

# TONBRIDGE & MALLING BOROUGH COUNCIL

## AUDIT COMMITTEE

01 October 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 to August 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.
- 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*.

#### 1.2 Progress against the 2018/19 Plan

- 1.2.1 The Annual Internal Audit and Counter Fraud Plan (the Plan) for 2018/19 was approved by this Committee on the 3 April 2018. The purpose of this report is to provide Members with an update on the progress of the Internal Audit team in 2018/19 against the Plan and finalisation of any work brought forward from the 2017/18 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, 23 were audits or proactive fraud reviews that will result in an assurance opinion. This includes 1 audit postponed from the 2017/18 Audit Plan. The remainder of items on the plan relate to four consultancy items, follow-up of recommendations due or allowances for the provision of control advice, etc.

- 1.2.3 We are liaising with the business regarding progress on the IT disaster recovery plan for the one outstanding audit from 2017/18. There is also a substantive audit in this area plan to be completed in quarter 4 of 2018/19 Plan.
- 1.2.4 Slower than usual progress in completion of the 2018/19 Plan is due to the vacancy of the Senior Internal Auditor post within the Internal Audit team. The post was vacant for 3 months, but has now been filled on a part-time basis. Audits have been allocated however, given the 2018/19 Plan assumed a full-time Auditor in post for the whole of the financial year we will need to keep a close eye on progress to inform any decision on additional resource requirements. Initial enquiries have been made to establish availability and cost of additional contractor time or use of KCC auditors through our partnership arrangement. An update on resources will be provided to the January Committee.
- 1.2.5 The team have issued two draft reports, with three audits currently underway and planning in progress for a further three. One piece of consultancy work is completed and a further piece is in progress. The remaining work is scheduled across the rest of the financial year. A summary of the current status of all audits on the 2018/19 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]**.
- 1.3 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 Public Sector Internal Audit Standards (PSIAS) including the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement and learning for the team.
- 1.3.2 In the Annual Report to this Committee in July I reported that it is good practice to review performance measures periodically to ensure the right things are measured and that targets remain achievable but appropriately challenging. The intention was to bring a paper to this Committee with proposed new measures for the Committee's consideration. A review of the existing performance measures has commenced however due to the vacancy/resource issue detailed at 1.2.4 above this work is yet to be completed; the paper will now be brought to the January Committee meeting.
- 1.3.3 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 at that time was that Internal Audit Generally Conforms to the Public Sector Internal Audit Standards. In addition, it is a requirement of the Public Sector Internal Audit Standards 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 was undertaken and endorsed by Management Team for the year 2017/18 and the results were presented to this Committee in July. The self-assessment established that we continue to generally conform to the Code of Ethics and Standards that constitute the PSIAS. Some minor areas for development were identified that relate to changes made to the Standards in April 2017 where existing processes should be documented/formalised, only two areas were identified for specific action and therefore assessed as Partially Conforms. The action plan to address the outcomes of the self-assessment is provided at **[Annex 3]**.

### ***Counter Fraud Update***

#### **1.4 Prevention and Detection of Fraud, Bribery and Corruption**

- 1.4.1 This section of the report provides details of the Council's activity in preventing and detecting fraud, bribery and corruption in the year 2018/19 to date.
- 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 next exercise is due to commence in October 2018 with results due January 2019.
- 1.4.3 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 with the next round due in January 2019. In 2018 there were 967 matches received, 773 have been closed with no further action required and 89 have been closed with errors found. A further 87 have been opened to undertake further enquiries leaving only 18 yet to be reviewed.
- 1.4.4 There are currently two matches from the 2017 exercises 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. A KIN manager is being 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. A data matching software solution has been sourced and updates will be provided to subsequent Committee meetings on progress made.
- 1.4.6 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. For 2018/19 to date these reviews have resulted in an amount of £14,704.80 to be recovered with an increased annual liability of £7,237.89. Penalty charges in the amount of £910 were issued.

- 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 We continue to review areas of fraud risk and have been working with the parking team on a number of investigations identified from Parking Permit applications. This will be explored further over the year with consideration given to the potential to undertake periodic matching of SPD to Parking Permits.
- 1.4.9 Training on fraud risks continues to be provided to services, targeted at those where risk of fraud is greatest. For 2018/19 we will be providing training to Housing and Parking Services (including awareness of Blue Badge fraud) as well the planned briefing to the Procurement OSG carried forward from last year. In addition, following recruitment of a Fraud/Audit Assistant in August (replacing the previous 0.6fte investigator role) we will be looking at formalising a plan for additional proactive work and raising awareness of fraud more broadly.

## **1.5 Investigating Fraud**

- 1.5.1 The 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.
- 1.5.2 In 2018/19 to end of August, the Counter Fraud Team have closed 185 cases and received a total of 168 referrals, 144 of which relate to NFI as detailed at 1.4.3; there are 69 ongoing investigations. The total amount of income due as a result of investigations to end of August is £30,698.81 with increased annual liability of £31,118.27. **[Annex 4]** summarises the results of investigations concluded in 2018/19 to date.

## **1.6 Legal Implications**

- 1.6.1 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.

1.6.2 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 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.

## **1.8 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 framework for governance, risk management and control.

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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