Joint Audit and Governance Committee

South Oxfordshire
District Council
Listening Learning Leading

Vale
of White Horse
District Council

Report of Internal Audit Manager

Author: Victoria Dorman-Smith

Telephone: 01235 422430

Textphone: 18001 01235 422430

E-mail: victoria.dorman-smith@southandvale.gov.uk

SODC cabinet member responsible: Councillor Leigh Rawlins

Tel: 01189 722565

E-mail: leigh.rawlins@southoxon.gov.uk

VWHDC cabinet member responsible: Councillor Andy Crawford

Telephone: 01235 772134

E-mail: andy.crawford@whitehorsedc.gov.uk

To: Joint Audit and Governance Committee

DATE: 22 September 2020

Internal audit activity report quarters one and two 2020/21

Recommendation
That members note the content of the report

Purpose of report

1.   The purpose of this report is to summarise the outcomes of recent internal audit activity at both councils for the committee to consider. The committee is asked to review the report and the main issues arising, and seek assurance that action will be/has been taken where necessary.

2.   The contact officer for this report is Victoria Dorman-Smith, Internal Audit Manager for South Oxfordshire District Council (SODC) and Vale of White Horse District Council (VWHDC), telephone 01235 422430.

Strategic objectives

3.   Delivery of an effective internal audit function will support the councils in meeting their strategic objectives.

Background

4.   Internal audit is an independent assurance function that primarily provides an objective opinion on the degree to which the internal control environment supports and promotes the achievements of the council's objectives. It assists the councils by evaluating the adequacy of governance, risk management, controls and use of resources through its planned audit work, and recommending improvements where necessary. After each audit assignment, internal audit has a duty to report to management its findings on the control environment and risk exposure, and recommend changes for improvements where applicable. Managers are responsible for considering audit reports and taking the appropriate action to address control weaknesses.

5.   Assurance ratings given by internal audit indicate the following:

Full assurance: There is a good system of internal control designed to meet the system objectives and the controls are being consistently applied.

Substantial assurance: There is a sound system of internal control designed to meet the system objectives and the controls are being applied.

Satisfactory assurance: There is basically a sound system of internal control although there are some minor weaknesses and/or there is evidence that the level of non-compliance may put some minor system objectives at risk.

Limited assurance: There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.

Nil assurance: Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

6.   Each recommendation is given one of the following risk ratings:

High Risk: Fundamental control weakness for senior management action

Medium Risk: Other control weakness for local management action

Low Risk: Recommended best practice to improve overall control

Completed audit reports

7.   As at 11 September 2020, since the last joint audit and governance committee meeting the following audits and follow up reviews have been completed:

Completed Audits: 5
Full Assurance: 0
Substantial Assurance: 0
Satisfactory Assurance: 3

Limited Assurance: 2
Nil Assurance: 0

Audit Area	Assurance Rating	Total Recs	High Risk	No. Agreed	Medium Risk	No. Agreed	Low Risk	No. Agreed
Joint								
1. Housing Benefits and CTRS 19/20 (**appendix 1**)	Limited*	**3**	1	1	0	0	2	2
2. Pro-Active Anti-Fraud Review 19/20 (**appendix 1**)	Limited*	**3**	2	2	0	0	1	1
3. National Non-Domestic Rates 19/20	Satisfactory	**6**	0	0	2	2	4	4
4. Assets of Community Value 19/20	Satisfactory	**2**	0	0	2	2	0	0
SODC								
None								
VWHDC								
5. Moorings 19/20	Satisfactory	**8**	0	0	6	6	2	2

* Under normal circumstances, Capita would be invited to the JAGC to discuss any limited assurance audit reports for Capita service offerings. However, Capita are not in attendance at this virtual meeting. The internal audit manager will take away any questions the committee may have for Capita and will obtain responses in due course.

Follow Up Reviews

Audit Area	Initial Assurance Given	No. of Recs	Implemented	Partly Implemented	Not Implemented	Ongoing	No longer applicable
Joint							
None							
SODC							
None							
VWHDC							
None							

8.	**Appendix 1** of this report sets out the key points and findings relating to the completed audits which have received limited or nil assurance, and satisfactory or full assurance reports which members have asked to be presented to committee.

9.   Members of the committee are asked to seek assurance from the internal audit reports and/or respective managers that the agreed actions have been or will be undertaken where necessary.

10.   A copy of each report has been sent to the appropriate service manager, the section 151 officer and the relevant member portfolio holder. In addition, reports are now published on the councils' intranet and limited assurance reports are reviewed by the strategic management team.

11.   Internal audit continues to carry out a six month follow up on all non-key financial audits to establish the implementation status of agreed recommendations.   All key financial system recommendations are followed up as part of the annual assurance cycle.

Financial implications

12.   There are no financial implications attached to this report.

Legal implications

13.   None.

Risks

14.   Identification of risk is an integral part of all audits.

VICTORIA DORMAN-SMITH
INTERNAL AUDIT MANAGER

APPENDIX 1

1. <u>Housing Benefits and Council Tax Reduction Scheme 19/20</u>

<u>MANAGEMENT SUMMARY</u>

1. INTRODUCTION

1.1   This report details the internal audit review of procedures, controls and the management of risk in relation to housing benefits (HB) and council tax reduction scheme (CTRS). The audit has been undertaken in accordance with the 2019/2020 audit plan agreed with the audit and governance committee of South Oxfordshire District Council (SODC) and Vale of White Horse District Council (VWHDC). The audit has a priority score of 21. The audit approach is provided in the audit framework in Appendix 1.

