

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

07 September 2015

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 INTERNAL AUDIT AND FRAUD INVESTIGATION UPDATE

This report provides Members with an update on the work of both the Internal Audit function and the Counter Fraud function for the period April to July 2015.

Internal Audit Update

1.1 Introduction

1.1.1 The Accounts and Audit Regulations require the Council to *undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control*. Proper practice is defined by the Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note to the PSIAS. The PSIAS requires Internal Audit to *report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan*.

1.2 Progress against the 2015/16 Internal Audit Plan

- 1.2.1 The Annual Internal Audit Plan (the Plan) for 2015/16 was approved by this Committee on the 7 April 2015. The purpose of this report is to provide Members with an update on the progress of the Internal Audit team in 2015/16 against the Plan and finalisation of any work brought forward from the 2014/15 Plan.
- 1.2.2 The Plan reflects all work to be undertaken by the team during the financial year, containing both assurance work and consultancy work. Of the 36 items on the Plan, 29 are audits that will result in an assurance opinion. The remainder of items on the plan relate to consultancy items, follow-up of recommendations due or allowances for the provision of control advice, etc.
- 1.2.3 Of the 29 audits, the team have issued final reports and agreed management action plans in respect of three. In addition, three audits were carried forward from the 2014/15 Plan of which two have now been finalised, the third requires additional follow-up work. (See **[Annex 1]** for definitions of audit opinions). Draft

reports have been issued for a further two audits with three audits currently underway. Planning is in progress for the remaining audits due in quarter two, with the remainder scheduled across the rest of the financial year. A summary of the current status of all audits on the 2015/16 Plan and the finalised 2014/15 work, including a summary of findings where finalised, is attached to this report at **[Annex 2]**.

- 1.2.4 In accordance with the PSIAS, and to provide assurance that issues identified in audits undertaken have been addressed through agreed actions, Internal Audit follow-up implementation of all recommendations made. Up to 31 July 2015 34 outstanding recommendations were due for implementation, of these 20 have been completed and 7 have revised dates agreed (one of which was high risk and any additional risk arising from further delay has been duly considered). The remaining 7 cannot be closed off at this time due to the need for further clarification, this includes instances of verbal confirmation where evidence is awaited or where the service has queried the original recommendation due to change of circumstance, etc. Detail is provided at **[Annex 3]**.

Fraud Update

1.3 Prevention and Detection of Fraud and Corruption

- 1.3.1 This section of the report provides details of the Council's activity in preventing and detecting fraud and corruption in the year 2015/16 to date. The Council proactively takes part in the National Fraud Initiative (NFI). This is a nationwide data matching exercise, comparing computer records held by the Council against computer records held by other councils and other bodies. Where a match is found it does not necessarily indicate fraud in all instances; it does however highlight an inconsistency in the information held which requires further investigation and could be attributed to either fraud or error.
- 1.3.2 In October 2014 the Council submitted data for the 2014/15 NFI exercise and the results of this exercise were received in January 2015 with 1,429 matches received relating to benefits, payroll, finance and licensing. To date 990 have been checked, of which 946 have been closed with no action required and 44 cases are subject to further investigation. We will continue to undertake periodic review of the potential matches with a target completion date for the remaining 439, all of which relate to Housing Benefits, of January 2016; i.e. 12 months from the date the matches were received. In addition, data in relation to a Council Tax Single Person Discount matching exercise was received in March 2014, a total of 549 matches were received; all matches have been checked with 485 closed and 14 pending closure. Further inquiries and/or investigations relating to the remaining 50 are ongoing.

1.4 Investigating Fraud

- 1.4.1 The Investigations Team is responsible for investigating all allegations of fraud and corruption, whether this is through internal fraud or external stakeholders or

customers, as well as assisting with disciplinary investigations as and when required. The Investigations Team works closely with a number of external agencies including the Department for Work and Pensions, Border Agency, Kent Police and NHS Fraud to progress investigations.

- 1.4.2 In 2015/16 to 31 July, the Investigation Team have closed 136 cases and received a total of 153 referrals, there are 52 ongoing investigations. One prosecution in relation to Housing Benefits and Council Tax Reduction has been concluded which resulted in assets being seized under the Proceeds of Crime Act and where the Council will receive back the amount owed in full, totalling £18,875.64.
- 1.4.3 **[Annex 4]** summarises the results of investigations concluded in 2015/16 to date.

1.5 Legal Implications

- 1.5.1 The Accounts and Audit Regulations place a statutory requirement on authorities to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Proper practice is defined as that contained within the Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note to the PSIAS.
- 1.5.2 The Council has a legal duty under s151 of Local Government Act 1972 and the Accounts and Audit Regulations to ensure that there are appropriate systems in place to prevent and detect fraud.
- 1.5.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them.

1.6 Financial and Value for Money Considerations

- 1.6.1 An adequate and effective Internal Audit function provides the Council with assurance on the proper, economic, efficient and effective use of Council resources in delivery of services, as well as helping to identify fraud and error that could have an adverse effect on the finances of the Council.
- 1.6.2 Fraud prevention and detection is an area subject to central government focus with initiatives such as Protecting the Public Purse, National Fraud Initiative and Fighting Fraud Locally maintaining a high profile. The message coming from these initiatives is that effective fraud prevention and detection releases resources and minimises losses to the Council through fraud.

1.7 Risk Assessment

- 1.7.1 This report, summarising the work of the Internal Audit function, provides a key source of assurance for the Council on the adequacy and effectiveness of its internal control arrangements.

1.7.2 Failing to have an efficient and effective Counter Fraud function could lead to an increased level of fraud. This report, summarising the work of the Counter Fraud function, provides a key source of assurance for the Council on the adequacy and effectiveness of its counter fraud arrangements.

Background papers:

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Nil

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