

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

01 October 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 to August 2019.

Internal Audit Update

1.1 Introduction

- 1.1.1 The Accounts and Audit Regulations require the Council to *undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance.*
- 1.1.2 The Public Sector Internal Audit Standards (PSIAS) require 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.* For TMBC, the "Board" is considered to be the Audit Committee.

1.2 Progress against the 2019/20 Plan

- 1.2.1 The Annual Internal Audit and Counter Fraud Plan (the Plan) for 2019/20 was approved by Members of the Audit Committee on the 1 April 2019. The purpose of this report is to provide Members with an update on the progress of the Internal Audit team in 2019/20 against the Plan. The Plan reflects all work to be undertaken by the team during the financial year, containing both assurance work and consultancy work. The Plan this year is weighted towards assurance, with 19 assurance and 1 consultancy pieces of work.
- 1.2.2 Progress against the 2019/20 Internal Audit Plan is slightly ahead of the equivalent position this time last year, but is still behind target. The reason for this, as outlined in the July report to this Committee, is shortage of resources in the 2018/19 financial year; inevitably this has also had an impact on the start of the current financial year. We do however have sufficient resources to complete the 2019/20 Plan (through a mixture of permanent, seconded and contracted staff)

and I am continuing to monitor the situation to ensure that we are able to deliver our work to time.

- 1.2.3 We have issued one final audit report so far this year; this received 'Substantial' assurance and there are no significant risks arising. A further 1 audit is at draft report stage with 6 in fieldwork and 4 in planning. A summary of the current status of all audits on the 2019/20 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 Completion of 2018/19 Internal Audit Plan

- 1.3.1 Members may recall that at the July Audit Committee meeting, we reported that there were four substantive audits and two follow up audits that had not been finalised. At the time of writing this current report, two of the substantive audits and both follow up audits have been finalised and summaries are provided in **[Annex 3]**. The remaining two substantive audits are now at draft report, and in the process of agreeing management actions to the recommendations raised. The findings of these pieces of work do not affect Internal Audit's overall opinion on systems of risk management, governance and control that was provided as part of the Annual Report.

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

- 1.4.1 As referenced in Paragraph 1.1.1, PSIAS are mandatory for Internal Audit practice in the public sector. As part of the PSIAS, Internal Audit is required to maintain a Quality Assurance and Improvement Programme (QAIP), which is overseen by the Audit Committee. The QAIP 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. Oversight of the QAIP enables the Audit Committee to discharge its duty to ensure an adequate and effective internal audit function.
- 1.4.2 The QAIP must include periodic self-assessments of compliance against the PSIAS. "Periodic" is defined by most internal audit functions as "annual". As the new incoming Chief Audit Executive, I am currently undertaking a self-assessment in order to inform a refreshed and revised action plan going forwards. The outcomes of this self-assessment, together with the resultant action plan, will be reported to this Committee in January.

Counter Fraud Update

1.5 Prevention and Detection of Fraud, Bribery and Corruption

- 1.5.1 This section of the report provides details of the Council's activity in preventing and detecting fraud, bribery and corruption in the year 2019/20 to date.
- 1.5.2 Members will recall that at the July Audit Committee, we reported that the draft independent assessment of counter fraud activity had been received and we also reported a summary of findings. An independent view of Counter Fraud activity is essential, as, due to potential conflicts of interest, the CAE is unable to provide assurance on this function. The final report has now been received and can be circulated to Members of this Committee if required. We have drafted an action plan in response that is due to be presented to Management Team shortly; once agreed, it will then be presented to this Committee for monitoring purposes.
- 1.5.3 As reported previously, 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 addition to this there is also the Annual data matching undertaken through NFI between the Electoral Register and Council Tax Single Person Discount data; the most recent results were received in December 2018. A further data set has recently been added, matching HMRC data with Council Tax data, this has seen a further 2,482 matches ready to be reviewed. A summary of the matches received and the outcomes are attached at **[Annex 4]**.
- 1.5.4 The Kent Intelligence Network, continues to support Local Authorities in Kent in preventing and detecting fraud. One key area for Tonbridge and Malling has been the continued use of data matching to identify unrated businesses and businesses who are claiming Small Business Rate Relief (SBRR) when they no longer meet the criteria. We are still awaiting details back from the Valuation Office on the impact of the unrated properties.
- 1.5.5 In 2018 Kent Finance Officers Group agreed to fund the procurement of a software solution that focuses on data matching businesses in receipt of SBRR nationally, the cost contribution from Tonbridge and Malling was £1,000 and recently agreed to fund the software for a further year. The total income due to date in 2019/20 as a result is £34,925.11 with increased annual liability of £8,271.64.
- 1.5.6 Funding from KCC continues to support the identification of council tax cases 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 have been undertaken by the Revenues Team and this has identified a number of cases where they have removed the discount. For 2019/20 due to resource issues within the Revenues Team management

information is limited, we are working with the Revenues Team to ensure reporting on the 2019/20 activity is robust and will be reporting at the next Committee.

- 1.5.7 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.
- 1.5.8 We continue to review areas of fraud risk and direct our work accordingly. In 2019/20 this has included:
- Working with the parking team on a number of investigations identified from Parking Permit applications. This will be explored further 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, and KCC have provided fraud awareness training to the Parking Team.
 - A further review is planned of Small Business Rate Relief to ensure that entitlement to the relief is still applicable. This will also support the recommendations identified in the recent Business Rates audit to ensure applicants have made a relevant declaration of their entitlement and are aware of the need to report changes in circumstances.
- 1.5.9 Fraud awareness training continues to be provided to services, targeted at those where risk of fraud is greatest. In 2019/20 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. Following recruitment of the Fraud/Audit Assistant in August 2018, we are formalising a plan for additional proactive work and raising awareness of fraud more broadly in 2019/20.

1.6 Investigating Fraud, Bribery and Corruption

- 1.6.1 The Counter Fraud Team is responsible for investigating all allegations of fraud, bribery and corruption, whether this is through internal fraud, 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 mainly the Department for Work and Pensions and other local authorities to progress investigations.
- 1.6.2 In 2019/20 to end of August, the Counter Fraud Team have closed 111 cases and received a total of 135 referrals, 63 of which relate to NFI; there are 26 ongoing investigations. The total amount of income due as a result of investigations to end of August is £43,971.76 with increased annual liability of £20,982.52. Civil penalties (net) in the amount of £490 were also applied. **[Annex 4]** summarises the results of investigations concluded in 2019/20.

1.7 Legal Implications

- 1.7.1 The Accounts and Audit Regulations place a statutory requirement on local authorities to undertake an adequate and effective internal audit of systems of risk management, governance and control in line with the PSIAS.
- 1.7.2 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.
- 1.7.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them.

1.8 Financial and Value for Money Considerations

- 1.8.1 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.
- 1.8.2 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.

1.9 Risk Assessment

- 1.9.1 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.
- 1.9.2 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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