

# **NORTH YORKSHIRE COUNCIL**

## **AUDIT COMMITTEE**

**26 JUNE 2023**

### **ANNUAL REPORT OF THE HEAD OF INTERNAL AUDIT**

#### **1.0 PURPOSE OF THE REPORT**

- 1.1 To provide a summary of the internal audit work performed in 2022/23 and to express an opinion on the overall framework of governance, risk management and control in place within North Yorkshire County Council.
- 1.2 To inform Members of Veritau's conformance to professional standards and the conclusions arising from the Quality Assurance and Improvement Programme (QAIP).

#### **2.0 BACKGROUND**

- 2.1 The work of internal audit is governed by the Accounts and Audit Regulations 2015, relevant professional standards and the council's Internal Audit Charter. The applicable standards for local government are the Public Sector Internal Audit Standards (PSIAS). These comply with the international standards issued by the global Institute of Internal Auditors (IIA). As well as providing a definition of internal auditing, the PSIAS detail the Code of Ethics for internal auditors and provide quality criteria against which performance can be evaluated. The latest version of the standards was published in April 2017. The Chartered Institute of Public Finance and Accountancy (CIPFA) has also issued further guidance in the form of an application note. The application note includes a checklist to assist internal audit practitioners to review and update working practices.
- 2.2 To comply with the Standards, the Audit Committee approved an updated Audit Charter in March 2023. The Audit Charter sets out the purpose, authority and responsibility of internal audit. The Charter also defines certain elements of the internal audit framework including the 'board', 'senior management' and the 'chief audit executive', as follows:

'Board' – is defined as the Audit Committee (given its responsibilities in relation to internal audit standards and activities);

'Senior Management' – is defined as the Corporate Director - Resources in his role as s151 officer. In addition, senior management may also refer to the Management Board or the Chief Executive and/or any other Corporate Director;

'Chief audit executive' – is defined as the Head of Internal Audit (Veritau).
- 2.3 In accordance with the Standards, the Head of Internal Audit is required to provide an annual internal audit opinion based on an objective assessment of the framework

of governance, risk management and control operating within North Yorkshire Council. The Head of Internal Audit should also contribute to the preparation of the Annual Governance Statement by identifying any significant control issues identified during the course of audit work, and report any material breaches of the council's Finance, Contract and Property Procedure Rules to the Audit Committee.

- 2.4 The Head of Internal Audit is also required to develop and maintain an ongoing quality assurance and improvement programme (QAIP). The objective of the QAIP is to ensure that working practices continue to conform to the required professional standards. The results of the QAIP should be reported to senior management and the Audit Committee along with any areas of non-conformance with the Standards. The QAIP consists of various elements, including:
- maintenance of a detailed audit procedures manual and standard operating practices
  - ongoing performance monitoring of internal audit activity
  - regular customer feedback
  - training plans and associated training and development activities
  - periodic self-assessments of internal audit working practices (to evaluate conformance to the Standards).
- 2.5 In addition, a formal external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The most recent external assessment of Veritau internal audit working practices was undertaken in November 2018<sup>1</sup>. This concluded that Veritau internal audit activity generally conforms to the PSIAS<sup>2</sup>. The next external assessment will be conducted by the Institute of Internal Auditors in August 2023, and the findings from this assessment will be reported to this committee.
- 2.6 The results of customer feedback and the self-assessment are used to identify any areas requiring further development and/or improvement. Any specific changes or improvements are included in the annual Improvement Action Plan. Specific actions may also be included in the Veritau business plan and/or individual personal development action plans.
- 3.0 **ANNUAL REPORT OF THE HEAD OF INTERNAL AUDIT**
- 3.1 The annual report of the Head of Internal Audit is attached at **appendix 1**. The report includes details of the internal audit work completed during 2022/23, the annual opinion of the Head of Internal Audit and the results of the Quality Assurance and Improvement Programme.
- 3.2 In addition to the annual opinion the Head of Internal Audit is required to provide:
- (a) details of any qualifications to the opinion, together with the reasons for those qualifications (including any impairment to independence or objectivity)

---

<sup>1</sup> Reported to the Audit Committee in March 2019.

<sup>2</sup> PSIAS guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.

- (b) details of any particular control weakness judged to be relevant to the preparation of the council's annual governance statement
- (c) a summary of work undertaken to support the opinion including any reliance placed on the work of other assurance bodies
- (d) an overall summary of internal audit performance and the results of the internal audit service's quality assurance and improvement programme, including a statement on conformance with the PSIAS.

#### 4.0 COUNTER FRAUD ACTIVITIES

- 4.1 Fraud represents a significant risk to the public sector. Resources lost to fraud reduces the funding available for essential services. Veritau provided a counter fraud service to North Yorkshire County Council in 2022/23. This included the maintenance of policies, risk assessments, fraud prevention and detection measures, fraud awareness training and the investigation of suspected fraud.
- 4.2 Details of the counter fraud activities undertaken in 2022/23 and the outcomes from this work are contained in the annual performance report which is attached at **appendix 2**.

#### 5.0 BREACHES OF FINANCE, CONTRACT AND PROPERTY PROCEDURE RULES

- 5.1 As in previous years, breaches of Finance, Contract and Property procedures rules are identified through ongoing internal audit work.
- 5.2 Where breaches are identified, it is usually sufficient to draw the matter to the attention of management for the appropriate remedial action to be taken. If a wider training need is identified this will be addressed accordingly. Finally in those cases where the breach identifies a fundamental weakness/deficiency in the relevant Procedure Rule this will be addressed separately as part of the ongoing review process for all the Council's Procedure Rules.
- 5.3 There were no material breaches of the Procedure Rules identified during the year although a number of issues were raised with management through the normal audit reporting process.

#### 6.0 RECOMMENDATIONS

##### 6.1 Members are asked to note:-

- (i) the **Substantial Assurance** opinion of the Head of Internal Audit regarding the overall framework of governance, risk management and control operating within North Yorkshire Council as set out in appendix 1
- (ii) the significant control issue which is recommended for inclusion in the 2022/23 Annual Governance Statement
- (iii) the outcome of the quality assurance and improvement programme and the confirmation that the internal audit service conforms with the Public Sector Internal Audit Standards
- (iv) the counter fraud work undertaken during the year as set out in appendix 2

MAX THOMAS  
Head of Internal Audit

Report prepared and presented by Max Thomas, Head of Internal Audit

Veritau - Assurance Services for the Public Sector  
County Hall  
Northallerton

9 June 2023

# ANNUAL HEAD OF INTERNAL AUDIT REPORT

26 June 2023

Appendix 1



## CONTENTS



Background

**3**



Internal audit  
work carried out

**3**



Follow up of  
agreed actions

**4**



Professional  
standards

**5**



Opinion of the Head of Internal Audit

**6**

Annex A  
Internal audit work in 2022/23

**7**

Annex B  
Summary of key issues from work finalised since the last  
report to the committee

