

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

04 September 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 to August 2017.

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 2017/18 Plan

1.2.1 The Annual Internal Audit and Counter Fraud Plan (the Plan) for 2017/18 was approved by this Committee on the 3 April 2017. The purpose of this report is to provide Members with an update on the progress of the Internal Audit team in 2017/18 against the Plan and finalisation of any work brought forward from the 2016/17 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, 20 were audits or proactive fraud reviews that will result in an assurance opinion. One of these has been split into two pieces of work amending the total assurance work to 21 audits/reviews. The remainder of items on the plan relate to five consultancy items, follow-up of recommendations due or allowances for the provision of control advice, etc.

1.2.3 The team have issued final reports and agreed management action plans in respect of two 2017/18 audits and two 2016/17 audits brought forward; the audit of Demand Management brought forward has been superseded by the ongoing Customer Services review. A draft report has been issued for a further four audits with two audits currently underway and planning in progress for a further three. Two pieces of consultancy work are in progress with planning undertaken for the remaining three. The remaining work is scheduled across the rest of the financial year. A summary of the current status of all audits on the 2017/18 Plan and the brought forward 2016/17 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]**.

1.3 Quality Assurance and Improvement Programme and Conformance with the Public Sector Internal Audit Standards

1.3.1 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.

1.3.2 Internal Audit was subject to an independent External Quality Assessment (EQA) during 2016/17, this exercise is undertaken every five years in line with requirements. The overall opinion was that Internal Audit Generally Conforms to the Public Sector Internal Audit Standards.

1.3.3 The results of the EQA undertaken in May 2016 were reported to the September 2016 Committee meeting and an action plan was prepared to address the eight areas assessed as partially conforms with an update on progress reported to the April 2017 Committee meeting. A further update demonstrating action is complete for five of the eight partially conforms is provided to this meeting **[Annex 3]**. Of the three outstanding, two actions are partially completed with the remaining one in progress.

Counter Fraud Update

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 2017/18.

1.4.2 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. The result of the exercise completed in October 2016 was that 1,768 matches were received in January 2017. To date 1,507 have been closed with no further action required

and 3 have been closed with errors found. A further 258 are currently subject to further investigation.

- 1.4.3 In 2017, for the first time, NFI conducted additional data matching using Council Tax Single Person Discount data to a myriad of other data sets held, including Blue Badges, Concessionary Fares, Pensions, Payroll and Parking Permits. This resulted in 2,311 matches. To date 1,942 have been closed with no further action required and 369 are subject to further investigation.
- 1.4.4 Annual data matching is also undertaken through NFI between the Electoral Register and Council Tax Single Person Discount; the most recent results were received in January 2017. There were 842 matches received, 380 have been closed with no further action required and 24 have been closed with errors found. A further 96 have been opened to undertake further enquiries leaving 342 yet to be reviewed. There are currently two matches from the January 2016 exercise that remain subject to investigation.
- 1.4.5 The Kent Intelligence Network, a government funded partnership led by Kent County Council, went live in September 2016. The partnership's key aim is to prevent and detect fraud, reduce partner's fraud risk profiles and support development of fraud professionals in Kent. It 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.
- 1.4.6 Three data matches have been completed through the KIN with more planned for 2017/18. The benefits of the partnership, financial and other, will become increasingly apparent in the current financial year as more matches are investigated and savings can be assessed. Matches and results to date are as follows:
- Housing Register to Single Person Discount where five data matches were received, of which four were closed with no further action required and one was found to be an error.
 - Businesses in receipt of Small Business Rate Relief across the county where 23 matches were received, of which ten have been closed with no further action required and 13 are currently being reviewed.
 - Data from the Charities Commission to businesses in receipt of charitable relief where 74 matches were received. These were received relatively recently and are currently being reviewed.
- 1.4.7 KCC recently provided in large part funding for the procurement of software and a temporary resource to proactively identify high risk cases in relation to Council Tax where information held elsewhere, including credit reference agencies, indicates a discount or exemption awarded may be erroneous. The first batch of cases for review has recently been run from the system and the results of this exercise will be reported to the Committee when initial results are forthcoming.

1.4.8 Where a match is found through any of the routes above 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. Data matches will initially result in one of three outcomes, the first being immediate closure due to the match occurring through a data quality issue. Secondly further enquiries where some additional information is sought that demonstrates either a data quality issue, a timing difference (i.e. a change reported to us between data being sent for matching and matches received) or a case already known to us. Thirdly further enquiries establish that there is a potential for fraud or error and further investigation is required. Examples to illustrate this are as follows:

First data set	Second data set	Result
Council Tax Single Person Discount (SPD) Mr J Smith 4 The Avenue	Blue Badge John Smith 4 The Avenue	Mr J Smith and John Smith are highly likely to be the same person, match closed immediately as data quality issue

First data set	Second data set	Result
SPD Mr J Smith 4 The Avenue	Concessionary Fare Mary Jones 4 The Avenue	Initial enquiries on the Council Tax system show that Mary Jones was a previous resident at 4 The Avenue but left the property in 2015, match closed as no issues after initial enquiries

First data set	Second data set	Result
SPD Mr J Smith 4 The Avenue	Parking Permit Lisa Brown 4 The Avenue	Initial enquiries on the Council Tax system show no other adults (including rising 18s) at the given address, possible undeclared non-dependent or living together, opened for further investigation

1.4.9 Meetings are being set up with key stakeholders to take forward other proactive work in the 2017/18 Audit and Fraud Plan, planned proactive work outside of the data matching through NFI and KIN addressed above includes training on fraud risks and working with services to support enforcement. One area identified for focus in 2017/18 is Blue Badge fraud where we will be liaising with Kent County Council, who have been working successfully with other district councils.

1.5 Investigating Fraud

- 1.5.1 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.
- 1.5.2 In 2017/18 to end of July, the Counter Fraud Team have closed 80 cases and received a total of 116 referrals, 106 of which relate to NFI as detailed at 1.4; there are 100 ongoing investigations. The total amount of income due as a result of investigations to end of July is £9,406.05 with increased annual liability of £6,237.89. **[Annex 4]** summarises the results of investigations concluded in 2017/18 to date.

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:

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Nil

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