

**AUDIT COMMITTEE****DATE OF MEETING: 27 OCTOBER 2020****TITLE OF REPORT: INTERNAL AUDIT PROGRESS REPORT 2020/21****Report of: Internal Audit Manager****Cabinet Member: Councillor James Radley, Finance and Corporate Services****1. PURPOSE OF REPORT**

1.1 To update the Committee on Internal Audit work Carried Out between July 2020 and October 2020.

**2. OFFICER RECOMMENDATION**

2.1 That the Internal Audit work completed between July 2020 and November 2020 be noted.

**3. BACKGROUND**

3.1 Internal Audit prepares a risk based plan which identifies the work that is to be carried out during the year. The plan for 2020/21 is a reduced one, taking into account the impact of COVID-19 has had on internal audit work. The plan was approved by the Committee in July 2020.

3.2 Progress on internal audit reviews is shown below:

<b>Area of Review</b>	<b>Current Status</b>	<b>Target Completion Date</b>
IT Controls	In progress	Nov 20
Fraud Risk Assessment	Complete	
Accounts Receivable	In progress	Nov 20
Payroll	Not yet started	Dec 20
Council Tax & Business Rates	Not yet started	Dec 20
Cash Management	Complete	
Housing Benefits	Not yet started	Feb 21
Treasury Management	In progress	Nov 20
Accounts Payable	Not yet started	Jan 21
Main Accounting	Not yet started	Jan 21
Waste Contract	Not yet started	Feb 21
Section 106 Agreements	In progress	Nov 20
Audit Committee Request on payments	Complete	

**4. CONSIDERATIONS**

**4.1 Planned Work**

During the period between July 2020 and November 2020 reports were issued for:

- Fraud Risk Assessment
- Cash Management
- Payments Review (During Council response to COVID -19)

**4.2 Unplanned Work**

Resources from Internal Audit have been used to complete the Business Grants Payment process. Although the scheme has now closed in terms of payments being made, there are still a number of Government Returns that need to be completed each week and the reconciliation of funds will also need to be carried out.

**4.3 Fraud**

4.4 We have carried out a number of post Business Grant payment checks to identify potential frauds. We have prevented at least one fraudulent payment being made and have also identified 3 payment errors that are now being corrected, where appropriate action will be taken to recover the grant paid.

4.5 We are currently preparing data that will be sent to the National Fraud Initiative, this is a national data matching exercise. Any data matches that are identified as a potential fraud will require follow up by either Internal Audit or Capita’s Fraud Team.

**5. Risk Management**

5.1 Internal Audit continue to facilitate the risk management process to ensure there are effective arrangements in place to manage risk. A summary is shown below:

Requirement	How Achieved	Effectiveness
Corporate Risk Register in place and reviewed	Corporate Risk Register is in place.  The content of the register was reviewed by Leadership Team in October 2020.	Good level of assurance

	Content of the risk register was reported to Overview and Scrutiny in October 2020.	
Operational Risk Registers linked to Service Plans	<b>Corporate Services</b> – Risk Register in place <b>Community Services</b> Risk Register in place <b>Tech Services</b> In Progress <b>Place</b> No progress made	Partial Assurance  Issue raised in Annual Governance Statement
Risk clearly identified in key decision making process	Risks are included in Cabinet Reports for key decisions.	Good level of assurance
Regular reviews by management of both Corporate Risk Register	Corporate Risk Register is reviewed in line with Audit Committee dates..	Good level of assurance
Ownership of risks that are identified	Ownership of each risk is clearly identified.	Good level of assurance
Risk Management Policy in place	Revised policy was adopted in March 18. Policy reviewed Feb 20.	Good level of assurance

## 6. FINANCIAL AND RESOURCE IMPLICATIONS

6.1 There are no direct financial implications arising from this report.

**Contact:** Neil Carpenter, Ext 4140, [neil.carpenter@hart.gov.uk](mailto:neil.carpenter@hart.gov.uk)

### APPENDICES

Appendix 1 – Fraud Risk Assessment

Appendix 2 – Cash Management

Appendix 3 - Payments Review in response to COVID-19

<b>Area of Review</b>	<b>Fraud Risk Assessment</b>
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## **Introduction**

Every £1 that a local authority loses to fraud is £1 that it cannot spend on supporting the community. Fraud and corruption are a drain on local authority resources and can lead to reputational damage and the repercussions maybe far reaching. Fraudsters are constantly revising and sharpening their techniques and local authorities need to do the same. There is a clear need for a tough stance supported by elected members, chief executives and those charged with governance. This includes tackling cross-boundary and organised fraud and corruption attempts, as well as addressing new risks such as social care fraud and cyber issue.