**9**

Annex C  
Audit opinions and priorities for actions

**16**

Annex D  
Internal audit – quality assurance and improvement programme

**17**





Max Thomas  
Head of Internal Audit



Ian Morton  
Assistant Director- Audit  
Assurance



Stuart Cutts  
Assistant Director- Audit  
Assurance



## BACKGROUND

- 1 The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS) and the council's audit charter. These require the Head of Internal Audit to bring an annual report to the Audit Committee. The report must include an opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control. The report should also include:
  - (a) any qualifications to the opinion, together with the reasons for those qualifications (including any impairment to independence or objectivity)
  - (b) any particular control weakness judged to be relevant to the preparation of the annual governance statement
  - (c) a summary of work undertaken to support the opinion including any reliance placed on the work of other assurance bodies
  - (d) an overall summary of internal audit performance and the results of the internal audit service's quality assurance and improvement programme, including a statement on conformance with the PSIAS.
- 2 Internal audit's opinion on the adequacy and effectiveness of the council's framework of governance, risk management and control are a key source of assurance in preparing the AGS and the reason why the annual report of the Head of Internal Audit is being presented to this meeting.



## INTERNAL AUDIT WORK CARRIED OUT IN 2022/23

- 3 The year was dominated by preparations for local government reorganisation (LGR). This was anticipated at the beginning of the year when the 2022/23 internal audit work programme was presented to this committee in June 2022.
- 4 The approach to internal audit delivery has been significantly different to previous years. This was intentional and designed to ensure that we could provide support and also assurance in areas of most importance from a risk or priority perspective, while recognising the demands on officers due to LGR. This has required, in some instances, careful programming and planning to deliver financial systems assurance and, in others, a need to be flexible and responsive, picking up and pausing audit work in response to pressures facing service areas.
- 5 In addition to internal audit work undertaken directly for North Yorkshire County Council, Veritau has supported all eight councils involved in the transition to North Yorkshire Council through its attendance at, and contributions to, a number of LGR workstreams, and associated activities throughout 2022/23. A significant portion of our time was spent providing direct support and advice in respect of these evolving arrangements.



- 6 Senior managers at the Council have continued to support delivery of internal audit work during 2022/23. Work has been prioritised based on risk and the need to provide coverage of the Council's framework of governance, risk management and control.
- 7 A summary of the internal audit work undertaken during the year is contained in **annex A**.
- 8 **Annex B** provides details of the key findings from internal audit assignments completed, that we have not previously reported to the committee. **Annex C** provides an explanation of our assurance levels and priorities for management action.

## FOLLOW UP OF AGREED ACTIONS

- 9 It is important that agreed actions are followed up to ensure they have been implemented. Veritau has followed up agreed actions during the year taking account of the timescales previously agreed with management for implementation.
- 10 Our work shows that generally, good progress has continued to be made by management to address relevant previously identified control weaknesses. There are no significant weaknesses to report to the Committee.

## PROFESSIONAL STANDARDS

- 11 In order to comply with Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit is required to develop and maintain an ongoing quality assurance and improvement programme (QAIP). The objective of the QAIP is to ensure that working practices continue to conform to professional standards. The results of the QAIP are reported to the committee each year as part of the annual report. The QAIP consists of various elements, including:
  - maintenance of a detailed audit procedures manual and standard operating practices
  - ongoing performance monitoring of internal audit activity
  - regular customer feedback
  - training plans and associated training and development activities
  - periodic self-assessments of internal audit working practices (to evaluate conformance to the standards)
- 12 External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The most recent external assessment of Veritau internal audit

working practices was undertaken in November 2018<sup>1</sup>. This concluded that Veritau internal audit activity generally conforms to the PSIAS<sup>2</sup>. The next external assessment will be conducted by the Institute of Internal Auditors in August 2023, and the findings from the assessment will be reported to this committee.

- 13 The outcome of the recently completed self-assessment demonstrates that the service continues to generally conform to the PSIAS, including the Code of Ethics and the Standards. Further details of the QAIP prepared by Veritau are given in **annex D**.
- 14 The Internal Audit Charter sets out how internal audit at the council will be provided in accordance with the PSIAS. An updated charter was approved by this committee in March 2023. No further changes are considered necessary.

## **OPINION OF THE HEAD OF INTERNAL AUDIT**

- 15 The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating at the council is that it provides **Substantial Assurance**. No reliance was placed on the work of other assurance providers in reaching this opinion.
- 16 The opinion given is based on work that has been undertaken directly by internal audit, and on the cumulative knowledge gained through our ongoing liaison with officers. However, in giving the opinion, we would note that preparations for local government reorganisation (LGR) have, over the last year, required a significant investment of time, effort and resources across the organisation. This has put strain on the Council's control environment and its business operations. The council has had to operate during periods of uncertainty and substantial change whilst maintaining service delivery and other key support functions. The unique circumstances and uncertainty brought about by the LGR transition have combined to create a very challenging operating environment. Whilst the work of internal audit is directed to the areas that are considered most at risk, or to provide most value for the council, it is not possible to conclude on the full extent of the LGR transition on the council's operations.
- 17 Members attention is also drawn to the following significant control issue which is considered relevant to the preparation of the 2022/23 Annual Governance Statement:

### Information security

Further improvements are still required to ensure compliance with the Council's data protection policies. Ongoing work has identified continuing

<sup>1</sup> Reported to the Audit Committee in March 2019

<sup>2</sup> PSIAS guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.

poor practice with the handling of documents and information security. There have also been a number of serious data security breaches in the year, including 3 incidents that have required reporting to the Information Commissioner's Office. Further incidents have also occurred since the end of the year.

