

# TONBRIDGE & MALLING BOROUGH COUNCIL

## AUDIT COMMITTEE

20 June 2016

### Report of the Chief Audit Executive

#### Part 1- Public

#### Matters for Information

#### **1 OPINION OF THE CHIEF AUDIT EXECUTIVE ON THE INTERNAL CONTROL ENVIRONMENT, TOGETHER WITH THE ANNUAL INTERNAL AUDIT REPORT AND ANNUAL COUNTER FRAUD REPORT FOR 2015/16**

This report informs Members of the opinion of the Chief Audit Executive on the Council's internal control environment, together with the Internal Audit work completed during 2015/16 to support that opinion. In addition, the report also informs Members of the work carried out by the Counter Fraud function in 2015/16.

#### **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.

1.1.2 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*. The PSIAS also require the Chief Audit Executive to *deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement*.

#### **1.2 Opinion of the Chief Audit Executive on the Internal Control Environment**

##### *Purpose of the system of internal control*

1.2.1 The system of internal control is based on an on-going process to identify, evaluate and manage the risks to the Council in the achievement of its objectives. It is a management responsibility to establish, maintain and ensure compliance with the internal control system. Assurance of the effective operation of the system of internal control can be sought from Internal Audit, External Audit, other review bodies and Management.

1.2.2 The system of internal control should:

- Set out clear responsibility for policy and decision-making.
- Establish the Council's objectives.
- Identify, evaluate and manage the risks which may impact on the Council's ability to meet its objectives.
- Ensure compliance with law, regulations, policies and procedures.
- Ensure the economic, efficient and effective use of resources.
- Ensure the accuracy and reliability of financial statements and other published information.

*Basis of the opinion on the internal control environment*

- 1.2.3 The opinion on the internal control environment is based on the work of the Internal Audit function during 2015/16, full details of which are provided in this report.
- 1.2.4 The work of Internal Audit is subject to review by the Council's External Auditors, Grant Thornton. In the Update to the June 2016 Committee Grant Thornton state:

*We have concluded that the arrangements for internal audit contribute to an effective internal control environment.*

- 1.2.5 Opinion of the Chief Audit Executive on the Internal Control Environment:

In my capacity as the Chief Audit Executive, with responsibility for the provision of Internal Audit services to the Council, it is my opinion that Tonbridge & Malling Borough Council's system of internal control adequately contributes to the proper, economic, efficient and effective use of resources in achieving the Council's objectives during 2015/16.

Whilst it has been identified that the authority has established adequate internal controls within the areas subject to Internal Audit review in 2015/16, there are areas where compliance with existing controls should be enhanced or strengthened, or where additional controls should be introduced. Where such findings have been made by Internal Audit, recommendations have been made to management to improve the controls within the systems and processes they operate. The results of all audit work completed are reported to the Audit Committee in accordance with the Internal Audit Charter.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

### 1.3 Internal Audit Staff Establishment

- 1.3.1 The Internal Audit and Fraud Team report to the Audit and Assurance Manager (Chief Audit Executive) and consist of 2 Auditor posts and 1.6 Fraud posts.
- 1.3.2 The Audit and Assurance Manager (Chief Audit Executive) post is shared with Kent County Council with the officer splitting her time equally between the two councils.

### 1.4 Annual Audit Plan

- 1.4.1 The Internal Audit Plan for 2015/16 was endorsed by Management Team on 10 March 2015 and approved by the Audit Committee on 7 April 2015. The Plan set out the proposed work of the Internal Audit team for the year which can be summarised into two key work types:
- 1.4.2 *Assurance Work* – this relates to audit work which informs the opinion of the control environment given to the Committee by the Chief Audit Executive. This work focuses on planned audit review of key financial systems, other financial systems, operational audits and control environment reviews and also picks up on the follow up of audit recommendations made.
- 1.4.3 *Consultancy Work* – this relates to Internal Audit team members involvement in corporate and other known projects, requests received by the team for consultancy or responsive work, advice or information and involvement in fraud investigation work. While not directly proving assurance the results of this work are also considered when arriving at the opinion of the control environment given to the Committee by the Chief Audit Executive
- 1.4.4 The team has completed 93% of the plan to date against a target of 95%; two audits have been carried forward to 2016/17 as follows:
- Corporate Policy Maintenance – much of the scope was covered by the 14/15 audit of Standards of Officer Conduct which was not finalised until September 2015 therefore the 2015/16 audit was delayed to allow time for implementation of recommendations made in the September report.
  - Licensing – agreed with the service to delay in order to focus on fraud risk as part of the 2016/17 fraud work plan.

