

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

03 July 2017

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 2016/17

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 2016/17 to support that opinion. In addition, the report also informs Members of the work carried out by the Counter Fraud function in 2016/17.

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 priorities and 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 2016/17, full details of which are provided in this report.

1.2.4 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 2016/17.

Whilst it has been identified that the authority has established adequate internal controls within the areas subject to Internal Audit review in 2016/17, 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 two Internal Auditors, one of which is currently a vacant post, and two (1.6 FTE) Fraud Officers subject to any requirements for specialist skills. Additional days are currently being sourced

through use of a contractor pending a decision on recruitment to the vacant post. Since May 2015 the Audit and Assurance Manager (Chief Audit Executive) post has been secured by way of a shared management arrangement with Kent County Council.

- 1.3.2 The Internal Auditor or Fraud Officer assigned to each audit/fraud review is selected by the Audit and Assurance Manager based on their knowledge, skills, experience, discipline and any declared conflicts of interest to ensure that the review is conducted effectively. If a review calls for specialist skills/experience beyond that within the team, arrangements would be put in place to secure specialist skills from KCC as part of the partnership arrangement or from an external contractor if that is not possible.

1.4 Annual Audit Plan

- 1.4.1 The Internal Audit Plan for 2016/17 was endorsed by Management Team on 8 March 2016 and approved by the Audit Committee on 5 April 2016. 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 Of the original total of 26 audits on the 2016/17 Plan one was cancelled and the team has completed all of the remaining audits, this represents 100% of the plan against a target of 95%. The audit cancelled was of Project and Programme Management however significant work has been undertaken on audits that covered elements of project and programme management through the year, including the audits of Capital Programme Monitoring, Partnerships and IT Strategy. As a result it is felt that there is now limited value in undertaking a separate piece of work. Two of three audits originally carried forward from 2015/16 have now been carried forward to 2017/18 as follows:
- Corporate Policy Maintenance – much of the scope was covered by the 2014/15 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. Due to

resources this has now been carried forward to 2017/18 and incorporated in the audit of Corporate Governance as a key work stream.

- Licensing – it was agreed with the service to delay the 2015/16 audit in order to focus on fraud risk as part of the 2016/17 fraud work plan. This was not completed in 2016/17 due to resource availability, although some pro-active fraud work has been undertaken, including assistance on a taxi licence enforcement day. A full audit is now commencing as part of the 2017/18 Plan.

1.5 Assurance Work

- 1.5.1 The Internal Audit team has primarily focused on assurance work in 2016/17 with 20 of 25 audits providing an assurance level and five undertaken as consultancy (see below). Further detail of all planned audit work completed during the year is shown in **[Annex 1]**. Definitions of assurance levels were revised during 2016/17 and we are now piloting the revised version. This review was undertaken because the previous three ratings of red, amber, green were proving restrictive and it was felt a broader range would provide better flexibility and a more accurate assessment. For ease definitions of both sets in use during 2016/17 are detailed at **[Annex 2]** 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 would ultimately result in reporting to Management Team and this Committee should a key control weakness remain; this has not been required for 2016/17.
- 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. 58 recommendations were due for implementation in 2016/17; of these eight will be followed up through re-audits in 2017/18. Of the remaining 50, 35 have been implemented and we have agreed revised implementation dates for the remaining 15; having assessed the risk of extending these dates there are no concerns to raise at this time. **[Annex 3]**.
- 1.5.4 Audit recommendations made from assurance work undertaken in 2016/17 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 2016/17 included support to corporate projects and provision of ad hoc advice and information as and when requested by Council officers. During the 2016/17 year, in addition to this ad hoc advice on controls, the team has provided advice and support on Development Control, Complaints Policy, Resourcing Strategies and Corporate Governance. In addition, we have revised the Risk Management Strategy and Guidance and have facilitated development of a Strategic Risk Register for the Council. Consultancy/advisory work 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. Detail of significant consultancy work is included in **[Annex 1]**.

1.7 Training

- 1.7.1 One auditor is currently being supported to undertake a professional qualification and has successfully completed two of four modules to date. Recognising the need to ensure more training fraud side it is hoped that external funding will be sourced through the Kent Intelligence Network to support professional training for Fraud Officers in 2017/18.
- 1.7.2 In addition to formal training, the Chief Audit Executive continues to provide each team member with specific training during the course of each audit or investigation undertaken in response to each officer'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 Quality Assurance and Improvement Programme including Performance Measures

- 1.8.1 The Quality Assurance and Improvement Programme summarises all of the measures in place to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.
- 1.8.2 The Internal Audit team is measured against a set of six performance measures which are intended to assess the effectiveness and efficiency of the team in achieving a quality Internal Audit Service.