1.2   The following areas have been covered during the course of this review to provide assurance that:

- the administration of benefits is up to date, including guidance, procedures and training for officers carrying out assessments, so the process runs smoothly;
- benefits assessments are correctly calculated, promptly undertaken and adequate quality checks take place;
- payments of housing benefits and CTRS are managed appropriately with suitable supporting documentation;
- there is a suitable mechanism to identify and recover benefit overpayments;
- there is an adequate audit trail to substantiate the figures on the housing benefits subsidy claim, the claim is properly completed, and the figures included are accurate;
- processes are in place to prevent and detect fraud and for fraud referrals to the Department of Work and Pensions (DWP); and
- performance is appropriately recorded, monitored and reported.

2. BACKGROUND

2.1   Housing benefits and CTRS are means tested schemes to help those on low income pay their rent and/or council tax. The DWP set the rules for the housing benefits calculations which is dependent upon income and prescribed needs allowances. CTRS is the councils' own scheme that utilises the same rules as for housing benefits. The DWP has been introducing Universal Credit to replace housing benefits and other state benefits with a single payment, at SODC and VWHDC since 2015.

2.2   Capita continues to provide the HB and CTRS service for the councils and, since 1 August 2016 this is delivered within the 5 Councils Partnership (5CP). A client team was in place providing HB and CTRS oversight for all of the 5CP councils at the outset of the 5CP contract. During November 2018, this was scaled down and resources returned to the council to retain oversight and perform functions that cannot be outsourced, such as 10% checks on assessments. The councils' now have an in-house revenues and benefits team and, as far as the 5CP contract overall, there is still oversight managed

through the Client Relationship Director. The councils' representative for issues affecting all councils in the contract is the Head of Partnerships and Insight.

2.3   Housing benefits and CTRS is managed through the Advantage system. As at January 2020 the case reported caseload was:

	SODC	VWHDC
Housing benefits	5,214	5,246
CTRS	5,375	5,214
Net (some claims are for both housing benefits and CTS)	6,181	6,104

3. PREVIOUS AUDIT REPORTS

3.1   Housing benefits and CTRS was last subject to an internal audit review in March 2019 and seven recommendations were raised. All seven recommendations were agreed. A substantial assurance opinion was issued.

3.2   Of the seven recommendations, five have been implemented and two have not been implemented and are restated as part of this review (Recs 1 and 2).

4. 2019/2020 AUDIT ASSURANCE

4.1   **Limited assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.

4.2   One recommendation has been raised and two previous recommendations have been restated in this review. One high risk and two low risk.

5. MAIN FINDINGS

5.1   **Procedures**

5.1.1   Capita maintain a comprehensive set of 32 training manuals, which also act as procedures. The training manuals describe how to use the Advantage system to process housing benefits and CTRS claims. Capita has a training programme ranging from full new starter training to ongoing refresher training. There have been no new starters since the previous audit review. The five Councils Partnership (5CP) contract specification sets out service delivery requirements including performance indicators.

5.1.2   The councils' revenues and benefits team maintain oversight of housing benefits and CTS service delivery, perform statutory checks and manage discretionary housing payments (DHP). It is noted that the DHP is an award to people in receipt of HB or the housing element of Universal Credit to help with housing costs where extra financial assistance is needed. The government allocates an annual allocation and sets a maximum that can be spent.

5.1.3   An online housing benefits and CTRS application form is made available through each council's website in addition to a PDF version of the application form. Claimants can apply for HB through DWP but that will not be a claim for CTRS. Therefore, claimants are asked to sign a single page stating their

intention to claim CTRS as well as HB. It was noted that there is no reference to privacy notices or other data protection information on either the housing benefits/CTRS or DHP application or the councils' webpages.

5.1.4   Applicants are encouraged to personally bring sensitive documents supporting their claim to the council offices rather than send them via post. Should items be received through the post at either the council offices or at Capita's Erith offices they are returned by recorded delivery.

5.1.5   Area assurance: Substantial
One previous recommendation has been restated as a result of our work (Rec 1).

5.2   **Benefit assessments**

5.2.1   All housing benefits and/or CTRS applicants are required to complete an application form and provide supporting evidence attached to help prove identity and financial status (see 5.1.3). This information is assessed and input onto the Advantage system by Capita's benefits assessors' teams. Once the required financial information is entered onto Advantage, it automatically calculates the housing and CTRS for approved claimants. The calculation of benefits depends upon specific values (benefits parameters) which are saved within the benefits system and are used in benefit calculations, e.g. personal allowances for those aged 18-25. Internal audit selected a sample of 20 housing benefits uprating's, from DWP circular A8/2018, against housing benefits annual billing parameters and review confirmed that the housing benefits parameters were appropriately uploaded onto Advantage for both SODC and VWHDC.

5.2.2   In 2019/2020 to date (February 2020), there were 914 (455 SODC and 459 VWHDC) new housing benefits and/or council tax reduction scheme (CTRS) claims. A random sample of 40 (20 SODC and 20 VWHDC) new housing benefit claims and CTRS claims were to ensure that the assessments were undertaken in line with the relevant guidelines. Review confirmed that all claim forms were signed accordingly by the claimant, adequate supporting documentation was submitted to support the claim, and, Capita assessed and responded to all claimants within 14 days of receiving all supporting documentation.