## ANNEX A: 2022/23 INTERNAL AUDIT WORK

### Final reports issued

Audit	Reported to Committee	Assurance Level
ICT capacity management	June 2022	Substantial Assurance
Harrogate day Services	June 2022	No opinion given
Visit to care providers – The Lodge, Scarborough	July 2022	Limited Assurance
Symology	July 2022	Limited Assurance
Learning disability and autism	July 2022	Limited Assurance
Developing stronger families - June 2022 return	July 2022	No opinion given
Pension fund investments	July 2022	Substantial Assurance
Contain Outbreak Management Fund	July 2022	No opinion given
Pension fund expenditure	September 2022	Substantial Assurance
Pension fund IT security	September 2022	Substantial Assurance
Developing stronger families - September 2022 return	September 2022	No opinion given
Expenses for adoption panel members	October 2022	No opinion given
Learning disability care provider (Chopsticks, Northallerton)	October 2022	No opinion given
East Ayton school	November 2022	Limited Assurance
Cyber readiness	November 2022	Substantial Assurance
Contract waivers	November 2022	Reasonable Assurance
Developing stronger families - December 2022 return	December 2022	No opinion given
Hutton Rudby school	January 2023	Limited Assurance
Schools themed audit (lettings)	January 2023	Reasonable Assurance
Transitions from children to adults social care	February 2023	Reasonable Assurance
Declarations of interests	February 2023	Reasonable Assurance
Schools themed audit (schools financial value standard)	April 2023	Reasonable Assurance
Library payment system (Talis)	May 2023	Reasonable Assurance

### Audits in progress

Audit	Status	Assurance Level
Fairburn CP school	Draft report issued	Substantial Assurance
Main Accounting	Draft report issued	Substantial Assurance
Creditors	Draft report issued	Substantial Assurance
Debtors and debt recovery	Draft report issued	Reasonable Assurance
Schools themed audit - ICT	Draft report issued	Limited Assurance
Liquid Logic	Draft report issued	Opinion TBC
Payroll	In progress	-

### Other work completed in 2022/23

Internal audit work has been undertaken in a range of other areas during the year, including those listed below.

- Certification of a number of returns, including the LEP Growth Hub Grant Fund, local transport grant, education skills funding agency sub contracting, green homes and contain management outbreak fund.
- Regular liaison with management, including ongoing discussions linked to local government reorganisation.
- Ongoing review of key documentation and meetings/minutes to help inform our future work and provide assurance/insight for our 2022/23 opinion.

## ANNEX B: SUMMARY OF KEY ISSUES FROM AUDITS FINALISED SINCE THE LAST REPORT TO THE COMMITTEE

10

System/area	Opinion	Area reviewed	Date issued	Comments	Management actions agreed
East Ayton Primary School	Limited Assurance	<p>We reviewed the arrangements in place to ensure that:</p> <ul style="list-style-type: none"> <li>• effective governance arrangements are in place at the school</li> <li>• payroll and staffing matters are carried out appropriately</li> <li>• procurement activities are performed appropriately</li> <li>• contracts are managed and provide effective and efficient services</li> <li>• income is properly accounted for.</li> </ul>	November 2022	<p>There were instances where school procurement rules were not followed.</p> <p>There were also a number of issues with financial procedures. Reconciliations have not regularly taken place since the implementation of the new payment system. Income received via the payment system could not be reconciled to budgets. There was no procedure set out to enable the reconciliation of monies paid by parents to monies received by the school.</p> <p>Approval of contract amendments and levels of pay were not clearly set out.</p> <p>The information published on the school website did not include information setting out its governance arrangements.</p> <p>Declaration of Interests are not checked for accuracy, or published on the website.</p>	<p>2 x Priority 1, 2 x Priority 2 and 4 x Priority 3 actions were agreed.</p> <p><b>Responsible Officer(s):</b> The Governing Body, East Ayton Primary School</p> <p>Work is ongoing to ensure the agreed actions have been implemented.</p>
Hutton Rudby Primary School	Limited Assurance	<p>We reviewed the arrangements in place to ensure that:</p> <ul style="list-style-type: none"> <li>• governance policies are reviewed regularly and are kept up to date</li> <li>• governors understand their roles and responsibilities, are actively involved in the governance of the school,</li> </ul>	January 2023	<p>The school had not documented its governance arrangements in a scheme of delegation.</p> <p>Governance related policies were available on the school website and the version control information indicates they had been recently reviewed. However, governing body meeting minutes did not show governors were involved in the</p>	<p>7 x Priority 2 and 4 Priority 3 actions was agreed.</p> <p><b>Responsible Officer(s):</b> Acting Head Teacher, Hutton Rudby Primary School</p>



System/area	Opinion	Area reviewed	Date issued	Comments	Management actions agreed
		<p>and an evaluation of governor's skills has been carried out and reviewed appropriately</p> <ul style="list-style-type: none"> <li>• declaration of interests for all governors are reviewed and kept up to date</li> <li>• meeting minutes are suitably detailed and confirm that challenge and oversight is being provided</li> <li>• school websites contain all the information they are required to publish</li> <li>• the budget is reported and reviewed by the Governors on a regular basis</li> </ul>		<p>review and approval of the school's policy documents.</p> <p>The current audit of governor skills was incomplete. There was also no evidence that governors are providing challenge and scrutiny.</p> <p>Minutes of full governing body meetings did not demonstrate sufficient oversight and challenge. The finance and staffing committee also met only once in 2020 and did not meet at all during 2021.</p> <p>The school had no contract in place with a key supplier and no quotes were obtained for the refurbishment of a school classroom.</p> <p>The school website contained the information it is required to publish as per DfE requirements.</p> <p>The school had produced a 3 year budget plan, although minutes did not confirm this had been presented to governors.</p>	All but one action has been completed.
Schools themed audit (Lettings)	Reasonable Assurance	<p>A number of schools have premises that are rented out to employees and members of the public. The audit reviewed:</p> <ul style="list-style-type: none"> <li>• arrangements for lettings and hire are clear, accurate and in line with the council's policy</li> </ul>	January 2023	<p>Hiring of school facilities by external groups were generally well-managed, with income collected in a timely manner and in accordance with the approved charging policy. All schools also confirmed they follow the debt management procedures provided by the council. In all but one occasion, completed hire agreements and valid insurance</p>	<p>2 x Priority 2 and 1 x Priority 3 actions was agreed.</p> <p><b>Responsible Officer(s):</b> Property Manager – Non-operational Portfolio</p>

System/area	Opinion	Area reviewed	Date issued	Comments	Management actions agreed
		<ul style="list-style-type: none"> <li>charges and fees for lettings and the use of school facilities are appropriate</li> <li>any income relating to lettings is collected and there are processes in place to manage debt</li> <li>insurance is obtained correctly and coverage is sufficient.</li> </ul>		<p>certificates could be evidenced for short-term users.</p> <p>The charges and tax implications for some on-site properties are not being reviewed and managed correctly.</p> <p>Those schools with on-site residential properties, for example, caretaker bungalows, were unable to confirm arrangements relating to insurance and liability should an accident or damage occur within the property.</p>	<p>The Council had instructed a tax specialist to help provide professional guidance.</p> <p>Processes have been amended and a copy of the new tenancy agreement is provided to the school when a new agreement is granted. The Council will produce a schedule that clarifies the repair, maintenance, utility costs and insurance responsibilities for each site.</p>
Transitions from Children to Adults social care	Substantial Assurance	<p>Our work reviewed whether:</p> <ul style="list-style-type: none"> <li>the new transitions pathway had been successfully implemented and was being consistently followed.</li> <li>the council efficiently manages the quality and flow of data and information</li> <li>appropriate governance and monitoring arrangements are in place to facilitate effective transitions.</li> </ul>	February 2023	<p>Generally, we found people with open CYPS referrals who required continuous care had been processed appropriately and in line with the pathway. There was evidence of the transitions process being followed and case notes clearly documented the liaison between services.</p> <p>Discussions held as part of the audit confirmed issues around transitions referrals, similar to those identified during audit testing, are already understood. Work is ongoing to develop the transitions pathway.</p> <p>There were some transitions cases that did not comply with the established pathway. The current dashboard also</p>	<p>1 x Priority 2 action was agreed</p> <p><b>Responsible Officer:</b> Assistant Director Adult Social Care</p> <p>A new dashboard is being developed which will capture key data and help us to understand if there are any barriers for the young person.</p> <p>A draft new pathway has been developed and shared with partners to ensure</p>

