress		
Lettings Income	Final Report	High Assurance	April 2018
Taxi Licensing	Final Report	Reasonable Assurance	April 2018
Development Management	In Progress		
Technical/Project Audits			
Transformation Programme	Completed		
Project and Programme Management	Cancelled	-	
Procurement/ Contract Management	Completed		
Follow-Ups			
	In Progress		

Summary of Key Issues from audits completed to 31 March 2018; not previously reported to Committee

Annex B

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Data Protection and Security visit 2	Substantial 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 21 February 2018.</p> <p>We have undertaken previous visits with our last visit being in October 2017 which was reported to the January 2018 committee.</p>	March 2018	<p>Strengths The number of adverse findings has decreased from 9 found in October 2017 to 4 which is a return to the level observed in January 2017</p> <p>Key safes continue to be 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>Significant amounts of paperwork, mainly relating to Planning, are still present at the far end of the first floor. These items have been labelled as awaiting scanning. We did not find any information of a sensitive nature in this area.</p> <p>Areas for Improvement There were still some cases where desks have been cleared but sensitive information has been put in unlocked drawers. So whilst progress has been made there is still a need to fully embed good information security practice throughout all who work at Ryedale House.</p>	The findings of this report were shared with the Leadership Team. Individual senior members of the leadership were to be asked to address its findings with their teams.
Lettings Income	High Assurance	<p>The Council owns or manages a small number of properties for specific purposes such as providing accommodation for people with support needs and temporary accommodation for homeless families.</p> <p>We reviewed procedures and controls to ensure:</p> <ul style="list-style-type: none"> Income due from rent and other charges is clearly identified 	March 2018	<p>Strengths Income budgeting procedures were being applied. All payments made, through Housing Benefit or Universal Credit directly to the Council, was clearly recorded in the resident's rent account. These rent accounts are constantly monitored.</p> <p>Income due from rent and other charges was clearly identified, was in accordance with the resident's signed Licence Agreement and was correctly recorded against their rent account.</p>	-

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
		<ul style="list-style-type: none"> All income due is received and correctly recorded Income received is correctly recorded in the General Ledger 		<p>All income received appears to be reflected correctly in the General Ledger.</p> <p>Areas for Improvement There were no areas for improvement noted.</p>	
Taxi Licensing	Reasonable Assurance	<p>We reviewed taxi licensing to ensure:</p> <ul style="list-style-type: none"> Applications for driver, vehicle and operators licences are checked and assessed before being granted, Licence fees charged by the Council are set to reasonably recover costs in accordance with statute. All drivers undergo safeguarding training, Compliance with licensing requirements is enforced by the Council. 	March 2018	<p>Strengths Checks are being carried out before driver and vehicle licences are issued. These checks were in accordance with the Licensing Policy.</p> <p>Cost centres have been set up in the general ledger to record separately the income and costs attributable to the different types of licence fees. This will enable accurate costing to be maintained so that the Council can seek to comply with the statutory obligations.</p> <p>Detailed estimated cost calculations were prepared to support the setting of licensing fees and were presented to Licensing Committee in July 2016.</p> <p>A new Taxi and Private Hire Policy was introduced in June 2017. The policy required all taxi drivers attend mandatory safeguarding training.</p> <p>Areas for Improvement At the time of the audit fieldwork (July and August 2017) some drivers had not completed their safeguarding training. There had been a delay in ensuring this training was undertaken due to staff changes dealing with taxi licensing. In addition Council supporting processes and Idox systems were not supporting effective management and delivery of safeguarding.</p> <p>We highlighted an error in the cost calculation of fees which was discussed with the Service Lead</p>	<p>Taxi licensing is one of the first services re-organised following the restructuring of the Council. At the time of the audit fieldwork (July & August 2017) some areas were work in progress. Management feel they have addressed most of the reports findings in the period between the ending of fieldwork/ issuing of the draft report (September 2017) and agreement of the final report (March 2018).</p> <p>Further Safeguarding training was held in September and November 2017. The Idox system will be set up to ensure a robust process exists to monitor and manage safeguarding training.</p> <p>Management explained in agreeing the final report that best practice guidance require review of the fees to be undertaken after 2 years (in 2018) when the calculations with actual data will be done to ensure compliance with the legislation.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
				<p>and it was agreed that this would be re-considered when the next assessment of fees is completed.</p> <p>No specific checks were being carried out (in August 2017) in respect of operators. The Council only required the operator to complete the application form and submit the relevant fee. There was no check made to ensure the operator has appropriate public liability insurance.</p> <p>Further consideration could be made to developing pro-active enforcement activity.</p>	<p>Management explained they have now set up checks for insurance, driving licence & DBS on Idox for operators.</p> <p>Management have explained regular weekly meetings do now take place with the police and a multi-agency exercise will be proposed during 2018 when resources allow.</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.