5.2.3   Capita provide the councils' revenues and benefits team with a daily report of the claims that have been assessed and a random 10 per cent sample is selected to quality check. Review of quality checks for one week (January 2020) confirmed that 10% are undertaken by the councils' revenues and benefits team, in line with The Contracting Out Order 2002.

5.2.4   Area assurance: Full
No recommendations have been made as a result of our work in this area.

5.3   **Housing benefits and CTRS payments**

5.3.1   Payments of HB and CTRS are made via BACS or cheque at varying frequencies (e.g. fortnightly, four weekly or monthly) depending on the claimant. Payment runs are undertaken on a weekly basis and review of two (one SODC and one VWHDC) payment runs confirmed that there is adequate

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segregation of duties in place, as Capita process the payments and the councils' revenues and benefits team review and authorise the payment runs.

5.3.2   A review of the returned cheques process identified that a stop is placed when the cheque is not physically held and marked as void. Payments are re-issued where necessary once the stop has been confirmed by the bank. Internal audit is satisfied that all returned and replacement cheques are dealt with appropriately with a satisfactory audit trail retained in the respective SODC and VWHDC benefits systems.

5.3.3   Area assurance: Full
No recommendations have been made as a result of our work in this area.

5.4   **Benefits overpayment recovery**

5.4.1   Overpayments may occur in cases where changes of circumstances that affect the previously awarded payments are not declared to the council in a timely manner by the claimant. At the time of the audit review (February 2020), there were 4,499 (2,290 SODC and 2,209 VWHDC) outstanding overpayment invoices. A sample of 40 (20 SODC and 20 VWHDC) overpayment invoices was selected to ensure recovery action had progressed in accordance with the timescales set out in the Corporate Debt Recovery Strategy (CDRS). Review found that 15 (11 SODC and four VWHDC) invoices had not had recovery action taken in accordance with the councils' corporate debt recovery strategy. Of the 40 overpayment invoices selected, eight (six SODC and two VWHDC) were referred to the legal team for possible prosecution action. Review of the eight invoices confirmed that appropriate legal action was taken to try and recoup the outstanding overpayment debt.

5.4.2   Not all debts are recoverable, e.g. low values which are uneconomical to pursue, and therefore may need to be written off. In 2019/2020 to date (February 2020), there were 267 (140 SODC and 127 VWHDC) overpayment invoices written off. A sample of 40 (20 SODC and 20 VWHDC) invoices were selected and review confirmed that all write offs were:
• reviewed by the councils' revenues and benefits team;
• authorised appropriately, in line with the councils' constitution.

5.4.3   Monthly reconciliations of overpayment invoices that have been written off by Capita in the Advantage system are performed, once the councils authorise the write off. Review of the reconciliation process identified no issues.

5.4.4   Area assurance: Limited
One recommendation has been made as a result of our work in this area (Rec 3).

5.5   **Housing benefits subsidy claim**

5.5.1   The councils claim government subsidy to cover eligible benefit expenditure. In 2018/2019, the councils' external auditors (Ernst and Young) gave both SODC and VWHDC an unqualified opinion on their subsidy return. As Ernst and Young review the benefit claims for subsidy purposes as prescribed by the Department of Works and Pensions (DWP), no additional checks have been made as a part of this review.

5.5.2   Area assurance: Full

No recommendations have been made as a result of our work in this area.

5.6   **Prevent and detect fraud**

5.6.1   The councils follow the guidance provided in the following policies regarding detection and referral of fraud:
- joint anti-fraud and corruption policy;
- joint anti-fraud and corruption policy response plan;
- joint prosecutions and sanctions policy (specifically for benefit fraud).

Internal audit reviewed each policy and concluded they are adequately detailed and provide details of the key decision makers and tools available for council prosecutions.

5.6.2   There are three ways the councils' fraud and investigation team are notified of any suspected fraud by:
- National Fraud Initiative (NFI) database;
- Capita benefits assessors; or
- members of the public.

Both councils also publicise the council's stance against benefit fraud and encourage members of the public to report any suspected fraud on their respective websites. Capita benefits assessors refer any potential fraud to the fraud and investigation team either via I@W (electronic document and records management system) or email for further scrutiny. It is noted that housing benefit fraud is investigated by DWP's single fraud investigation service; however, are routed through the councils' fraud and investigation team and checked for any potential work regarding CTRS prior to passing the referral to the DWP.

5.6.3   A data sharing agreement is in place between DWP and the councils in Oxfordshire, and any information required is requested by completing a local authority information exchange form, if DWP require information, or a single fraud investigation referral, if the councils require information from DWP. Quarterly liaison meetings also take place between DWP and the Oxfordshire councils, with the last one being 14 January 2020.

5.6.4   Area assurance: Full
No recommendations have been made as a result of our work in this area.

5.7   **Performance**

5.7.1   The councils send their performance statistics (i.e. performance indicators that measure the speed and accuracy with which applications are administered) obtained from the Advantage system and report these monthly to the DWP. The DWP also publish the councils' performance statistics (e.g. speed of processing) on their website. From 1 August 2016, Capita provide the benefits service under the 5CP contract and there is an output specification, key performance indicators (KPI's) and performance indicators (PI) for the services within the contract. These targets are a part of managing the contract with Capita who provide benefits services to both SODC and VWHDC. At the time of audit (March 2020), the most recent report was for January 2020. Review of the performance report found that there is no explanation for any variances occurred.