System/area	Opinion	Area reviewed	Date issued	Comments	Management actions agreed
				does not highlight all relevant individuals due to transition.	their pathways also link into this. The long term plan is for this pathway to support young people and their families, carers and practitioners through the transition pathway.
Declarations of interests	Reasonable Assurance	<p>Our audit work reviewed whether:</p> <ul style="list-style-type: none"> <li>relevant guidance and training on declaring interests was provided to members and officers.</li> <li>a register of members interests has been established and maintained, and sensitive information has been stored securely.</li> <li>an appropriate register of officer's interests has been established and maintained by management of each directorate and is consistent with records held by the Monitoring Officer.</li> <li>Members are declaring their interests within 28 days of starting their roles, officers upon appointment and both notify the Council of any changes within 28 days.</li> </ul>	February 2023	<p>Overall, the arrangements in place for Members interests are good and functioning in line with the Council's Constitution</p> <p>However, some areas for improvement were identified with the arrangements for officer's declarations.</p> <p>There was no electronic / specific system supporting and managing the officer declarations of interest process. Paper and word-processed systems are used. There are no processes to assure the council that all officers are declaring interests in line with corporate requirements.</p> <p>Council expected practice was not being followed. Information on completed officer declaration of interests was not being provided centrally, to Legal and Democratic Services. Arrangements at service level differ from documented procedures.</p>	<p>2 x Priority 2 and 1 x Priority 3 actions was agreed</p> <p><b>Responsible Officer:</b> Deputy Chief Executive (Legal and Democratic Services)</p> <p>We are currently working with relevant officers to establish how/whether these issues have now been addressed. Further audit work is therefore planned in this area.</p>

System/area	Opinion	Area reviewed	Date issued	Comments	Management actions agreed
Schools themed audit (Schools financial value standard)	Reasonable Assurance	<p>The schools financial value standard (SFVS) is a requirement for all maintained schools. The SFVS must submit it to the local authority every year.</p> <p>The purpose of the audit was to ensure:</p> <ul style="list-style-type: none"> <li>suitable review and scrutiny was being carried out by governors prior to submission.</li> <li>the SFVS document is being completed accurately in line with current school practice.</li> <li>schools are aware of the changes to reporting and recording related party transactions.</li> </ul>	April 2023	<p>Generally, the schools' business managers or bursar complete the SFVS document without governor involvement. For the majority of the schools sampled, there was no evidence of suitable review and scrutiny being carried out by governors prior to submission.</p> <p>For the submitted SFVS documents sampled, the majority were completed accurately and represented current school practice.</p> <p>Schools were found to be aware of the changes to reporting and recording related party transactions</p>	<p>2 x Priority 2 actions were agreed.</p> <p><b>Responsible Officer(s):</b> Head of Finance – Schools, Early Years &amp; High Needs</p> <p>Briefing sessions were provided at the School Admin &amp; Finance Conference to remind schools of the correct procedures to follow.</p>
Library Management System (Talis)	Reasonable Assurance	<p>This audit work focused on the Library Management system to ensure that</p> <ul style="list-style-type: none"> <li>access and authentication measures were appropriate</li> <li>the system was secure</li> <li>changes made to the system are in line with the council's change management policy.</li> </ul>	May 2023	<p>We found that only authorised individuals were assigned user profiles with privileged access and that once access was no longer required it was removed.</p> <p>The council's Access Control policy states: "All council IT systems will be configured to enforce the following: Authentication of individual users, not groups of users - i.e. no generic accounts"</p>	<p>2 x Priority 2 and 1 x Priority 3 actions were agreed</p> <p><b>Responsible Officer(s):</b> Interim General Library Manager</p> <p>The use of generic user accounts will be reviewed and suitable guidance introduced.</p>

System/area	Opinion	Area reviewed	Date issued	Comments	Management actions agreed
		<ul style="list-style-type: none"> <li>the performance of the system is managed in line with ISO 20000.</li> </ul>		<p>The council staff and volunteers who work within the libraries are provided with a generic user account (restricted to administering customer's library accounts) for the LMS for each library within the county.</p> <p>For these generic user accounts, passwords are changed monthly. An email is sent to update the users on the new password via a mailing list. At the time of the audit there were no checks carried out to ensure that everyone on the mailing list was still authorised to see the latest password.</p>	<p>The library service will monitor to ensure all people working in a library undertake relevant data protection training, read relevant policies and sign to confirm they agree to them.</p> <p>The service will also explore reducing the amount of personal data that can be accessed by library staff.</p> <p>The library service will monitor the mailing list to ensure it contains authorised individuals only.</p>

## ANNEX C: 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. Our overall audit opinion is based on 4 grades of opinion, as set out below.	
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.

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: INTERNAL AUDIT - QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

### 1.0 Background

#### Ongoing quality assurance arrangements

Veritau maintains appropriate ongoing quality assurance arrangements designed to ensure that internal audit work is undertaken in accordance with relevant professional standards (specifically the Public Sector Internal Audit Standards). These arrangements include:

- ▲ the maintenance of a detailed audit procedures manual
- ▲ the requirement for all audit staff to conform to the Code of Ethics and Standards of Conduct Policy
- ▲ the requirement for all audit staff to complete annual declarations of interest
- ▲ detailed job descriptions and competency profiles for each internal audit post
- ▲ regular performance meetings
- ▲ regular 1:2:1 meetings to monitor progress with audit engagements
- ▲ induction programmes, training plans and associated training activities
- ▲ attendance on relevant courses and access to e-learning material
- ▲ the maintenance of training records and training evaluation procedures
- ▲ membership of professional networks
- ▲ agreement of the objectives, scope and expected timescales for each audit engagement with the client before detailed work commences (audit specification)
- ▲ the results of all audit testing and other associated work documented using the company's automated working paper system (Sword Audit Manager)
- ▲ file review by senior auditors and audit managers and sign-off at each stage of the audit process
- ▲ the ongoing investment in tools to support the effective performance of internal audit work (for example data interrogation software)
- ▲ post audit questionnaires (customer satisfaction surveys) issued following each audit engagement
- ▲ regular client liaison meetings to discuss progress, share information and evaluate performance

On an ongoing basis, completed audit work is subject to internal peer review by a Quality Assurance group. The review process is designed to ensure audit work is completed consistently and to the required quality standards. The work of the Quality Assurance group is overseen by an Assistant Director. Any key learning points are shared with the relevant internal auditors and audit managers. The Head of Internal Audit will also be informed of any general areas requiring improvement. Appropriate mitigating action will be taken where required (for

example, increased supervision of individual internal auditors or further training).

