

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

01 April 2019

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 2018 to February 2019.

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 Internal Audit Update

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.

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 (two of which are no longer required by the service) follow-up of recommendations due or allowances for the provision of control advice, etc.

- 1.2.3 Progress in completion of the 2018/19 Plan has been effected by the vacancy of the senior auditor post earlier in the year. The post was vacant for 3 months and has now been filled on a part-time basis. To address this a number of actions have been undertaken. Firstly additional contractor resource was bought in, funded by the vacancy saving. This was a previous staff member who returned in January to complete three audits in Q4. In addition, three audits have been postponed to 2019/20 (two of these, Local Plan and IT Strategy were reported to the January Committee meeting). The third is Business Continuity Planning which we have agreed to delay given the pressure on relevant officers due to Brexit; this audit will now be undertaken in quarter 4 of 2019/20. We also have two follow-up audits planned which will now be undertaken in April.
- 1.2.4 The team have issued eight final reports and seven draft reports, with four audits currently underway and the two follow-up audits above are at planning and due to start imminently. Two pieces of consultancy work are in progress. 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 given at **[Annex 2]**.

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

- 1.2.5 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. In 2018/19 to date no instances of non-conformance have been identified.
- 1.2.6 At the Committee in January 2019 new audit and fraud KPIs were approved and these will be implemented and reported to Committee for 2019/20.

1.3 Counter Fraud Update

Prevention and Detection of Fraud, Bribery and Corruption

- 1.3.1 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.
- 1.3.2 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 current biennial exercise commenced in October 2018 and required data sets were provided in line with set timescales. In January 2019 1106 matches were received. To date 76 have been closed with no further action and 18 have been opened to undertake further enquiries. In March 2019 a further 483 matches were received, which are awaiting review.

- 1.3.3 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 December 2018. There were 814 matches received and to date 604 have been closed with no further action required. 55 have been closed as errors resulting in underpayments totalling £9,398.21. A further 38 have been opened to undertake further enquiries. Of the 117 to be reviewed 73 relate to rising 18s and therefore will be prioritised according to date of birth.
- 1.3.4 The Kent Intelligence Network (KIN), 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 Operations Manager was recruited in October 2018; significant progress has been made since his appointment including training on and implementation of a new data matching software solution. Next steps in terms of data sets to match are being progressed with an initial focus on Business Rates and an update report will be provided to Kent Finance Officers Group (KFOG) in May and to this Committee in July.
- 1.3.5 In 2018 KFOG agreed to fund the procurement of a software solution that focuses on data matching businesses in receipt of Small Business Rates Relief (SBRR) nationally. Data matches received through this route have been reviewed and an overall saving to date of £10,864.63 has been achieved against a cost contribution from TMBC of £1,000. A number of SBRR matches remain subject to review and data matches are refreshed monthly resulting in potential for further savings. The software providers are now working in partnership with the KIN, this partnership has been shortlisted for the 2019 Public Finance Awards in the Solutions Partner category with results to be announced 1st May 2019.
- 1.3.6 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 by the Revenues Team and this has identified a number of cases where they have removed the discount. For 2018/19 to date 53 discounts have been removed resulting in an amount of £40,453.95 to be recovered. Current funding arrangements expire at 31 March 2019 and KCC have yet to formally confirm what if any element of funding will be continued.
- 1.3.7 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.

1.3.8 We continue to review areas of fraud risk and direct our work accordingly. In 2018/19 to date this has included:

- Working with the parking team on a number of investigations identified from Parking Permit applications. This will be explored further over the year with an exercise to undertake periodic matching of SPD to Residents Parking Permits. In addition a Blue Badge enforcement day has been discussed, with exact timing to be confirmed once this is formally agreed.
- Discussions with two Housing Associations with regard to Joint Working which could result in recovery of properties with 100% nomination rights for TMBC and we are considering whether there is other work that would be of mutual benefit including data matching and a key amnesty.
- The Fraud Team undertook a proactive review of Student Discounts currently in place which identified £1,335.44 of underpayments based on incorrect discounts.

1.3.9 Fraud awareness training continues to be provided to services, targeted at those where risk of fraud is greatest. In 2018/19 to date we have provided training to new staff in Revenues and Benefits and to Customer Service staff at Tonbridge Castle. In addition we have training planned for Housing and a briefing to provide to the Procurement OSG carried forward from last year. In addition, following recruitment of a Fraud/Audit Assistant, we will be looking at formalising a plan for additional proactive work and raising awareness of fraud more broadly. This work is likely to be undertaken in 2019/20.

Investigating Fraud

1.3.10 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. Investigation of Housing Benefit Fraud transferred to the Department of Work and Pensions (DWP) in February 2016 however the DWP are now requesting that local authorities work with them to jointly investigate cases where claimants are in receipt of both Housing Benefit and Council Tax Reduction; this went live 25th February 2019 and will increase the number of investigations currently undertaken. The impact of this on the team will be closely monitored.

1.3.11 In 2018/19 to March, the Counter Fraud Team have closed 404 cases and received a total of 319 referrals; there are 24 ongoing investigations. The total amount of income due as a result of investigations closed to 12th March is £71,387.68 (this includes the £10,864.63 referred to in paragraph 1.3.5 above) with increased annual liability of £76,799.67. **[Annex 3]** summarises the results of investigations concluded in 2018/19 to date.

Independent Review of Counter Fraud

1.3.12 As part of the 2018/19 Internal Audit and Counter Fraud Plan it was agreed that an independent review of the Counter Fraud function would be undertaken to provide assurance that fraud risk is appropriately recognised and addressed at an organisational level and that referrals, investigations and sanctions are dealt with appropriately in line with Council Policy and relevant legislation. We agreed that this work would be undertaken in March 2019 and the results of the review will be reported to this Committee in July with any resultant action plan.

1.4 Legal Implications

1.4.1 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.

1.4.2 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.

1.4.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them.

1.5 Financial and Value for Money Considerations

1.5.1 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.

1.5.2 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.

1.6 Risk Assessment

1.6.1 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.

1.6.2 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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