5.7.2   Area assurance: Substantial

One previous recommendation has been restated as a result of our work (Rec 2).

6. ACKNOWLEDGEMENTS

6.1   Internal audit would like to take this opportunity to thank all staff involved for their assistance with the audit.

7. CATEGORISATION OF RECOMMENDATIONS

7.1   To assist management in using our reports, we have categorised our recommendations according to their level of priority as follows:

High risk	Fundamental control weakness for senior management action	**Rec 3**
Medium risk	Other control weakness for local management action	
Low risk	Recommended best practice to improve overall control	**Recs 1 and 2**

<u>OBSERVATIONS AND RECOMMENDATIONS</u>

PREVIOUS RECOMMENDATIONS RESTATED

1. GDPR compliance   (Low Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> Application forms and website information for DHP, housing benefits and CTRS contain, or link to, GDPR information and privacy notices. <u>Findings</u> There is no reference to data protection privacy notices or the councils' data protection information on the following: • DHP application form; • Council webpages for applying for DHP or housing benefits and CTRS <u>Risk</u> Non-compliance to GDPR legislation, which could result in fines and reputational damage.	Review and update housing benefits/CTRS and DHP information on the councils' webpages and on application forms to include GDPR information, e.g. privacy notices.	Revenues and Benefits Manager
Management Response		**Implementation Due Date**
Recommendation is **Agreed** The requirements are confusing. Although there are general statements on the websites the exact requirements are being determined by the 5C's forum. As soon as requirements are specified, I will ensure they are implemented. Management response: Revenues and Benefits Manager		30 September 2020

2. Performance reports   (Low Risk)

Rationale	Recommendation	Responsibility

Best Practice The councils receive regular reports on all agreed performance indicators with explanations of variances. Findings A monthly spreadsheet is provided by Capita recording performance for housing benefit and CTRS as well as council tax and NNDR. However, review of January 2020 spreadsheet found that explanation of variances is not recorded. Risk Areas of underperformance may remain unidentified and uncorrected.	Monthly performance reports should include explanations of variances and include all required KPI and PI figures.	Revenues and Benefits Manager
Management Response		**Implementation Due Date**
Recommendation is **Agreed in Principle** Unfortunately, our councils are now part of the 5C's arrangements, and the performance reports are produced in accordance with those governing requirements. Saying that, our councils have previously agreed a shortened bespoke report similar to what we received in the past. This would provide commentary on performance and I will ask for it to be produced again (as it has lapsed). It should be noted however that commentary is provided our councils Board Report in respect of collections and benefit processing. Management response: Revenues and Benefits Manager		30 September 2020

BENEFITS OVERPAYMENT RECOVERY

3. Recovery process   (High Risk)

Rationale	**Recommendation**	**Responsibility**
Best Practice All overpayments are progressed through the recovery process in a timely and efficient manner. Findings In 2019/2020 to date (January 2020), there were 4,499 (2,290 SODC & 2,209 VWHDC) outstanding housing benefits overpayment invoices totalling £5,082,457 (£2,622,227.97 SODC & £2,460,229 VWHDC). A sample of 40 (20 SODC and 20 VWHDC) outstanding housing benefits overpayment invoices was selected and review found that 15 (11 SODC and four VWHDC) overpayment invoices had not been progressed through the recovery process efficiently and in line with the corporate debt recovery strategy. Risk If overpayments are not reviewed and progressed through the recovery process in a timely and efficient manner, it may prove difficult to recover the overpayment resulting in writing off the account.	A reminder should be sent to Capita benefits team to attempt to recover overpayments in line with the councils' corporate debt recovery strategy.	Revenues and Benefits Manager

Management Response	Implementation Due Date
Recommendation is **Agreed** It is fair to say that the from the commencement of the 5C's contract, it was immediately evident that the new 5C's overpayment recovery function was in need of a review of resourcing and processes as it was not conducive for the "maximisation of overpayment income" as specified in the contract. However, in the last year, as far as South and Vale is concerned, we have seen a significant improvement in recovery rate performance, which has been confirmed by DWP statistics. We have collected more than we have raised, which is probably down to a combination of increased recovery action by the team (a combination of the new and committed Capita team and our own expert legal services and we use every recovery tool allowed) and fewer overpayments being created as Universal Credit kicks in. We need to sustain and even try to improve on this, so in the next few months (COVID allowing) we will consider the best way forward, including an independent review of the caseload. Management response: Revenues and Benefits Manager	31 October 2020

2. Pro-Active Anti-Fraud Review 19/20

MANAGEMENT SUMMARY

1. INTRODUCTION

1.1   This report details the internal audit review of procedures, controls and the management of risk in relation to pro-active anti-fraud review. The audit has been undertaken in accordance with the 2019/2020 audit plan agreed with the audit and governance committee of South Oxfordshire District Council (SODC) and Vale of White Horse District Council (VWHDC). The audit has a priority score of 21. The audit approach is provided in the audit framework in Appendix 1.

1.2   The following areas have been covered during the course of this review to provide assurance that:
- anti-fraud and corruption controls with the councils' systems and associated functions are sufficient to identify and reject false transactions/exceptions/data entry errors;
- upon a data entry being identified as inappropriate/unauthorised, management review the data and the appropriate action is taken within the system;
- any remedial action is taken promptly by management, clearly documented and where appropriate reported to the Section 151 Officer and internal audit;
- management are taking action to enhance the anti-fraud and corruption controls within the system where ongoing issues are identified.