The purpose of this assessment is to review the effectiveness of the internal control framework in place to prevent the risk of fraud and corruption. The review is based on the Fighting Fraud and Corruption Locally Strategy for the 2020s. This strategy reflects best practice for Local Government and was reviewed and relaunched in March 2020, the checklist produced in the strategy document has been used as the basis of this risk assessment. The review will identify any weaknesses that exist and, where it is felt improvements are required, agree actions to address the weakness.

## **Conclusions**

Hart Council is not immune to the risk of Fraud. There is an awareness that frauds are taking place in Housing Benefit and Single Person discounts, however there are controls and mitigations in place to manage these risks.

Hart recognises that public funds need to be protected from the risk of fraud and we have established a reasonable control framework to achieve this. This includes:

- Dedicated Fraud Resource
- Fraud resource in the 5 Council Framework for Revenues and Benefits
- Active involvement in National Fraud Initiative (NFI)
- Adequate Separation of duties for financial transactions
- Internal Audit consider the risk of fraud in all reviews in particular financial reviews
- Raising awareness of fraud in officer and member training, newsletters and reminders in staff bulletins
- External Audit complete annual reviews – Fraud related areas include - Misstatements due to fraud or error and Risk of fraud in revenue and

expenditure recognition, through inappropriate capitalisation of revenue expenditure

However, there are some weakness that need to be addressed the key areas being:

- Individual Service Risk Registers need to be re-established and include an appropriate consideration of fraud risk
- Declarations of Interest need to be up to date and regularly reviewed
- The DBS framework needs to be fully reviewed, responsibilities defined and ensure that all roles requiring DBS checks have them and that they are up to date.

Post Covid-19 fraud checks need to be carried out and maintained going forward as part of the recovery plan

## **OPINION ON CONTROL FRAMEWORK**

The overall level of opinion that can be provided on the internal control framework for this review is:

<b>Levels of Assurance</b>	
Substantial	Substantial assurance can be given where there is a sound system of controls in place which are applied consistently to enable achievement of the intended objective.
Satisfactory	Satisfactory assurance can be given when there is generally a sound system of internal control in place with only minor lapses, and in general objectives are being achieved.
Limited	Limited assurance is given where controls in place are not always applied and objectives may not be achieved, meaning the Council is exposed to the risk of financial loss, fraud or the loss of reputation.
None	No assurance is given where weaknesses in control has resulted if a failure to achieve objectives

	<b>Risk/Issue</b>	<b>Responsible Officer</b>	<b>Action Taken</b>	<b>Target Date</b>
1	That the Finance Portfolio Holder is not made aware of the Fraud Risk Assessment	Audit Manger	A copy of the assessment will be provided to the Portfolio Holder.	October 2020
2	That Managers are not identifying and accountable for the risks in their service areas	All Heads of Service	Fraud risk assessments to be added to risk register for each service and where appropriate to service plans. Audit Manager to engage with HOS commencing September 2020	October 2020
3	That fraud is not consistently considered in all new policies and procedures	All Heads of Service	Refresher training to be undertaken for HOS and Management team as part of the Fraud and Cyber Security 2020 training	December 2020
4	That HR policies relating to Fraud and Corruption are out of date and are not readily available	Head of Corporate Services	Review and refresh of HR policies taking place by 31/3/21	March 2021
5	That officers and contractors are not always aware of the corporate policies	All Heads of Service	This will need to be covered in the corporate fraud training	December 2020
6	That the members declarations of interest are not up to date.	Head of Corporate Services	Committee services has sent a reminder to all members (July 2020) about the requirement to keep these records up to date Declarations of Interest will be available on Modern.gov which is currently being implemented	Completed
7	That the Transparency code is not adhered to	Head of Corporate Services	Capita currently prepare the regulatory transparency reports on	In place

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**Appendix 1  
Paper B**

			spend. We will need to take this back in house by 31/3/21	
8	That the manual book to record gifts and hospitality is inaccessible during lock down. An electronic version should be put in place.	Head of Corporate Services	Head of Corporate Services to Review this	September 2020
9	Officers and Members are not consistently recording gifts and hospitality	Head of Corporate Services	EF to review what is being recorded currently and report to Audit Committee Chair	October 2020
10	That recruitment checks in place do not meet employment law	Head of Corporate Services	In place- proof of right to work but a checklist needs to be produced and consistently utilised. To be reviewed in Payroll Audit 2020	Ongoing
11	The DBS framework needs to be reviewed	Head of Corporate Services	DBS framework will be reviewed, and a signatory appointed	December 2020
12	That there may be some training gaps in the some of the Internal Audit side of the team	Audit Manager	Will be reviewed as part of PDR process.	October 2020
13	Post Covid 19 fraud checks needs to be carried out and maintained going forward as part of the recovery plan	All Heads of Service	The Audit Manager will discuss risks with HOS as part of the Risk review. Training / Oversight to be looked in to by Audit team	Ongoing

<b>Area of Review</b>	Cash Management
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1. **BACKGROUND**

As part of the 2020-21 Internal Audit Plan a review of the key controls in place for Cash Management.

