

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

23 July 2018

Report of the Chief Audit Executive

Part 1- Public

Matters for Information

1 OPINION OF THE CHIEF AUDIT EXECUTIVE ON THE FRAMEWORK OF GOVERNANCE, RISK MANAGEMENT AND CONTROL, TOGETHER WITH THE ANNUAL INTERNAL AUDIT REPORT AND ANNUAL COUNTER FRAUD REPORT FOR 2017/18

This report informs Members of the opinion of the Chief Audit Executive on the Council's framework for governance, risk management and control, together with the Internal Audit work completed during 2017/18 to support that opinion. In addition, the report also informs Members of the work carried out by the Counter Fraud function in 2017/18.

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 requires 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. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control*.

1.2 Opinion of the Chief Audit Executive on the Internal Control Environment

Purpose of the framework of governance, risk management and control

1.2.1 The framework of governance, risk management and 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 framework of governance, risk management and control. Assurance of the effective operation of the framework

of governance, risk management and control can be sought from Internal Audit, External Audit, other review bodies and Management.

1.2.2 The framework of governance, risk management and 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 framework for governance, risk management and control

1.2.3 The opinion on the framework for governance, risk management and control is based on the work of the Internal Audit function during 2017/18, full details of which are provided in this report. While all audit results are considered, including the outcomes of any consultancy work, some carry more weight than others. Particular attention is therefore drawn to work undertaken in relation to Risk Management and Corporate Governance in 2017/18. Any other reliable sources of assurance are identified and, where appropriate, considered when arriving at an overall opinion.

1.2.4 Opinion of the Chief Audit Executive on framework for governance, risk management and control:

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 and Malling Borough Council's framework of governance, risk management and control substantially contributed to the proper, economic, efficient and effective use of resources in achieving the Council's objectives during 2017/18.

Whilst it has been identified that the authority has largely established adequate and effective internal controls within the areas subject to Internal Audit review in 2017/18, 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 framework of governance, risk management and 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 and Counter Fraud Establishment

- 1.3.1 The Internal Audit and Fraud Team report to the Audit and Assurance Manager (Chief Audit Executive). For 2017/18 the establishment comprised two internal auditors and two (1.6 FTE) fraud officers subject to any requirements for specialist skills. At the time of writing this report the two internal auditor posts and the part-time fraud officer post are currently vacant.
- 1.3.2 This has allowed the resource requirements and, in turn, composition of the Establishment to be revisited. The outcome of the review resulted in a recommendation approved by Management Team that the Establishment comprise one senior internal auditor; a temporary staff budget to buy-in circa 100 days of audit resource; one full-time fraud officer; and one full-time fraud assistant (this post to also provide support to internal audit as required). 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.
- 1.3.3 We have completed a recruitment and selection process to fill the posts of senior internal auditor and fraud assistant with both due to start in August 2018. Clearly, by the time both posts are occupied we will be several months in to the 2018/19 year. To catch up lost ground as a result we may have to buy-in additional temporary resource/s and this is to be kept under review during the year.
- 1.3.4 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 Annual Internal Audit and Counter Fraud Plan (the Plan) for 2017/18 was approved by this Committee on 3 April 2017. 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 25 audits (20 Assurance and 5 Consultancy) on the 2017/18 Plan:
- Housing Discretionary Payments and Grants (A) was subsequently split into two separate pieces of work (Discretionary Housing Payments and Disabled Facilities and Housing Assistance Grants).
 - Data Sharing Agreements (A) was merged into ongoing work on General Data Protection Regulation (C).
 - At the request of the relevant service we agreed to defer the audit of Development Management (A) and Business Continuity Plan (A) to 2018/19.
 - Additional consultancy work on Corporate Policy Management and cemetery capacity was added to the Plan.
 - Consultancy work for change in banking arrangements was not required.
- 1.4.5 The team has completed all of the revised total of 24 audits, although 1 remains at draft report stage at the time of reporting therefore this represents 98% of the plan against a target of 95%. The remainder of the Plan is made up of adhoc

consultancy items, follow-up of recommendations and an allowance for the provision of advice, fraud awareness and investigations.