2. BACKGROUND

2.1   The councils have a joint anti-fraud, bribery and corruption policy, which was approved by SODC's Cabinet member on 8 February 2010 and VWHDC's Cabinet member on 16 March 2010. The policy was last reviewed and updated in November 2019. This is supported by an anti-fraud and corruption response plan covering how the councils should respond to suspected or apparent irregularities, fraud or corruption.

3. PREVIOUS AUDIT REPORTS

3.1   Pro-active anti-fraud was last subject to an internal audit review in March 2019 and three recommendations were raised. The recommendations were all agreed and a limited assurance opinion was issued.

3.2   One recommendation has been implemented. Two recommendations have not been implemented and are restated as part of this review.

4. 2019/2020 AUDIT ASSURANCE

4.1   **Limited assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.

4.2   Three recommendations have been raised in this review. Two high risk and one low risk.

5. MAIN FINDINGS

5.1   **Overall**

5.1.1   A set of eight tests were agreed and undertaken in order to check that adequate controls are in place to identify and appropriately manage exposures to fraudulent activities across key financial and IT processes. The tests were discussed and approved by the internal audit manager and interim head of finance (s151 officer), prior to their initiation.

5.1.2   The following eight tests were instigated:
           Test 1: Submission of two (one SODC and one VWHDC) invoices for two fictitious suppliers, for payment through the Agresso accounts payable (AP) module.
           Test 2: Submission of two (one SODC and one VWHDC) fraudulent invoices for two existing suppliers, for payment through the Agresso accounts payable (AP) module.
           Test 3: Submission of two (one SODC and one VWHDC) duplicate invoices for two existing suppliers, for payment through the Agresso accounts payable (AP) module.
           Test 4: Fictitious request to change an existing supplier's bank details.
           Test 5: Submission of a dummy member expense claim through MyView.
           Test 6: Submission of a dummy officer expense claim through MyView.
           Test 7: A request to change an officer's bank details within MyView.
           Test 8: A dummy request for a new IT user.

5.1.3   From the standard eight tests undertaken, internal audit established control weaknesses for two tests, where changes were applied as per the false requests. Six tests were appropriately checked and identified as suspicious and were not fulfilled.

5.2   **Test 1: Fictitious supplier invoice**

5.2.1   Two (one SODC and one VWHDC) dummy invoices for two fictitious businesses were submitted directly to Capita. During the review, the Agresso accounts payable (AP) module was monitored to check if any actions had been taken. After five months of monitoring, no details were found on Agresso regarding these fictitious businesses. On a weekly basis, the councils' revenues and benefits team receive a returned invoices spreadsheet. Review of the spreadsheet confirmed that the VWHDC invoice had been reported, in accordance with agreed procedures; however, the SODC invoice was not recorded. Although internal audit is satisfied that Capita did not register the dummy invoices onto the Agresso AP module, hence no payments were made, there is no formal audit trail to support the actions taken by Capita upon receipt of the SODC audit request.

5.2.2   Area assurance: Full
           One recommendation has been made as a result of our work in this area (Rec 3).

5.3 **Test 2: Dummy invoice for an existing supplier**

5.3.1 Two (one SODC and one VWHDC) dummy invoices for two existing suppliers were submitted directly to Capita. Monitoring of the Agresso AP module found that the VWHDC invoice had been registered as "parked", awaiting authorisation for payment by the requesting service area, and the invoice had also been recorded on the parked invoices spreadsheet. The SODC invoice had not been found on Agresso, or the returned invoice spreadsheet. Although internal audit is satisfied that the dummy invoices had not been paid, there is no formal audit trail to support the actions taken by Capita upon receipt of the SODC audit request.

5.3.2 Area assurance: Full
One recommendation has been made as a result of our work in this area (Rec 3).

5.4 **Test 3: Duplicate invoice for an existing supplier**

5.4.1 Two (one SODC and one VWHDC) duplicate invoices were submitted directly to Capita, with changes having been made to the bank details and invoice amounts. During the review, the Agresso AP module was monitored to check if any actions had been taken. Following two months of monitoring, the bank account details for both suppliers remained unchanged within Agresso. In addition, both invoices had not been recorded on the weekly returned invoice spreadsheet. Internal audit is satisfied that Capita did not action the requested bank account changes in Agresso; however, there is no formal audit trail to support the actions taken by Capita upon receipt of the audit requests.

5.4.2 Area assurance: Full
One recommendation has been made as a result of our work in this area (Rec 3).

5.5 **Test 4: Dummy request to change existing supplier bank details**

5.5.1 A request was submitted to Capita to change the bank details of an existing VWHDC supplier. Regular reviews of the supplier details on the Agresso AP module were undertaken. Following two months of monitoring, the supplier bank account details remained unchanged within Agresso. Internal audit is satisfied that Capita did not action the requested change of bank details within Agresso; however, there is no formal audit trail to support the actions taken by Capita upon receipt of the audit request.

