

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

03 April 2018

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 2017 to February 2018.

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.

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 original Plan, 20 were audits or proactive fraud reviews that would result in an assurance opinion; one of these was subsequently split into two separate pieces of work (Housing Payments and Grants split into Discretionary Housing Payments and Disabled Facilities & Housing Assistance Grants) and we have merged planned work on Data Sharing Agreements into ongoing work on General Data Protection Regulation (GDPR) readiness. Given this work is designed to support the organisation in undertaking work needed to comply with the changes GDPR

brings in no formal opinion will be given, however we will report on readiness at year-end. We agreed to defer the audit of Development Management to 2018/19 to allow changes follow the service review to embed and in addition, due to pressures in the relevant service, the audit of the Business Continuity Plan has been delayed to allow for recruitment of the additional resource needed to progress this; as a result the audit will be completed in 2018/19. Additional consultancy work on Corporate Policy Management and cemetery capacity has been added to the Plan. The remainder of the Plan is made up of consultancy items, follow-up of recommendations due and an allowance for the provision of advice, fraud awareness and investigations.

1.2.3 The team have issued final reports and agreed management action plans in respect of eleven 2017/18 audits. A draft report has been issued for a further three audits/reviews with ten currently underway; and consultancy work for change in banking arrangements was not required. A summary of the current status of all audits/reviews on the 2017/18 Plan, including a summary of findings where finalised, is attached to this report at **[Annex 1]**. Definitions of Audit Opinions are provided at **[Annex 2]**.

1.2.4 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 2017/18.

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

1.3.1 The Quality Assurance and Improvement Programme summarises all of the measures in place to enable an evaluation of internal audit'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 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 updates on progress reported to the April and September 2017 Committee meetings. At September action was complete for five of the eight partially conforms. Of the remaining three, two are ongoing and one is now complete barring an element on hold (this relates to

professional training for the audit team, given we currently have one person in post who is undertaking professional studies this will be re-visited if/when we recruit to the current vacancy). The Standards were updated from April 2017 and the amended Standards have been reviewed to assess their impact on current practice. While no substantial changes are required some enhancements to current practice would be helpful and a further update will be provided as part of the annual self-assessment of conformance in my annual report to this Committee in July 2018.

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 1,751 matches were received in January 2017. To date 1,690 have been closed with no further action required and 32 have been closed with errors found. The remaining 29 are currently subject to further enquiries.
- 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; of these 2,264 have now been closed with no further action required, 7 were closed with errors found and 1 was closed with fraud found. The remaining 39 are subject to further enquiries.
- 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 2018. There were 967 matches received, 209 have been closed with no further action required. Of the remaining matches 4 are subject to further enquiries and 754 have yet to be reviewed.
- 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. The data analyst recruited by the KIN has recently resigned and the data matching software contract expired. This is being used as an opportunity to review progress to date and consider the way forward; KIN Board members have been meeting with leads of other fraud hubs and have attended data matching software presentations to inform decisions on procuring a new system. In addition the decision was made

to recruit a KIN manager to move the project forward at pace and this individual will have a key role in liaison across all partner organisations to agree project plans and ensure consensus. Once recruitment and procurement is complete work will recommence and updates will be provided to subsequent Committee meetings on progress made.

- 1.4.6 KCC recently provided part funding for the procurement of software and a temporary staff member to proactively identify high risk cases in relation to Council Tax and NNDR where information held elsewhere, including credit reference agencies, indicates a discount or exemption awarded may be erroneous. Reviews of high risk cases are now being undertaken and results will be reported to this Committee in July as part of my annual report.
- 1.4.7 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.
- 1.4.8 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. In 2017/18 to date fraud awareness training has been provided to Revenues and Benefits staff, Customer Service Officers and Housing, further training is planned for the Procurement OSG. One area identified for focus in 2017/18 was Blue Badge fraud, we have undertaken some early liaison with Kent County Council who have been working successfully with other district councils and will continue this through 2018/19.

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 February, the Counter Fraud Team have closed 396 cases and received a total of 391 referrals, 356 of which relate to NFI as detailed at 1.4; there are 60 current investigations that could result in fraud found. The total amount of income due as a result of completed investigations to end of February is £52,311.30 with increased annual liability of £45,842.80. A total of 68 civil penalties were issued in the amount of £4,760. **[Annex 3]** 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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