### Annual self-assessment

On an annual basis, the Head of Internal Audit will seek feedback from each client on the quality of the overall internal audit service. The Head of Internal Audit will also update the PSIAS self-assessment checklist and obtain evidence to demonstrate conformance with the Code of Ethics and the Standards. As part of ongoing performance management arrangements, each internal auditor is also required to assess their current skills and knowledge against the competency profile relevant for their role. Where necessary, further training or support will be provided to address any development needs.

The Head of Internal Audit is also a member of various professional networks and obtains information on operating arrangements and relevant best practice from other similar audit providers for comparison purposes.

The results of the annual client survey, PSIAS self-assessment, professional networking, and ongoing quality assurance and performance management arrangements are used to identify any areas requiring further development and/or improvement. Any specific changes or improvements are included in the annual Improvement Action Plan. Specific actions may also be included in the Veritau business plan, internal audit strategy action plan, and/or individual personal development action plans. The outcomes from this exercise, including details of the Improvement Action Plan are also reported to each client. The results will also be used to evaluate overall conformance with the PSIAS, the results of which are reported to senior management and the board<sup>3</sup> as part of the annual report of the Head of Internal Audit.

### External assessment

At least once every five years, arrangements must be made to subject internal audit working practices to external assessment to ensure the continued application of professional standards. The assessment should be conducted by an independent and suitably qualified person or organisation and the results reported to the Head of Internal Audit. The outcome of the external assessment also forms part of the overall reporting process to each client (as set out above). Any specific areas identified as requiring further development and/or improvement will be included in the annual Improvement Action Plan for that year.

## 2.0 Customer Satisfaction Survey 2023

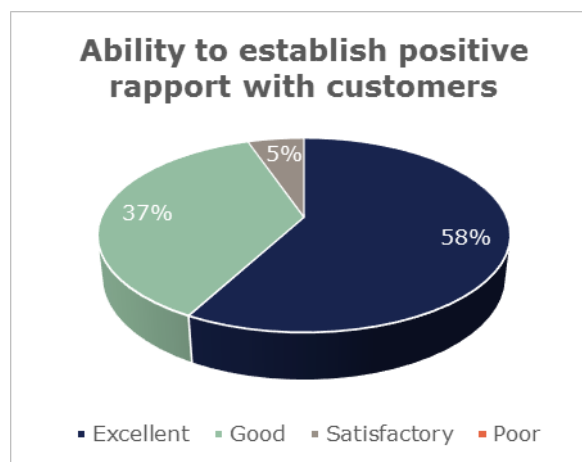
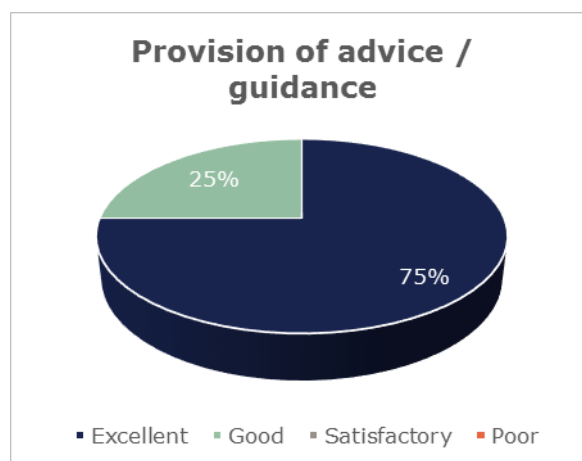
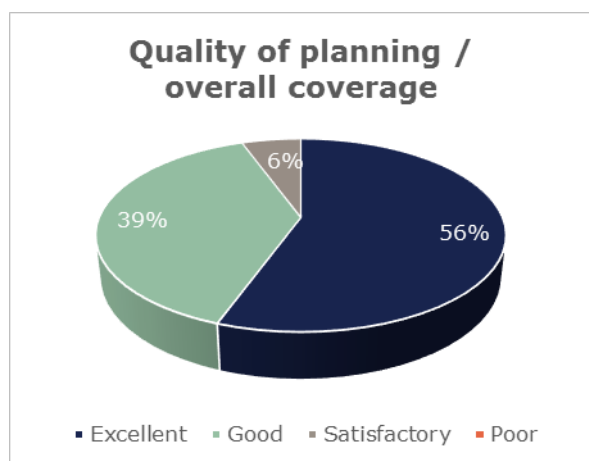
In March 2023 we asked clients for feedback on the overall quality of the internal audit service provided by Veritau. Where relevant, the survey also asked questions about counter fraud and information governance services. A total of 176 surveys (2022 – 154) were issued to senior managers in client organisations. A total of 19 responses were received representing a response

---

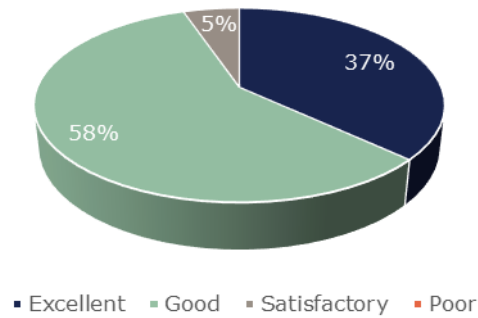
<sup>3</sup> As defined by the relevant audit charter.

rate of 10.8% (2022 – 12%). Respondents were asked to rate the different elements of the audit process as either excellent, good, satisfactory or poor.

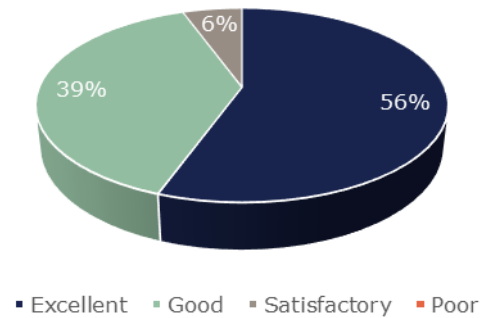
Respondents were also asked to provide an overall rating for the service. The results of the survey are set out in the charts below. These are presented as percentages, for consistency with previous years. However, it is recognised that the low number of respondents means that the percentage for each category is sensitive to small changes in actual responses (1 respondent represents about 5%).