5.5.2 Area assurance: Full
One recommendation has been made as a result of our work in this area (Rec 3).

5.6 **Test 5: Dummy member expense claim**

5.6.1 The constitution includes a section covering the members' allowances scheme, which states that expense claims will not be paid unless claiming for official business. In this test, a member agreed to submit an expense claim within MyView, which included two false expense items for attendance at a meeting. Following submission of the dummy claim, the false expense items were queried with the member, by the democratic services team. Internal audit is satisfied

that appropriate checks were carried out on the false expense items and were therefore not approved for payment.

5.6.2   Area assurance: Full
No recommendations have been made as a result of our work in this area.

5.7   **Test 6: Dummy officer expense claim**

5.7.1   A non-finance officer agreed to submit an expense claim within MyView, which included an inflated expense item for business mileage. Following submission of the dummy claim, the inflated expense item was queried with the officer, by their line manager. Internal audit is satisfied that appropriate checks were carried out on the inflated expense item and was therefore not approved for payment.

5.7.2   Area assurance: Full
No recommendations have been made as a result of our work in this area.

5.8   **Test 7: Dummy request to change an officer's bank details**

5.8.1   A request to change an officer's bank details was submitted by internal audit to Capita payroll via AskHR. During the test, the officer's MyView account was monitored to establish if the bank details had been changed. In addition, internal audit made enquiries of the officer to confirm whether Capita had validated the request with the officer, prior to processing. Based on our review, we confirmed that the officer's bank details had been changed on the payroll system without validation.

5.8.2   Area assurance: Limited
One previous recommendation has been restated as a result of our work in this area (Rec 1).

5.9   **Test 8: Dummy request for a new IT user**

5.9.1   A request for network, email, and telephone access was submitted by the auditor to Capita IT helpdesk for a fictitious user. Capita IT helpdesk actioned the request without validating the legitimacy of the request with the authorisation matrix provided by the council, or the auditor's service manager and/or head of service.

5.9.2   Area assurance: Limited
One previous recommendation has been restated as a result of our work in this area (Rec 2).

6. ACKNOWLEDGEMENTS

6.1   Internal audit would like to take this opportunity to thank all staff involved for their assistance with the audit.

7. CATEGORISATION OF RECOMMENDATIONS

7.1   To assist management in using our reports, we have categorised our recommendations according to their level of priority as follows:

| **High risk** | Fundamental control weakness for senior management action | **Recs 1 and 2** |

| **Medium risk** | Other control weakness for local management action | |

| **Low risk** | Recommended best practice to improve overall control | **Rec 3** |

OBSERVATIONS AND RECOMMENDATIONS

PREVIOUS RECOMMENDATIONS RESTATED

1. Test 7: Employee bank account change   (High Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u> Employee change requests (e.g. personal information, bank details) are validated with the individual prior to processing. <u>Findings</u> A request to change another officer's bank details was submitted by the auditor to Capita payroll, via AskHR. During the test, the officer's payroll system was reviewed to establish if their bank details were changed, and the officer was asked if they were notified of the change. The bank details were changed on the payroll system without validating the request with the officer concerned. <u>Risk</u> If requests to change employee personal details are not verified with the individual, there is a risk of false requests being undertaken fraudulently.	a) Capita HR should remind staff to ensure that all requests to change personal details on behalf of another individual are validated with the appropriate officer, prior to completion. b) Capita HR should remind staff that if a request to change details is received from another source which cannot be validated, this should be reported immediately to the council's HR team and Internal Audit.	Strategic HR Manager
Management Response		**Implementation Due Date**
Recommendation is **Agreed** The Payroll service transferred back to being an in-house provision from 1 April 2020. Therefore, the above references to the Capita service are now obsolete. With immediate effect, the team will check any requests to change personal details with the individual if received from a third party. Management response: Strategic HR Manager		31 August 2020

2. Test 8: New user access set up   (High Risk)

Rationale	Recommendation	Responsibility
<u>Best Practice</u>	a) Remind Capita IT helpdesk of the requirement to verify	Head of IT Service – 5 Councils (Capita)

Requests to set-up a new user onto the IT network are validated with the authorisation matrix, relevant service manager and/or head of service, prior to authorisation and processing. Findings A request was submitted by the auditor via the IT helpdesk for network, email, and telephone access for a fictitious, new starter. Capita IT helpdesk actioned the request without validating the legitimacy of the officer request with the authorisation matrix, service manager or head of service. Risk Non-authorised personnel may have the opportunity to access council systems surreptitiously, with a view to disrupt, de-fraud or disable systems, functions and associated information. This could lead to a breach of sensitive data and subsequent reputational damage.	requests for IT changes or new starter set-up with the authorisation matrix provided by the council, and/or the appropriate service manager. b) Review and update the authorisation matrix provided by the councils to Capita. c) Capita to introduce a process to update the authorisation matrix upon receipt of any verified user change of details request. d) Remind Capita IT helpdesk of the requirement to report any unauthorised requests to the councils' IT Manager, the officer's line manager and internal audit.	

