

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

25 January 2016

Report of the Chief Internal Auditor

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 1 April 2015 to 31 December 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 that 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 seven. (See **[Annex 1]** for definitions of audit opinions). Draft reports have been issued for a further three audits with four audits currently underway. Planning is in progress for the remaining audits due in quarter four. A

summary of the current status of all audits on the 2015/16 Plan 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 30 November 2015 75 outstanding recommendations were due for implementation, of these 40 have been completed and 3 have revised dates agreed (none of which were high risk). The remaining 32 cannot be closed off at this time; of these we are awaiting a response from the Service for 15 and for the remaining 17 further clarification is needed. 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.
- 1.3.2 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.
- 1.3.3 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, all cases have been reviewed and closed. Data in relation to a Council Tax Single Person Discount matching exercise was submitted in December resulting in a total of 1,390 matches to be reviewed.
- 1.3.4 Following the transfer of Housing Benefit Fraud investigation to the DWP proactive work in relation to preventing and detecting fraud, and managing the risk of fraud, will be enhanced. This will involve a broader scope which will be identified through an assessment of fraud risk in relation to all Council services. Going forward the Team will continue to investigate allegations of fraud for the Council Tax Reduction Scheme, Discounts and Exemptions in relation to Council Tax and NNDR and other allegations relating to TMBC services. A Plan for 2016/17 is currently being drafted and will be presented to this Committee at the April meeting with the 2016/17 Annual Internal Audit Plan. In addition, and to demonstrate TMBC's ongoing commitment to prevent and detect fraud, the Team will be formalising compliance with the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, which contains five key principles to:

- Acknowledge the responsibility of the governing body for countering fraud and corruption.
- Identify the fraud and corruption risks.
- Develop an appropriate counter fraud and corruption strategy.
- Provide resources to implement the strategy.
- Take action in response to fraud and corruption.

1.3.5 Further detail will be reported to the April Committee alongside approval of the 2016/17 Internal Audit and Counter Fraud Plan.

1.4 Investigating Fraud

1.4.1 The Fraud Team is responsible for investigating 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 Team works closely with a number of external agencies including the Department for Work and Pensions (DWP), the UK Border Agency, Kent Police and NHS Fraud to progress investigations. As of 1 January 2016 the Team no longer investigate allegations of Housing Benefit Fraud, which will now be undertaken by the DWP. On 2 February 2016 all current cases will physically be handed over to the DWP.

1.4.2 In 2015/16 to 31 December, the Investigation Team have closed 264 cases having received a total of 239 referrals in the same period, there are 58 open investigations of which 37 Housing Benefit Fraud Investigations are to be handed over to the DWP. **[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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