### 1.5 Assurance Work

- 1.5.1 The Internal Audit team has primarily focused on assurance work in 2015-16. Further details of the planned audit work completed during the year are shown in **[Annex 1]**. Where an assurance review has been given an audit opinion, definitions in use during 2015-16 are detailed at **[Annex2]** of this report.
- 1.5.2 Where an audit review identifies opportunities to introduce additional controls or improve compliance with existing controls, recommendations are made and

agreed with client management prior to finalising the report. Internal Audit follow-up on recommendations agreed and have an escalation process in place that ultimately results in reporting to Management Team and this Committee should a key control weakness remain.

- 1.5.3 In line with the Public Sector Internal Audit Standards Internal Audit has arrangements in place to follow up on all recommendations agreed with management and to report to the Audit Committee on a regular basis with the responses received. 103 recommendations were due for implementation in 2015/16; of these 79 have been implemented and 5 superseded. We have agreed revised implementation dates for a further 10 and have assessed the risk of extending these dates with no concerns to raise at this time. For the remaining 9 further information is required before we can confirm implementation **[Annex 3]**.
- 1.5.4 Audit recommendations made from assurance work undertaken in 2015-16 demonstrate that internal audit continues to make a significant number of recommendations for change within the organisation as a contribution to improving the internal control arrangements of the Council. It is also important to recognise that the number of recommendations made does not include all system and procedural enhancements implemented during the course of audits as a direct result of the audit process or recommendations coming from consultancy work undertaken by the team.
- 1.5.5 The assurance work of the team conducted during the year has contributed to the internal control environment of the Council being maintained and improved, Council resources being more effectively used and a reduction in waste from fraud or error.

## **1.6 Consultancy work**

- 1.6.1 The Internal Audit team's consultancy work in 2015-16 was allocated to the following areas of work:

### *Corporate projects and responsive work including advice & Information*

- 1.6.2 The team offer support to corporate projects and provide ad hoc advice and information as and when requested by Council officers. During the 2015-16 year, in addition to ad hoc advice on controls, the team has provided support to review of car park charges and enhancement of processes to monitor the contract with the Leisure Services Trust. This is considered to be a fundamental service provided by the team, enabling officers to consult with Internal Audit and address control concerns and issues as they arise, helping to maintain the internal control arrangements of the Council **[Annex 4]**.

## **1.7 Training**

- 1.7.1 A total of 21 days has been spent on training in 2015-16 which was primarily spent providing introductory and competency based training for the Internal Auditors, but also included attending the 2015 Kent Audit Group Conference.
- 1.7.2 In addition to formal training, the Chief Audit Executive and deputy continue to provide each team member with specific training during the course of each audit undertaken in response to each auditor's particular needs. It is considered that this approach has been effective in practice and has contributed to the continuation of the quality of audit reviews carried out by the team.

## **1.8 Performance Measures**

- 1.8.1 The Internal Audit team is measured against a set of seven performance measures which are intended to assess the effectiveness and efficiency of the team in achieving a quality Internal Audit Service.
- 1.8.2 For 2015-16 the team has achieved the target set against six of the seven indicators measured. Actual performance of the team against these measures is provided at **[Annex 5]**.
- 1.8.3 It is good practice to review performance measures periodically to ensure the right things are measured and that targets remain achievable but appropriately challenging. With that in mind it was proposed that for 2015/16 the target for the performance measure in relation to percentage of productive time be increased from 65% to 80% in line with both historic performance and industry standards. Further review will be undertaken in 2016/17.