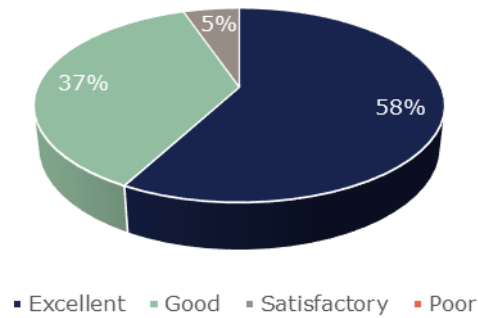
### Knowledge of system / service being audited



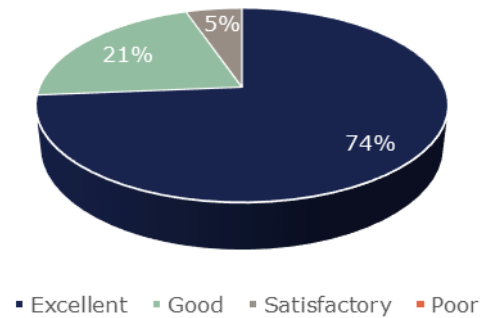
### Minimising disruption to the service being audited



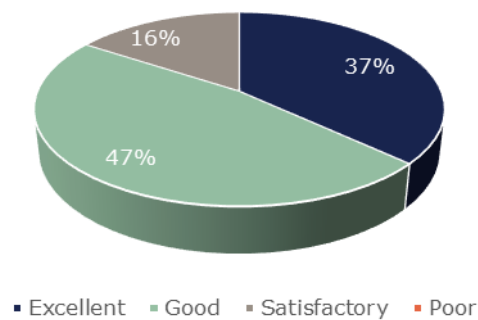
### Communicating issues during the audit



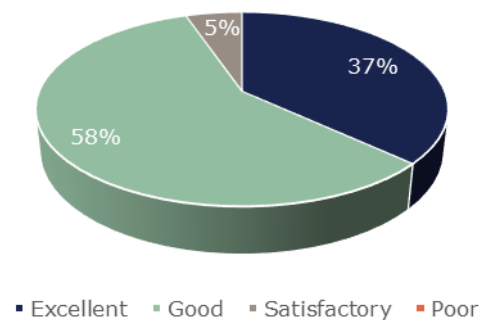
### Quality of feedback at end of audit

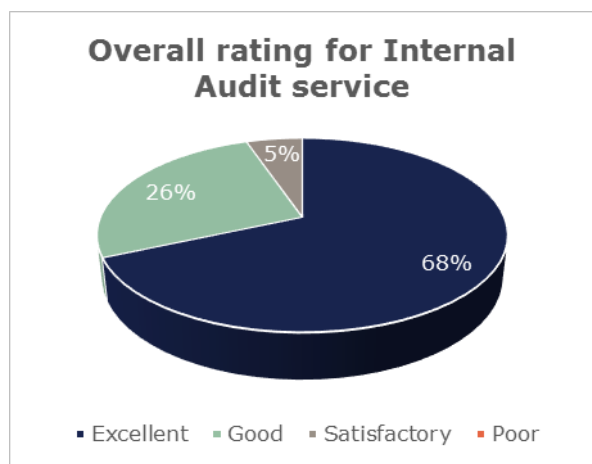


### Accuracy, format, length & style of audit report



### Relevance of audit opinions & conclusions





The overall ratings in 2023 were:

	2023		2022	
Excellent	13	68%	9	47%
Good	5	26%	9	47%
Satisfactory	1	5%	1	5%
Poor	0	0%	0	0%

The feedback shows that the majority of respondents continue to value the service being delivered.

### 3.0 Self-Assessment Checklist 2023

CIPFA has prepared a detailed checklist to enable conformance with the PSIAS and the Local Government Application Note to be assessed. The checklist was originally completed in March 2014 and has since been reviewed and updated annually. Documentary evidence is provided where current working practices are considered to fully or partially conform to the standards. A comprehensive update of the checklist was undertaken in 2020, following revisions by CIPFA.

Current working practices are considered to be at standard. However, as in previous years there are a few areas of non-conformance. These areas are mostly as a result of Veritau being a shared service delivering internal audit to a number of clients as well as providing other related governance services. None of the issues identified are considered to be significant. Existing arrangements are considered appropriate for the circumstances and require no further action.

The following table shows areas of non-compliance. These remain largely unchanged from last year although one area has been added. This relates to performance monitoring. Monitoring of performance is undertaken on an ongoing basis. For example, monitoring of the quality, efficiency and effectiveness of audit delivery is a routine consideration as part of audit supervision and management arrangements. However, it is difficult to identify and define tangible indicators of performance that provide meaningful information to internal audit clients. Historic targets focussed on data that could be quantified (for example numbers of audits complete or numbers of recommendations made). However these do not provide any information about the value of audit

work delivered. This issue is not unique to Veritau and is an area of ongoing discussion as part of internal audit professional networks. Development of new tools for measuring performance has been identified as a priority as part of the internal audit strategy (see below).

<b>Conformance with Standard</b>	<b>Current Position</b>
Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the audit committee before the engagement was accepted?	Consultancy services are usually commissioned by the relevant client officer (generally the s151 officer). The scope (and charging arrangements) for any specific engagement will be agreed by the Head of Internal Audit and the relevant client officer. Engagements will not be accepted if there is any actual or perceived conflict of interest, or which might otherwise be detrimental to the reputation of Veritau.
Are consulting engagements that have been accepted included in the risk-based plan?	Consulting engagements are commissioned and agreed separately.
Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	An approach to using other sources of assurance (assurance mapping) has been developed as part of the internal audit strategy (see below). However, this will only be used where we are able to secure client engagement in the assurance mapping process.
Does ongoing performance monitoring contribute to quality improvement through the effective use of performance targets?	Historic targets used as performance measures do not provide meaningful information about the value of audit work delivered. Development of new measurement tools is a priority as part of the internal audit strategy (see below).

## 4.0 External Assessment

As noted above, the PSIAS require the Head of Internal Audit to arrange for an external assessment to be conducted at least once every five years to ensure the continued application of professional standards. The assessment is intended to provide an independent and objective opinion on the quality of internal audit practices.



An external assessment of Veritau internal audit working practices was last undertaken in November 2018 by the South West Audit Partnership (SWAP). 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 consisted of a review of documentary evidence, including the self-assessment, and face to face interviews with a number of senior client officers and Veritau auditors. The assessors also interviewed audit committee chairs.

A copy the external assessment report was reported to this committee in March 2019.