Management Response	**Implementation Due Date**
Recommendations a), b) c) & d) are **Agreed** a) Email reminder sent to the service desk team lead. Follow call will be conducted to ensure receipt and understanding. b) The councils IT manager has provided an updated authorisation list in July 2020. c) Suggested that the authority send updated lists directly to the service desk and a REQ record is created to confirm receipt. d) The service desk have been reminded to escalate where they are not 100% certain if a request is legitimate. This will be covered in the session mentioned in point a). Management response: Chris Milburn, Head of IT Service - 5 Councils	31 August 2020

2019/2020 RECOMMENDATIONS

3. Tests 1-4: Reporting of supplier invoicing anomalies   (Low Risk)

Rationale	**Recommendation**	**Responsibility**
Best Practice A record of all invoicing anomalies is maintained by Capita and provided to the councils' finance team. Findings As part of tests 1 to 3, six fictitious invoices were submitted to Capita by internal audit for payment through the Agresso accounts payable (AP) module. In addition, for test 4 a fictitious request to change an existing supplier's bank details were made. For test 2, Capita had entered the fictious invoice onto the Agresso system under a	a) Capita to continue to provide regular information to support financial reporting to the council's revenue and benefits officer; ensuring a clear audit trail is maintained for fraudulent requests for payment. b) Perform a review of the VWHDC request submitted as part of test 2 and take corrective actions within Agresso, as required.	Business Partner for 5 Councils Exchequer (Capita)

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parked status, awaiting further review by the service team.

Although internal audit validated that the requests had not been processed within Agresso and no payments were made, there was no formal audit trail to support the actions taken by Capita upon receipt of the audit requests. Internal audit reviewed the parked and returned invoice listings; however, four of the six fictitious audit invoices were not found.

<u>Risk</u>
Lack of formal audit trail to record fictitious or fraudulent requests for payment may limit management's ability to validate whether fraud controls are operating effectively. Furthermore, management may be unable to analyse the nature and frequency of fraudulent requests.

Management Response	**Implementation Due Date**
Recommendation is **Agreed** Non-PO invoices must have a department code before being sent to Council Officers for approval. PO invoices must be goods receipted, if not they are parked, and a notification is sent to council officers. Without a department code or PO number, invoices will be rejected and sent back to the supplier with a letter explaining the cause. This is then documented on the rejected list and circulated. Capita will ensure the rejected list is comprehensive. A weekly "Status A" report that captures outstanding transactions is sent to the councils and includes all parked invoices for officer review. Capita will continue to provide information, though council officers are required to be vigilant for identifying potentially fraudulent transactions. This will continue to be communicated to Officers during Agresso training sessions Management response: Fiona Amor, Capita Business Partner for 5 Councils Exchequer and Ben Watson, Finance Systems and Procurement Team Leader	1 September 2020

APPENDIX 1 - TESTING MATRIX

		Test 1	Test 2	Test 3	Test 4	Test 5	Test 6	Test 7	Test 8
Anti-Fraud Tests	System or Application:	Agresso/Capita	Agresso/Capita	Agresso/Capita	Agresso/Capita	MyView	MyView	MyView/Capita	IT Network/Capita
	Process:	**Accounts Payable**	**Accounts Payable**	**Accounts Payable**	**Accounts Payable**	**Legal Monitoring**	**Online Expenses**	**IT/HR**	**IT Security**
	Area:	Finance	Finance	Finance	Finance	Legal/Payroll	HR/Payroll	HR/Payroll	IT
	Specific Test (including any associated documentation, date of entry and initial contacts for the transactions)	a) To submit to Capita, a dummy invoice for a new company to generate a fraudulent payment. b) If payment completed (or partially), request to delete supplier and check for audit trail on transaction history.	a) To submit to Capita, a dummy invoice for a slight variant on an existing supplier with different address and bank details. b) If payment completed (or partially), request to delete supplier and check for audit trail on transaction history.	a) To submit to Capita, a duplicate invoice on a current supplier/invoice. b) If payment completed (or partially), request to delete supplier and check for audit trail on transaction history.	To submit to Capita, a dummy paper request to change supplier's bank details.	As part of the monthly member's expense claim process, internal audit is to ask a councillor, to submit a fraudulent expense claim (one or two lines) for travel and/or subsistence. The claim is to be in line with mileage rates but for a ghost meeting/event.	A non-finance officer to submit claim for inflated mileage.	To submit a request for a change of another officer's bank details. Ensure processing well before pay run. Check for: a) HR check and approval b) Payroll check.	To submit a request to Capita IT for setup of a fictitious new user.
	Background and Contacts								
Key Information	What are the known/ possible process controls for highlighting fraudulent activities in this area?	AP Procedure	AP Procedure	AP Procedure	AP Procedure	Constitution. Democratic Services approval within MyView.	Line manager approval within MyView.	Capita HR approval.	Capita IT approval, in line with the authority matrix.
	Who are the key contacts and data administrators for the process and system?	Janice Case, Accounts Payable Manager (Capita) Emma Foy, Head of Finance (Capita) Matt Goodwin, Senior Client Executive / Deputy Client Relationship Director (5Cs Partnership Client Relationship Team)	Janice Case, Accounts Payable Manager (Capita) Emma Foy, Head of Finance (Capita) Matt Goodwin, Senior Client Executive / Deputy Client Relationship Director (5Cs Partnership Client Relationship Team)	Janice Case, Accounts Payable Manager (Capita) Emma Foy, Head of Finance (Capita) Matt Goodwin, Senior Client Executive / Deputy Client Relationship Director (5Cs Partnership Client Relationship Team)	Janice Case, Accounts Payable Manager (Capita) Emma Foy, Head of Finance (Capita) Matt Goodwin, Senior Client Executive / Deputy Client Relationship Director (5Cs Partnership Client Relationship Team)	Margaret Reed, Head of Legal and Democratic Services	Matt Goodwin, Senior Client Executive / Deputy Client Relationship Director (5Cs Partnership Client Relationship Team) David Fairall, Strategic HR Manager	Matt Goodwin, Senior Client Executive / Deputy Client Relationship Director (5Cs Partnership Client Relationship Team) David Fairall, Strategic HR Manager	Chris Milburn, IT Operations Manager (Capita) Simone Morris, Account Director (5CP) Lee Brown, IT Application Manager
	Who has been made aware of the testing being performed?	Simon Hewings, Interim Head of Finance	Simon Hewings, Interim Head of Finance	Simon Hewings, Interim Head of Finance	Simon Hewings, Interim Head of Finance	Simon Hewings, Interim Head of Finance	Simon Hewings, Interim Head of Finance	Simon Hewings, Interim Head of Finance	Simon Hewings, Interim Head of Finance
Fin	**Initial Test Results**								