1.5 Assurance Work

- 1.5.1 The Internal Audit team has primarily focused on assurance work in 2017/18 with 18 of 24 audits providing an assurance level and six undertaken as consultancy (see below). A summary of the current status of audit work for 2017/18 including a summary of findings where finalised is shown in **[Annex 1]**. Definitions of Audit Opinions are provided at **[Annex 2]**.
- 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. 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 the responses received. 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.
- 1.5.3 Ninety four recommendations were due for implementation in 2017/18; this excludes Low priority recommendations which are considered to be good practice only and are therefore not followed up and includes recommendations carried forward from 2016/17 as not fully implemented at 31 March 2017. Progress is as follows:
- 5 are currently being followed-up as part of the audit of Disaster Recovery
 - 62 have been implemented
 - 18 have agreed, revised implementation dates
- Having assessed the risk of extending these dates there are no concerns to raise at this. A summary of progress on the remaining nine recommendations is included at **[Annex 3]**.
- 1.5.4 Audit recommendations made from assurance work undertaken in 2017/18 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 2017/18 included support to corporate projects and provision of ad hoc advice and information as and when requested by Council officers. Areas of specific consultancy / advisory work include on the Waste Services Contract Retender and General Data Protection Regulation. 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. Further detail of significant consultancy work is included in **[Annex 1]**.

1.7 Training

1.7.1 Due to staff vacancies limited training on audit side was undertaken in 2017/18.

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'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 For 2017/18 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]**.

1.8.3 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 that the current performance measures should be revised to include a broader scope of our work, for example at the moment performance measures only report on completed audits in the annual plan, work undertaken to follow-up audit recommendations, proactive fraud work and investigations are not included. Although this information is available within the reports to this Committee the effectiveness and efficiency of both Internal Audit and Counter Fraud would be clearer if performance reporting was presented as one picture. I therefore intend to review and update the current measures and a paper will be brought to the October Audit Committee with proposed new measures for the Committee's consideration.

1.8.4 It is a requirement of the Public Sector Internal Audit Standards (PSIAS) that periodic self-assessments are conducted to evaluate conformance with the PSIAS

Code of Ethics and Standards. To ensure compliance with this element of PSIAS an annual internal review of the effectiveness of the Internal Audit function is undertaken and endorsed by Management Team. The Chief Audit Executive has conducted the review of effectiveness for the year 2017/18 and the results are presented to this Committee as a separate report.

- 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 and I consider this assessment remains appropriate.

1.9 Conformance with Public Sector Internal 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 see 1.8.4 above) 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 8 areas of partial conformance. An action plan was prepared to address the eight areas assessed as 'partially conforms' with updates on progress reported to this Committee. Action on all areas assessed as partially conforms is now complete.
- 1.9.3 The PSIAS were updated from April 2017, 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 as follows:

- Performance Standard 2050 – Coordination and Reliance

This Standard was enhanced from purely coordinating to emphasis on the requirement to have a consistent process for relying on the work of other assurance providers. Although we rarely rely on the work of others I will undertake an exercise to map potential assurance providers and update the Audit Manual to include a criteria for reliance.

- Attribute Standard 1112

Requires demonstrable safeguards be put in place where the CAE has responsibilities that fall outside of Internal Audit. This is already addressed in our Audit Charter however as the CAE manages Fraud consideration has been given as to how assurance on the effectiveness of the Fraud Team can be obtained. As a result an independent external review will be undertaken in 2018/19 on a peer review basis.

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 I believe 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, risk and internal control arrangements of the Council whilst maintaining professional and productive relationships with clients.

1.11.2 Individual team members continued 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 framework of governance, risk management and 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 2017/18

1.12 Prevention and Detection of Fraud, Bribery and Corruption

1.12.1 This section of the report provides details of the Council's activity in preventing and detecting fraud, bribery and corruption in the year 2017/18.

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.

