

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

03 April 2017

Report of the Chief Audit Executive

Part 1- Public

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 2016 to February 2017.

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 was changed to 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 was originally planned ahead of the January meeting; however this has now been postponed to the April Committee. The revised Strategy was presented and approved at January's meeting.

- 1.2.4 As reported to the January Audit Committee meeting the scheduled audit of Complaints was to be combined with the Programme Management Audit to focus on the implementation of the new complaints system. However, this audit has now been cancelled and in its place we are undertaking a consultancy piece of work on Complaints Policy to assist review and alignment of existing policies.
- 1.2.5 At the January meeting Members requested an update on the reporting of the Empty Properties Group, we confirmed that the Group reported to the Communities and Housing Advisory Board in November 2016 and plan to report at least annual going forward. We are currently undertaking an audit of the Empty Homes service and will report these findings to the July meeting.
- 1.2.6 Of a total of 25 audits planned for 2016/17 (previously 26, however the audit of Project and Programme Management has been cancelled) the team have to date issued final reports and agreed management action plans in respect of 14, this includes the consultancy work undertaken in relation to the revised Corporate Governance Framework and developing the new Risk Management Strategy and Guidance (however the last is ongoing and includes training to be provided to this Committee). We have four audits where a draft report has been issued or is imminent, a further four audits underway and one audit about to start. The remaining two audits will now be delivered as consultancy work and are in progress. The current status of all audits (including consultancy) 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]**.
- 1.2.7 In accordance with the Public Sector Internal Audit Standards, 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 December 2016 83 outstanding recommendations were due for implementation, of these 28 are rated as Low Priority and are not followed-up by Internal Audit. Of the remaining 55:
- 24 have been completed;
 - 8 have not yet been implemented but revised dates have been agreed (none of which were High Priority);
 - 9 will be looked at as part of a follow-up audits in 2017-18;
 - 2 have been superseded;
 - 1 was subsequently deemed impractical and not implemented.

The remaining 11 cannot be assessed at this time as we are either awaiting a response from the service or are in progress with further clarification from the service needed. Detail of each recommendation can be found at **[Annex 3]**.

1.3 Public Sector Internal Audit Standards (PSIAS) and External Quality Assessment

- 1.3.1 The results of the External Quality Assessment undertaken in May 2016 were reported to this Committee in September 2016. Of 56 areas reviewed the Assessment found no areas of non-conformance and only 8 areas of partial conformance; some of which were considered quite minor. Proposed actions and timescales were considered for the 8 Standards assessed as partially conforms and the report recognised that work was already in progress to address the majority of these areas through the 2016/17 Annual Audit Plan. An action plan has been developed to address any outstanding issues and was updated at 10th March 2017. To assure Members on progress made the action plan can be found at **[Annex 4]**.
- 1.3.2 For information some amendments to the PSIAS have recently been consulted on and are likely to be implemented from 1st April 2017. These amendments are relatively minor in nature. It is proposed that once confirmation has been received that the changes have been implemented any required actions to address changes will be reported to the July Committee meeting.

1.4 Prevention and Detection of Fraud and Corruption

- 1.4.1 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 was completed in October 2016 with matches received in January 2017.
- 1.4.2 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 all of these have been reviewed, 683 matches have been closed with errors found in 182 cases. There are 25 cases currently being actively investigated. We have since received the 2016-17 bi-annual NFI match with a total of 1,753 matches. Of these 313 have been closed with no further action and 115 have been opened to investigate. We also received the NFI 2016-17 SPD match, of which there were 842 matches, 3 have been closed and 16 have been opened to investigate.
- 1.4.3 The Kent Intelligence Network, a government funded partnership led by Kent County Council, went live in September 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 was undertaken in September and the results

made available in October. Five data mismatches were received, of which 3 were closed with no further action required and 2 have been referred to compliance. A further data match has been received, which is to be investigated.

- 1.4.4 Meetings are being set up with key stakeholders to take forward other proactive work in the 2016/17 Audit and Fraud Plan. To date the Revenue & Benefits fraud awareness training programme has been rolled out and the fraud team assisted on a taxi licence enforcement day.

1.5 Investigating Fraud

- 1.5.1 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.
- 1.5.2 In 2016/17 to date, the Fraud Team have closed 290 cases (this includes those carried over from the previous year) and received a total of 267 referrals including NFI; there are 33 ongoing investigations. The total amount of income due as a result of investigations to end of February 2017 is £61,047 with increased annual liability of £47,518. **[Annex 5]** summarises the results of investigations concluded in 2016/17 to date.
- 1.5.3 We issued the first Single Person Discount Caution given by Tonbridge & Malling Borough Council and we also charged a penalty on 3 concluded council tax reduction support investigations plus a further penalty following a DWP investigation.

1.6 Legal Implications

- 1.6.1 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.
- 1.6.2 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.
- 1.6.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them.

1.7 Financial and Value for Money Considerations

- 1.7.1 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.

- 1.7.2 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.

1.8 Risk Assessment

- 1.8.1 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.
- 1.8.2 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:

contact: Samantha Buckland

Nil

Samantha Buckland
Chief Audit Executive