Responsibility for Cash Management lies with the Head of Corporate Services, with the day to day administration and management of the function outsourced to Capita.

2. **SCOPE OF THE REVIEW**

The audit approach has been to review processes surrounding the below stated control objectives, perform walkthrough testing, where appropriate, and assess the effectiveness of internal controls and ensure risk is managed effectively.

3. **CONTROL OBJECTIVES**

The scope of this review has encompassed the following control objectives:

<b>Control Objectives</b>	
1	That all income is properly accounted for
2	That income is held securely
3	That income is banked in a timely manner
4	That the Cashiering function is properly resourced

4. **AUDIT APPROACH**

Our audit approach to this review has been to:

- Obtain and understanding of the relevant processes through discussions with key personnel, review of systems documentation and perform walkthrough tests where appropriate.
- Identify the key risks within the function.
- Evaluate and test the effectiveness of the controls in place to address these risks.
- This review has been undertaken in compliance with the Internal Audit Public Sector Standards.

5. **OPINION ON CONTROL FRAMEWORK**

The overall level of opinion that can be provided on the internal control framework for this review is:

<b>Levels of Assurance</b>	
Substantial	Substantial assurance given where there is a sound system of controls in place, which applied consistently to enable achievement of the intended objective.
Satisfactory	Satisfactory assurance given where there is generally a sound system of internal control in place with only minor lapses, and in general, objectives achieved.
Limited	Limited assurance is given where controls in place are not always applied and objectives may not be achieved, meaning the Council is exposed to the risk of financial loss, fraud or the loss of reputation.
None	No assurance is given where weaknesses in control has resulted if a failure to achieve objectives

## 6. SUMMARY OF FINDINGS

**Control Objective One:** That all income is properly accounted for

- The council has a set of financial regulations in place although it is noted that they are currently being reviewed and updated.
- The council has appropriate processes in place that allows income received to be properly recorded through the Income Management system.
- Testing shows the council has satisfactory controls in place that ensure income is correctly processed and properly accounted for via Pay360.
- The council has an appropriate suspense accounts in place to record unidentified payments that are received.
- The council has an up to date and accurate monthly bank reconciliations in place that provides assurance differences between the cash book and bank statements are identified and processed accordingly.

**Control Objective Two:** That income is held securely

- The council has satisfactory controls in place that ensure income is received in a secure environment.
- Appropriate backups are in place concerning Pay360.
- There is a regular review of Integra's system user access to ensure it isn't used inappropriately.

**Control Objective Three:** That income is banked in a timely manner

- Testing shows processes are established that ensure income is banked in a timely manner. Although there is scope to reduce the number of collections by Loomis Security to a weekly given that the Council rarely holds cash on-site.
- Appropriate insurance arrangements are in place for holding cash on-site up to the value of £20,000, providing it is held securely.

**Control Objective Four:** That the Cashiering function is properly resourced

- The current resource is provided by Capita and is sufficient to provide the service. It is noted that the Cashier Function will be brought back in house as part of the transition of Exchequer Services from Capita to an in-house function.

**Summary of Identified Risks**

Ref	Risk/Issue	Risk Assessment	Management Response	Responsible Officer	Target Date
1	The council should ensure that photo ID of LOOMIS staff is created and published in the Cash Office.	Low	We will check with Loomis as to whether they can provide this for the staff that carry out this service. If this is possible we will provide this.	Head of Corporate Services	30/11/20
2.	Consider reducing the number of cheque collections made by LOOMIS to a weekly collection rather than twice weekly.	Low	This will be reviewed as part of the ongoing delivery of the Corporate Services contract.	Head of Corporate Services	31/03/21

<b>Area of Review</b>	Audit Committee Request – Payments Review COVID Response
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## **Background**

At the last meeting of the Audit Committee in July 2020, the committee requested a review of payments made to suppliers, during the period that the Council was responding to the impact of COVID-19. The purpose of the review was to:

- Identify any unusual transactions that may be due to fraud or error.
- Identify instances of procurement where the council did not comply with its own Financial Regulations as well as best practice..

All payments made to suppliers during the period 1.3.20 – 22.7.20 were included in the review. During this period 1184 payments were processed, it should be noted that not every payment was reviewed in detail.

Internal Audit only reviewed high value procurements and transactions where the description of the payment merited further investigation.