Agenda Item 8

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Define the process controls and/or point in the process that the fraudulent transaction was identified and rejected or not pursued?	Internal audit created two fictitious invoices that were posted to Capita on 23/09/19 for SODC and 16/09/19 for VWHDC. Regular checks were made to ensure it was not registered on Agresso.	Internal audit used two images of an existing invoices to make slight changes and posted the invoices to Capita on 02/11/19 for SODC and 09/11/19 for VWHDC. Regular checks were made to ensure it was not registered on Agresso.	Internal audit submitted two duplicate invoices to Capita on 12/12/19 for SODC and 27/12/19 for VWHDC. Regular checks were made to ensure it was not registered in the Agresso accounts payable system.	A letter was sent to Capita on 03/01/20 pretending to be an existing supplier requesting to change their bank details. Regular checks were made to ensure it was not registered in the Agresso accounts payable system.	A member of the council submitted a fraudulent expense claim which included two expense items for attendance at meetings they do not attend or sit on.	A non-finance officer submitted an inflated mileage expense claim.	Internal audit submitted a request via AskHR, to change another council officer's bank details. The request went to Capita HR on 21/02/20.	Internal audit submitted a request on 16/01/20 through Capita IT helpdesk to create a fictitious new audit user for email and network access.
Management Actions								
Management review of transaction and actions taken?	As at 2 March 2020, the invoices were not registered on Agresso. A review of the returned invoices spreadsheet found that one of the invoices were not reported as returned.	As at 2 March 2020, the VWHDC invoice had been registered as "parked "on the system, awaiting service area review. The SODC invoice was not registered on the system. A review of the returned invoices spreadsheet found that one of the invoices were not reported as returned.	As at 2 March 2020, the invoices were not registered on the system. A review of the returned invoices spreadsheet found that the invoices were not reported as returned.	The change request was not processed. However, the letter supporting the request was not reported to the councils' finance department.	Democratic services queried the expense claim with the council member. The bogus expense items were removed prior to processing the legitimate expense payment.	The bogus expense claim was rejected by the officer's line manager.	Capita HR notified internal audit that the bank details had been changed on MyView, without validating the request with the officer.	Capita IT helpdesk set up the fictitious new user on the system, without verification from the relevant officer, per the authorisation matrix.
Remedial action taken by management, documented and reported accordingly?	The invoices were not registered on Agresso; however, the invoices were not consistently recorded as returned on the reports sent to the revenues and benefits team.	The invoice that was "parked" on Agresso to be resolved. However, the invoices were not consistently recorded as returned on the reports sent to the revenues and benefits team.	The invoices were not registered on Agresso; however, the invoices were not consistently recorded as returned on the reports sent to the revenues and benefits team.	Capita did not change the suppliers' bank details; however, the request was not reported to the revenues and benefits team.	Democratic services queried the bogus expense claim with the officer. Therefore, no remedial action was required.	The line manager queried and rejected the expense claim with the officer. Therefore, no remedial action was required.	Capita HR changed back the officer's bank account details within MyView, upon notification from internal audit.	Capita IT helpdesk cancelled the new user request upon notification from internal audit.
Any enhancement actions to the control mechanisms?	Capita to continue to provide regular information to support financial reporting to the council's revenue and benefits officer; ensuring a clear audit trail is maintained for fraudulent requests for payment. (See Rec 3)	Capita to continue to provide regular information to support financial reporting to the council's revenue and benefits officer; ensuring a clear audit trail is maintained for fraudulent requests for payment. (See Rec 3)	Capita to continue to provide regular information to support financial reporting to the council's revenue and benefits officer; ensuring a clear audit trail is maintained for fraudulent requests for payment. (See Rec 3)	Capita to continue to provide regular information to support financial reporting to the council's revenue and benefits officer; ensuring a clear audit trail is maintained for fraudulent requests for payment. (See Rec 3)	None Required	None Required	a) Capita HR should remind staff to ensure that all requests to change personal details on behalf of another individual are validated with the appropriate officer, prior to completion. b) Capita HR should remind staff that if a request to change details is received from another source which cannot be validated, this should be reported immediately to the council's HR team and Internal Audit.	a) Remind Capita IT helpdesk of the requirement to verify requests for IT changes or new starter set-up with the authorisation matrix and/or officer's line manager. b) Review and update the authorisation matrix provided by the councils to Capita. c) Remind Capita IT helpdesk of the requirement to report any unauthorised requests to the councils' IT Manager, the officer's line manager and internal audit.
Conclusion	Pass	Pass	Pass	Pass	Pass	Pass	Fail (See Rec 1)	Fail (See Rec 2)