The report concluded that Veritau internal audit activity generally conforms to the PSIAS<sup>4</sup> and, overall, the findings were very positive. The feedback included comments that the internal **audit** service was highly valued by its member councils and other clients, and that services had continued to improve since the last external assessment in 2014.

Another external assessment is due. Veritau has commissioned the Institute of Internal Auditors to carry out an assessment in summer 2023. The work will be undertaken in July and August. The results of the assessment will be reported to this committee when completed.

## 5.0 Improvement Action Plan

Overall, internal audit services provided by Veritau continue to meet the requirements of the Public Sector Internal Audit Standards. However, we recognise that the pace of change in local government and the wider public sector mean that we need to update aspects of the service to ensure it stays up to date and continues to deliver good value.

Between autumn 2020 and autumn 2021, Veritau undertook a fundamental review of internal audit practices. This resulted in the development of a new three-year strategy which details how we will improve the internal audit service for our clients. The strategy sets out the actions we are taking to modernise our practices. The five key areas for development identified in the strategy are:

- ▲ increasing engagement across all clients; to improve communication and ensure we understand what represents good value and where internal audit work should be focussed
- ▲ further development of strategic planning frameworks; focussing on further development of assurance mapping arrangements and other activities that help us ensure we provide assurance in the right areas at the right time

---

<sup>4</sup> PSIAS guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.

- ▲ redesign and modernisation of audit processes; to ensure we can respond quickly as priorities change, reduce time to deliver findings and manage resources efficiently
- ▲ increasing investment in high value data analytics work; shifting the focus of work towards a data driven model that provides wider assurance in real time
- ▲ introducing better measures of outcomes from audit work, to enable us to direct resources to areas of most value to our clients.

A full review of the strategy is currently underway. A refreshed three-year strategy will be adopted in autumn 2023. This will incorporate any areas for development highlighted by the upcoming external quality assessment being undertaken by the IIA. Establishing new tools to measure the value provided by audit work will remain a priority. Based on current thinking and development work, this is likely to encompass a balanced scorecard type approach.

Due to other service delivery priorities, no new quality assurance reviews have been undertaken by the Quality Assurance Group in 2022/23. This does not impact directly on compliance with internal audit standards (there is no requirement for this additional layer of quality assurance). However, we feel the work of the group represents good practice. The re-establishment of additional quality assurance reviews will be a priority for 2023/24.

## 6.0 Overall Conformance with PSIAS (Opinion of the Head of Internal Audit)

Based on the results of the quality assurance process I consider that the service generally conforms to the Public Sector Internal Audit Standards, including the *Code of Ethics* and the *Standards*.

The guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards.



# COUNTER FRAUD ANNUAL REPORT 2022/23

Date: 26 June 2023

## APPENDIX 2



## CONTENTS



Background

3



Key performance  
figures

3



Analysis of  
results

4



Whistleblowing

5



Counter fraud  
management

6

Annex A  
Detailed Summary of Performance 2022/23

7



Daniel Clubb  
Assistant Director - Corporate Fraud



Max Thomas  
Head of Internal Audit





## 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 can cause reputational damage.
- 2 Veritau provides a corporate fraud service to the council which aims to prevent, detect and deter fraud and related criminality. We use qualified criminal investigators to support departments with fraud prevention, proactively identify issues through data matching exercises, and investigate any suspected fraud found. To deter fraud, offenders face a range of outcomes, including prosecution in the most serious cases.
- 3 The purpose of this report is to summarise counter fraud activity in 2022/23. The report also updates the Audit Committee on whistleblowing reports received during the year and the related outcomes.



## KEY PERFORMANCE FIGURES

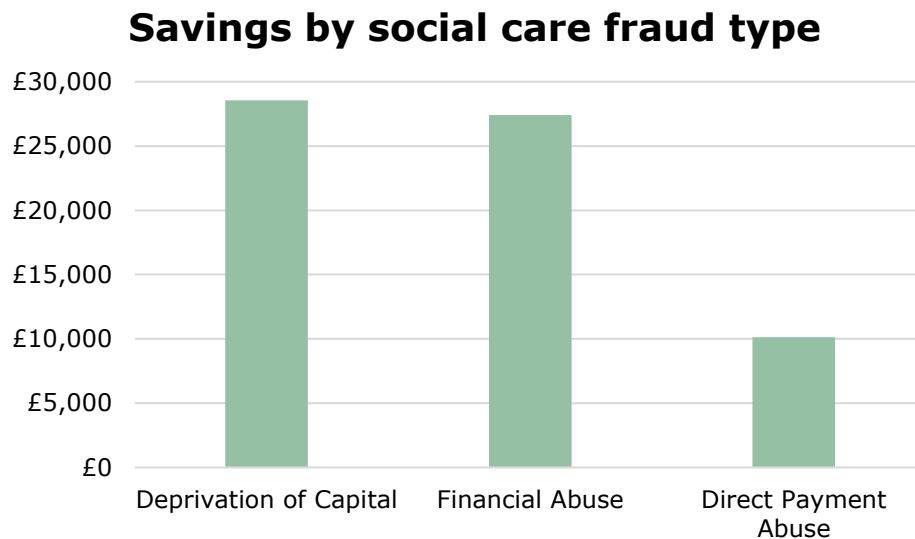
- 4 Counter fraud work helped North Yorkshire County Council to achieve £66.2k of savings in 2022/23, against an annual target of £50k.
- 5 Veritau received 49 referrals of suspected cases of fraud in the year. The team maintains an 0800 telephone reporting line, dedicated email address and receives information by post. The team works closely with staff and encourages members of the public to report any concerns they have about fraud affecting the council.
- 6 The team completed 30 investigations which related to social care fraud, abuse of the local assistance fund, applications for school placements, and internal and third-party frauds. Successful outcomes<sup>2</sup> were achieved in 57% of cases.
- 7 Investigations led to a warning being issued in relation to a claim made to the council's local assistance fund, and the allocation of a school's place was prevented where incorrect home address details were provided. Recommendations to improve procedures were made in five cases, and three invoices were raised in relation to incorrectly obtained funding for social care.
- 8 A detailed summary of performance can be found in annex A.