- 1.8.3 For 2016/17 the team has achieved or exceeded the target set for all six indicators measured. Actual performance of the team against these measures is provided at **[Annex 4]**.
- 1.8.4 It is good practice to review performance measures periodically to ensure the right things are measured and that targets remain achievable but appropriately challenging. It is considered following such a review that the previous performance measure in relation to a biannual survey to Management Team repeats the work of the annual review of the effectiveness of internal audit, the results of which are reported as a separate paper to this meeting. As a result this measure has been deleted.
- 1.8.5 In addition to the annual measures above Internal Audit was subject to an independent External Quality Assessment during 2016/17, this will be undertaken ongoing every five years in line with requirements. The overall opinion was that Internal Audit Generally Conforms to the Public Sector Internal Audit Standards.

1.9 Conformance with Public Sector Audit Standards

- 1.9.1 The Public Sector Internal Audit Standards (PSIAS) set out the required practice for the Internal Audit Service. An annual assessment of the effectiveness of Internal Audit is carried out (reported to this Committee meeting under separate cover) which confirms audit work undertaken complies with the PSIAS.
- 1.9.2 The PSIAS require an independent External Quality Assessment (EQA) be undertaken every five years. The results of the EQA undertaken in May 2016 were reported to the September 2016 Committee meeting. Of 56 areas reviewed the Assessment found no areas of non-conformance and only 8 areas of partial conformance. An action plan was prepared to address the 8 areas assessed as partially conforms and an update on progress was reported to the April 2017 Committee meeting. Regular updates will be reported through the Internal Audit and Counter Fraud updates to this Committee, the next of these will be to the September meeting.
- 1.9.3 For information some amendments to the PSIAS have recently been implemented with effect from 1 April 2017. The revised standards have been reviewed and there is nothing deemed significant that would require a change to our current practice however some minor enhancements to meet wording changes will be incorporated into any relevant audit documentation.

1.10 Partnership Working

- 1.10.1 Since May 2015 the Audit and Assurance Manager (Chief Audit Executive) post has been secured by way of a shared management arrangement with Kent County Council.

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 and 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 2016/17

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 2016/17.
- 1.12.2 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. 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. The result of the exercise completed in October 2016 was that 1,768 matches were received in January 2017. To date 314 have been closed with no further action and 1 has been closed with errors found. A further 114 are currently subject to further investigation leaving 1,339 yet to be reviewed.
- 1.12.3 Annual data matching is undertaken between the electoral roll and Council Tax Single Person Discount; the most recent results were received in January 2017. There were 842 matches received, 273 have been closed with no further action and 10 have been closed with errors found. A further 93 have been opened to undertake further enquiries leaving 466 yet to be reviewed. There are currently 13 matches from the January 2016 exercise that remain subject to investigation.
- 1.12.4 The Kent Intelligence Network, a government funded partnership led by Kent County Council, went live in September 2016. The partnership delivers 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 with the results made available in October. This matched the Housing Register to Single Person Discount and five data matches were received, of which three were closed with no further action required and two were referred for compliance work. Two further data matches have now been received, the first matches businesses in receipt of Small Business Rate Relief across the county while the second matches data from the Charities Commission to businesses in receipt of charitable relief. The matches received are currently being reviewed to assess action required. Data is being gathered for one further match, Licensing data to Business Rates, and more are planned for 2017/18. It is very early days for the KIN and the benefits, financial and other, should become more apparent in the current financial year as more matches are investigated and savings can be assessed.

- 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 the fraud team has delivered a fraud awareness training programme to Revenues and Benefits staff and assisted on a taxi licence enforcement day as well as undertaking Fraud risk reviews on Grants, Housing Benefit Assessments and Business Rates (NNDR) **[Annex 1]**.

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 2016/17 the Investigation Team closed 300 cases. There are currently 10 ongoing investigations, excluding those relating to NFI or KIN matches shown above. **[Annex 5]** summarises the results of investigations concluded in 2016/17 including savings made either through repayments due, increased annual liability or penalty charges applied with a total value of £116,089.94.

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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