

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

05 September 2016

Report of the Chief Audit Executive

Matters for Information

1 INTERNAL AUDIT AND COUNTER FRAUD 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 2016.

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 2016/17 Plan

1.2.1 The Annual Internal Audit and Counter Fraud Plan (the Plan) for 2016/17 was approved by this Committee on the 5 April 2016. The purpose of this report is to provide Members with an update on the progress of the Internal Audit team in 2016/17 against the Plan and finalisation of any work brought forward from the 2015/16 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 items on the Plan, 24 were audits and two were proactive fraud reviews that would 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 One audit originally planned as an assurance review will now be undertaken as consultancy work, as discussed at the June Audit Committee meeting, to facilitate revision of the current Risk Management Strategy and development of a Strategic

Risk Register based on the Corporate Strategy. Training for the Committee on Risk Management is being planned for December with the revised Strategy to be presented at the January meeting.

- 1.2.4 The team have issued final reports and agreed management action plans in respect of two 2016/17 audits and two 2015/16 audits brought forward. One remaining audit brought forward requires additional follow-up work and will be reported in January. A draft report has been issued for a further audit with two audits currently underway and planning in progress for three more. The remaining work is scheduled across the rest of the financial year. A summary of the current status of all audits on the 2016/17 Plan and the brought forward 2015/16 work, including a summary of findings where finalised, is attached to this report at **[Annex 1]**. Definitions of Audit Opinions are provided at **[Annex 2]**.
- 1.2.5 The PSIAS require an independent External Quality Assessment be undertaken every five years; this was undertaken in June 2016 with the draft report received 18 August. More detail of the outcomes is provided in a separate paper on this agenda.

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 2016/17 to date. The Council proactively takes part in the National Fraud Initiative (NFI), a biennial nationwide data matching exercise comparing computer records held by the Council against those held by other councils and other bodies. The next full round of data matching is due to be submitted in October 2016 with matches to be returned in January 2017. An update will be provided at the April 2017 meeting of this Committee.
- 1.3.2 Annual data matching is undertaken between the electoral roll and Council Tax Single Person Discount, the most recent results were received in January 2016, 708 matches were received and of these 481 have been reviewed, 315 were closed with no further action required and 166 have been treated as referrals due to investigative work being required.
- 1.3.3 To date 430 matches have been closed with errors found in 77 cases. There are 51 cases being actively investigated and 227 matches that have yet to be reviewed (including 78 rising 18s).
- 1.3.4 The Kent Intelligence Network, a government funded partnership led by Kent County Council, goes live this month with the first meeting of the Board on 19 August 2016. The partnership will deliver a data matching function across Kent designed to address key fraud risks identified by the partners allowing a more bespoke approach and broader scope than the NFI. The first round of data

matching is to be undertaken in September and it is expected that we will have results in October. A further update will be provided to the January Committee.

- 1.3.5 In addition, the 2015/16 proactive fraud-proofing review of the Council's arrangements in relation to new Housing Benefit applications is now complete with the results detailed at **[Annex 1]**. Meetings are being set up with key stakeholders to take forward other proactive work in the 2016/17 Audit and Fraud Plan, the first of these being with Licensing and Housing. A more comprehensive update on progress, key areas of fraud risk and work planned or undertaken will be provided to the January Audit Committee.

1.4 Investigating Fraud

- 1.4.1 The Fraud 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.
- 1.4.2 In 2016/17 to date, the Fraud Team have closed 144 cases and received a total of 181 referrals, 166 of which relate to NFI as detailed at 1.3.2; there are 61 ongoing investigations. The total amount of income due as a result of investigations to end of July is £28,679.50 with increased annual liability of £18,048.40. **[Annex 3]** summarises the results of investigations concluded in 2016/17 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. 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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