<sup>1</sup> Fraud and Error (Ninth Report of Session 2021/22), Public Accounts Committee, House of Commons

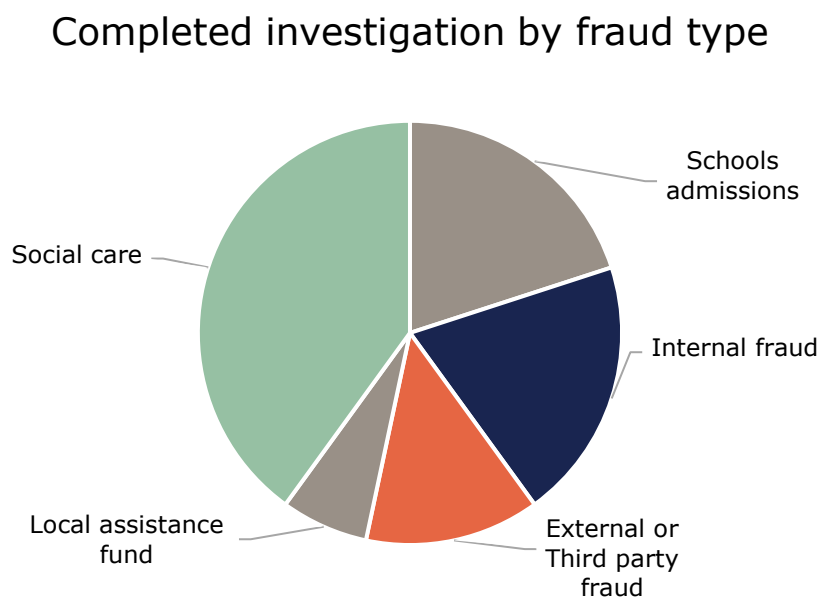
<sup>2</sup> Actual outcomes vary by case type but include, for example, benefits or discounts being stopped or amended, sanctions, prosecutions, or management action taken.

## ANALYSIS OF RESULTS

- 9 The £66.2k savings figure includes the repayment of debt arising from investigative work, and a maximum of one year future savings if an investigation has stopped an ongoing fraud that would otherwise have continued. Social care investigations produced the majority of these savings. The chart below shows the savings value by type of social care fraud.



- 10 The following chart illustrates the number of investigations completed by fraud type in 2022/23. The highest proportion of cases completed (40%) relate to suspicions of social care related fraud.







## WHISTLEBLOWING

- 11 Veritau supports the council's whistleblowing processes and leads on the application of the policy. We work with council colleagues within the Human Resources department to ensure that all concerns raised are dealt with appropriately.
- 12 Seven whistleblowing reports were received in 2022/23. Three reports related to poor procedures within a council department. Reports relating to working relationships, breach of trust, theft, and unauthorised expenditure were also received. Five of these matters are still under investigation by HR, Veritau, or the appropriate school officer.
- 13 Two cases were concluded during the year. Poor reporting procedures in a service were identified in one case, which resulted to improvements being made. A second matter was not substantiated.



## COUNTER FRAUD MANAGEMENT

- 14 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 has been a focus for Veritau in 2022/23. A new counter fraud policy framework was approved by the audit committee in December 2022. This included a counter fraud and corruption policy, whistleblowing policy, and anti money laundering policy for North Yorkshire Council. In March 2023, a new counter fraud strategy, and fraud risk assessment were presented to the committee.
- 15 Veritau provided counter fraud services to 5 of the former North Yorkshire district and borough councils in 2022/23. Investigative work helped these councils achieve combined savings of £153k. Any cases that remained open at the end of March 2023 transferred to North Yorkshire Council and continue to be investigated.
- 16 Raising awareness of fraud issues within the council is an important part of the work of the counter fraud team. In June 2022, Veritau raised awareness of whistleblowing and highlighted the importance of the role of managers in the process. In October, warnings about the latest methods and tactics used by cyber criminals were communicated to officers as part of Cybersecurity Awareness Month. During International Fraud Awareness Week in November, internal communications to staff and social media messaging for the public reinforced how to report concerns to the fraud team. In December, we highlighted the importance of the council's anti-bribery and anti-money laundering policies.
- 17 As part of the LGR process, an e-learning package designed to highlight key fraud risks was released in September 2022 to all staff in the 8 North Yorkshire councils.
- 18 Veritau oversee the council's participation in the National Fraud Initiative (NFI). This is a large-scale data matching exercise that all councils are required to take part in, along with other public sector bodies in the UK.

The counter fraud team ensure appropriate privacy notices are in place before collecting, processing and securely providing data to the NFI.

- 19 To help the council meet obligations under the Local Government Transparency Code 2015, Veritau provided transparency data on counter fraud work completed in 2022/23. This information is published online.
- 20 Veritau represents the council at regional and national counter fraud groups and chairs a national Fighting Fraud and Corruption Locally group that focusses on adult social care fraud.

## ANNEX A: COUNTER FRAUD ACTIVITY 2022/23

The table below shows the success rate of investigations and levels of savings achieved for North Yorkshire County Council through counter fraud work in 2022/23.

	<b>2022/23 (Actual: Full Yr)</b>	<b>2022/23 (Target: Full Yr)</b>	<b>2021/22 (Actual: Full Yr)</b>
Amount of actual savings (quantifiable savings - e.g. repayment of loss) identified through fraud investigation	£66,276	£50,000	£74,325
% of investigations completed which result in a successful outcome (for example payments stopped or amended, sanctions, prosecutions, properties recovered, housing allocations blocked)	57%	30%	51%

Caseload figures for the period are:

	<b>2022/23 (Full Year)</b>	<b>2021/22 (Full Year)</b>
Referrals received	49	63
Number of cases under investigation <sup>3</sup>	25	11
Number of investigations completed	30	47

<sup>3</sup> As at the end of each financial year on 31 March 2023 and 2022 respectively.

## Summary of counter fraud activity

Activity	Work completed
Data matching	<p>The National Fraud Initiative (NFI) is a large-scale data matching exercise that involves all councils and several other public sector bodies in the UK. Central government oversight of the NFI has now transferred to the new Public Sector Fraud Authority. Council data from a number of services was uploaded in November 2022 and has produced 5,700 matches. The counter fraud team and relevant council officers are currently reviewing these matches.</p>
Fraud detection and investigation	<p>The team continues to promote the use of criminal investigation techniques and standards to respond to any fraud perpetrated against the council. Activity completed in 2022/23 includes the following:</p> <ul style="list-style-type: none"> <li>• <b>Adult Social Care fraud</b> – the team completed 13 investigations in this area which resulted in savings of £66.1k. Invoices were raised in three cases where care funding had been incorrectly obtained. Two matters resulted in referrals to the police, and no issue was identified in five cases.</li> <li>• <b>Internal fraud</b> – six investigations into potential internal fraud or misconduct were completed in 2022/23. Outcomes included recommendations to improve procedures, and a referral to the police.</li> <li>• <b>External or third party fraud</b> – a total of four investigations were completed in this area. Improvements to procedures were identified in two cases, one matter was further referred to the police, and the final case found no issues.</li> <li>• <b>Education verification</b> – the team assist the council through verification of school admissions applications in which conflicting address information is identified. Six applications were reviewed, resulting in one application being stopped.</li> <li>• <b>Local assistance fund</b> – two applications for financial assistance were investigated by Veritau. An individual was issued a warning for attempting to inappropriately access the scheme.</li> </ul>