1.12.3 The result of the exercise completed in October 2016 was that 1,751 matches were received in January 2017. To date 1,700 have been closed with no further action required and 50 have been closed with errors found. One remains subject to investigation.

1.12.4 In 2017, for the first time, NFI conducted additional data matching, known as supplementary, 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 2,294 have now been closed with no further action required, 14 were closed with errors found

and 2 were closed with fraud found. One remains subject to investigation. This data matching exercise was run again in January 2018 resulting in 460 matches; of these 445 have been closed with no further action required and 15 are subject to further enquiries.

1.12.5 Annual data matching is also undertaken through NFI between the Electoral Register and Council Tax Single Person Discount data; the most recent results were received in January 2018. There were 967 matches received, 531 have been closed with no further action required and 80 have been closed with errors found. Of the remaining matches 35 are subject to further enquiries and 321 have yet to be reviewed. There are currently 2 matches from the January 2017 exercise that remain subject to investigation.

1.12.6 Details of the NFI data matching exercises above are summarised in the table below.

Data Matches	National Fraud Initiative					
	January 2017 SPD	January 2017 Biennial	April 2017 Suppl.	January 2018 SPD	January 2018 Suppl.	Totals for 17/18
Received	842	1,751	2,311	967	460	6331
Closed with no further action	706	1,700	2,294	531	445	5676
Closed with errors found	134	50	14	80		278
Closed with fraud found			2			2
Subject to further enquiries	2	1	1	35	15	54
Yet to be reviewed				321		321

1.12.7 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. A KIN manager was recently recruited with the aim of moving 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. One of the first actions for this individual is to source and implement a new data matching software solution. Once procurement is complete work will recommence and updates will be provided to subsequent Committee meetings on progress made.

- 1.12.8 In June 2017 KCC 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 business rates where information held elsewhere, including credit reference agencies, indicates a discount or exemption awarded may be erroneous. Reviews of high risk Single Person Discount cases are now being undertaken and this has resulted in identifying a number of cases where the discount has been removed. In particular one case was identified where it was established that an individual had fraudulently claimed discount since 2003 resulting in an amount of £5,530.29 to be recovered with a repayment plan now in place. In total over 2017/18 these reviews have resulted in an amount of £40,258.51 to be recovered with an increased annual liability of £17,907.52. Penalty charges in the amount of £2,730 were issued.
- 1.12.9 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.
- 1.12.10 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 fraud awareness training has been provided to Revenues and Benefits staff. Training for Customer Services, Parking Services and Housing and a briefing to the Procurement OSG are also planned. 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.

1.13 Investigating Fraud, Bribery and Corruption

- 1.13.1 The Counter Fraud Team is responsible for investigating all allegations of fraud, bribery 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 as and when required 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 We continue to look at new areas of fraud risk. An example of this is in relation to resident's parking permits; we have had two cases in 2017/18 where it was identified that individuals in receipt of Single Person Discount had multiple applications for residents parking permits. In one case this identified that a landlord was claiming SPD for a house in multiple occupation where five tenants were in situ, the SPD was removed. In another it was established that an individual had moved out of the property but continued to have their car registered at that address in order to park near their workplace. In this case the SPD was legitimate but the parking permit was redacted, this could result in increased income due to the need to pay for parking however this is very difficult to quantify.

As a result of these cases we are working closely with the Parking Team to look at ways of identifying similar incidents.

- 1.13.3 In 2017/18 the Counter Fraud Team closed 438 cases; and received a total of 475 referrals, 429 of which relate to NFI; there are 93 current investigations that could result in fraud found. The total amount of income due as a result of investigations concluded in 2017/18 is £56,784.38 with increased annual liability of £50,880.65. A total of 79 civil penalties were issued in the amount of £5,530. **[Annex 5]** summarises the results of investigations concluded in 2017/18.

1.14 Legal Implications

- 1.14.1 The Accounts and Audit Regulations place a statutory requirement on local 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 the National Fraud Initiative and Local Government Counter Fraud and Corruption Initiative. 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 framework for governance, risk management and control.
- 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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