## **Findings**

### **Payments made via Accounts Payable**

1. No transactions were identified that would have been due to fraud or error.
2. Two duplicate payments were found to be paid as part of the Business Grants process, however, retrospective controls in place ensured that on each occasion one transaction was cancelled before the payment was sent to the business.
3. There was one area of procurement where an emergency decision was required to maintain business continuity. This was the purchase of laptops (£80K) and a VPN (£15K (Virtual Private Network)), to enable homeworking. These procurements have already been reported to Overview & Scrutiny in June as part of the report on the Council Response to COVID-19. This provided an appropriate level of transparency of these transactions and the reasons for an emergency decision.
4. We can provide reasonable assurance that our review of purchases made via the Accounts Payable process, during the response to COVID-19 appear to be valid.
5. However, what we did find during our review of payments were that long standing control weaknesses remained such as the avoidance of use of

Purchase Orders (PO) still exist. During the review it was found that at least 15%, which equates to 177 transactions that would require the use of a PO did not do so. The use of Purchase Orders reduces the risk of unbudgeted expenditure as well as fraud and error and is a requirement of our Purchase to Pay process.

6. Our review indicates that lack of compliance with the No PO No Pay requirement is Council wide. Whilst some services are more diligent on this issue all Heads of Service and Budget Managers should be reminded that Purchase Orders are a requirement for all payments unless the supplier is included on the Purchase Order Exemption List.
7. We did not carry out a full review of procurement compliance. Further work on procurement to confirm procurements comply with the requirements of Contract Standing Orders and Financial regulations will be carried out as part of our annual review of Accounts Payable.

### **Risks**

- Purchase Orders are not always used where appropriate which could result in fraud and error.
- Financial Regulations and Contract Standing Orders are not adhered to
- The Purchase order Exemption List is not effective

### **Findings**

#### **Credit Card Payments**

1. During the response to COVID-19 the overall credit limit allowed by Barclays was increased to £250,000 per month.
2. Temporary Credit limits were set for each card holder. These were in place for the period between March to July.
3. Once the initial response phase was over credit limits were returned to the normal allocated amounts.
4. The credit limit amounts are managed by the Finance Client and this ensures flexibility if large purchases are required or in times of emergency and can be reduced to reduce the risk of fraudulent use if cards are lost or stolen. Records of these limits are held.

Detailed below is the total amount spent on HDC Corporate Credit Cards March to July 2020.

<b>Date</b>	<b>Actual Spend 2020</b>	<b>Same Period 2019</b>
March	4,699	6,088
April	4,511	5,409
May	4,261	4,347
Juine	4,261	4,825
July	5,413	4,825

£22,626.92 out of £1,250,000 available credit spent in the 5 month period , this equates to less than 2% of the available credit (actual 1.81%)  
Spend Year on Year shows that less was spent on credit cards in 2020 than in 2019.

### **Sample Transaction Findings**

A number of credit card transactions were reviewed the following items were noted:

1. There were a number of transactions where had proof or purchase was provided but did not have VAT receipts submitted
2. Some of the payment vouchers used to record payments did not include a VAT breakdown
3. The policy states that the items should be delivered to Hart District Council - whilst it was understood practically some large items needed to be delivered to a client directly the actual purchase was made in the name of the recipient with the recipients email and contact details – there was no reference to Hart District Council.
4. From the sample taken none of the payment vouchers were signed by Managers, although some had the name inserted. It was noted that in one service area, managers did not have any oversight of the monthly credit card spend for their team.
5. Much of the spend was relating to emergency hardship payments and needed to be purchased urgently.
6. One transaction was challenged as there was the potential that there could have been better value for money if a longer term view and alternative suppliers considered.

### **Risks**

- Insufficient controls in place to authorise credit card spend
- Inadequate supporting documentation to support the transaction
- Inability to make VAT claims due to VAT receipts not being provided
- Non compliance with Credit Card Procedures and procurement rules

Management Action Pan					
	Recommendation	Risk Level	Management Response	Responsible Officer	Target Date
1.	Purchase Orders should be used where appropriate, to reduce the risk of fraud and error.	High	Managers and Heads of Service have been reminded of this on the 7 <sup>th</sup> September 2020. Non-compliance will now be reported to SLT on a bi-monthly basis.	Head of Corporate Services	Done
2.	Checks on credit card payments should be carried out by all managers to ensure all payments are valid.	High	All Managers have been reminded of this and been written to personally with a copy of the procedures attached,	Head of Corporate Services	30/9/2020
3.	Supporting information including a valid VAT Receipt must be retained for credit card transactions.	Medium	All Managers have been reminded of this and been written to personally with a copy of the procedures attached,	Head of Corporate Services	30/9/2020
4.	All credit card Users should be reminded of the content of the Credit Card Policy, and the need to comply with the rules over the use of credit cards.	Medium	All card holders will receive a personal email in September 2020 reminding them of the requirements to comply and stating that non-compliance will result in their card being immediately cancelled	Head of Corporate Services	Done