## **1.9 Conformance with Public Sector Audit Standards**

- 1.9.1 The Public Sector Internal Audit Standards (the Standards), introduced from 1<sup>st</sup> April in 2013, set out the required practice for the Internal Audit Service. TMBC undertake an annual assessment of the effectiveness of Internal Audit (reported to this Committee meeting under separate cover) which confirms audit work undertaken complies with the Standards.
- 1.9.2 The Standards require an independent External Quality Assessment be undertaken every five years. At the time of writing this assessment is in progress with results due by end of June. The assessment process involves document review and meetings with the Chair of the Audit Committee, Management Team, the Chief Audit Executive and members of the Audit team. The resulting report will provide a rating of Generally Conforms, Partially Conforms or Does Not Conform against a total of 56 Standards as well as a RAG-rated summary against each heading. This report will be brought to the September Committee meeting.

## **1.10 Partnership working**

1.10.1 From 1 December 2010 the Council had a partnership arrangement whereby operational management responsibility for the Internal Audit team at Tonbridge & Malling Borough Council was provided by the Audit & Assurance Manager employed by Gravesham Borough Council. Gravesham gave notice to terminate this arrangement on 20 March 2015 with effect from 15 May 2015. As a result, from 18 May 2015 a six month pilot arrangement to provide Internal Audit management and the role of the Chief Audit Executive was entered into with Kent County Council, this has since been extended and agreed as a minimum three-year arrangement.

## **1.11 Internal Audit Summary**

1.11.1 The team has provided the Council with an effective internal audit service during the year and responded well to the evolving needs of the Council. The work of the team during the year has been appropriately managed to ensure that the limited resources of the team are used effectively and focused on the areas that will have most impact. The team have played a key role in maintaining the governance and internal control arrangements of the Council whilst maintaining professional and productive relationships with clients.

1.11.2 Individual team members continue to be exposed to a variety of work requests and have responded enthusiastically and positively to this whilst ensuring that a high standard of audit work is completed by the team. This enabled the Chief Audit Executive to deliver the opinion that Tonbridge & Malling Borough Council's system of internal control makes a positive contribution to the proper, economic, efficient and effective use of resources in achieving the Council's objectives.

1.11.3 During the forthcoming year the team will continue to develop internal working practices as necessary and remain flexible to respond to the needs of the Council.

### ***Annual Counter Fraud Report 2015/16***

## **1.12 Prevention and Detection of Fraud and Corruption**

1.12.1 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.

1.12.2 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.

1.12.3 Data in relation to a Council Tax Single Person Discount matching exercise was submitted in December with results received in January and a total of 708

matches to be reviewed. To date 242 cases have been closed with no further action required, 80 are subject to further investigation and 386 are pending review.

- 1.12.4 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, has been enhanced. This involves a broader scope identified through an assessment of fraud risk in relation to all Council services. The Team 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. To demonstrate TMBC's ongoing commitment to prevent and detect fraud, and to provide a framework against which to measure good practice, our level of compliance with the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption was assessed and reported to the April meeting of this Committee. The assessment concluded that TMBC's current approach to fraud and corruption complies with all of the principles; however this is a developing function and 2016/17 will be fundamental to embedding the role of the team.
- 1.12.5 The team have continued to play a key role in the Council's corporate approach to the prevention and investigation of allegations of fraud, corruption and misconduct where appropriate. In addition a proactive fraud-proofing review of the Council's arrangements in relation to new Housing Benefit applications was undertaken. This is currently at draft stage therefore further details will be provided in the next update to this Committee (September 2016).

### **1.13 Investigating Fraud**

- 1.13.1 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.
- 1.13.2 In 2015/16 the Investigation Team closed 294 cases; open Cases relating to Housing Benefits were passed to the DWP on 2nd February. There are currently 17 ongoing investigations. **[Annex 6]** summarises the results of investigations concluded in 2015/16.

### **1.14 Legal Implications**

- 1.14.1 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.

1.14.2 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.

1.14.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them.

### **1.15 Financial and Value for Money Considerations**

1.15.1 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.

1.15.2 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.

### **1.16 Risk Assessment**

1.16.1 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.

1.16.2 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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