Annex D

An overview of progress made implementing agreed actions with 28 February 2018 deadline (or earlier)

Audit	Assurance Rating	Total	Fully Completed	Comments
Business Continuity and Disaster Recovery 2016/17	Reasonable Assurance	1	0	The remaining action relates to the Corporate Business Continuity plan which has not yet been completed.
Contracts Register 2016/17	Reasonable Assurance	4	1	Good progress has been made. One single contracts register is now in place. Training has taken place and the quality and completeness of the contracts register is improving. Further work is required and planned in 2018/19 to help develop and embed the contract register and management of contracts which will enable the audit actions to be fully addressed.
Risk Management 2016/17	No opinion	5	0	Our 2017/18 audit reviewing the Council's risk management arrangements is ongoing. Work is including a robust follow up of the progress made in the last 12 months. In respect of the previous year's findings then 7/12 actions have been addressed. However 5 areas for improvement remain outstanding. We are assessing and discussing these matters and other relevant risk management findings as part of completing the 2017/18 work.
Total		10	1	

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 (Full Year)	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).	41%	53%
Amount of actual savings ¹ (quantifiable savings - e.g. CTS) identified through fraud investigation.	£55,194	£38,642

Caseload figures for the period are:

	2017/18 (Full Year)	2016/17 (Full Year)
Referrals received	72	70
Referrals rejected	25	15
Number of cases under investigation	12	25 ²
Number of investigations completed	29	30

¹ Actual Savings are comprised of repayments made to the council in the current financial year as well as future savings claimed when a fraud has been blocked and would have continued for a 12 month period. Analysis for the council conducted in January 2018 showed that 89.4% of actual savings in 2017/18 was money repaid to the council and 10.6% were future savings. Ryedale keeps approximately 12% of recovered CT related fraud and 40% of any fraud related to recovered Business Rates. Housing Benefit overpayments identified as a result of fraud receive 100% subsidy, additionally the council keeps any overpayment recovered.

² As at 31/3/17

Summary of counter fraud activity:

Activity	Work completed or in progress
Data matching	<p>Investigation of 2016/17 National Fraud Initiative (NFI) matches is nearing completion. Data for the annual Single Person Discount exercise has been provided and matches have been published. The matches will now be passed to the Council Tax Department.</p> <p>The council, alongside regional partners, has volunteered to participate in a new NFI pilot exercise hoping to identify Business Rates fraud.</p> <p>Veritau have an ongoing programme of internal and regional data matching. The current focus is council tax discounts.</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 –The team received 31 referrals for possible CTS fraud during 2017/18. Over £16,000 in overpayments were identified in financial year. One person was successfully prosecuted and one person was cautioned for CTS fraud offences. • Council Tax/Non Domestic Rates fraud – 40 referrals for council tax or business rates fraud were received in 2017/18 and over £14,000 of fraud detected. Two people were cautioned or warned for Council Tax fraud offences.
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 dealt with 109 requests 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</p>

Activity	Work completed or in progress
	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.
Fraud management	<p>In 2017/18 a range of activity has been undertaken to 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. • 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. In addition targeted fraud awareness was provided to the Benefit and Council Tax departments during the financial year. • A new 0800 telephone number has been launched to allow members of the public to report fraud free of charge. • As part of annual Council Tax billing a leaflet was distributed to all residents encouraging them to report fraud. • The counter fraud team continues to alert council departments to emerging local and national threats through a monthly bulletin and specific alerts.