

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

20 January 2020

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 the Internal Audit and Counter Fraud function for the period April to December 2019. It also outlines the quality assurance activity that has been undertaken and the resultant action plan.

1.1 Introduction

1.1.1 The Accounts and Audit Regulations require the Council to *undertake an adequate and effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*

1.1.2 The 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.* It also requires Internal Audit to *develop and maintain a quality assurance and improvement programme to include both internal and external assessments.* The outcomes of this programme must be reported to the Audit Committee.

1.1.3 As part of the agreed Counter Fraud Policy, Audit Committee receives relevant updates to allow it to monitor the effectiveness of the Policy.

INTERNAL AUDIT UPDATE

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 Audit Committee on the 1 April 2019. This report provides Members with an update on progress against the Plan.

1.2.2 The Plan reflects all work to be undertaken by the team during the financial year. To date, we have fully completed six pieces of work; summaries of five of these are provided in **[Annex 1]** and one (Food Safety) was reported to this Committee in October 2019. The results of individual audits so far this year have been mixed.

We have issued one 'High', two 'Substantial', two 'Adequate' and one 'Limited' assurance opinions. Definitions of assurance opinions are provided in **[Annex 2]**. The 'Limited' assurance opinion related to Property – Asset Utilisation and Disposals and was principally as a result of no clear, documented strategy in place for property assets, including rent reviews. Similarly, where high priority issues were raised as part of the IT Strategy, these were in relation to lack of evidence available to support a robust strategic planning process.

- 1.2.3 We have made one change to the Internal Audit Plan for 2019/20. Internal Audit was due to undertake consultancy work on the roll-out of the new Waste Contract. Unfortunately, due to resourcing issues already reported to this Committee, this was not possible in the early part of the financial year. In discussions with the Director of Street Scene, Leisure and Technical Services, we concluded that there was limited value in audit involvement as the service went live and that we will instead undertake an assurance piece of work around the new contractual arrangements in 2020/21.
- 1.2.4 We did however undertake some additional consultancy work in preparation for the General Election. After the previous two elections in 2019, residents within a particular postcode area complained that they had not received their polling cards. Subsequently, we reviewed the print and distribution processes in place and made some recommendations to enhance controls. In the lead up to the 12 December election, we reviewed the process again to provide a level of assurance that the cards for the affected addresses had been properly created and distributed (via the print contractor) up to the point of handover to Royal Mail.
- 1.2.5 The majority of other audits on the plan are either in planning, fieldwork or draft report stage; there are two substantive audits and one follow-up audit that have not yet commenced. As discussed with Members of this Committee in October, the 2019/20 Plan was delayed starting due to resourcing issues but we have subsequently made good progress and we are ahead of the equivalent position this time last year.
- 1.2.6 In line with the PSIAS, Internal Audit has arrangements in place to follow up on all recommendations agreed with management and to report to the Audit Committee on a regular basis with the responses received. This will be provided in April and July 2020. An escalation process would be instigated that would ultimately result in reporting to Management Team and this Committee should risks be accepted that Internal Audit does not believe are within the risk appetite of the organisation; there are no such risks to report for 2019/20 to date.

FRAUD UPDATE

1.3 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 2019/20 to date.

- 1.3.2 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. Further data sets have been released throughout 2019/20 including a match between Housing Benefit/Council Tax Reduction Scheme and HMRC earnings, capital and household composition.
- 1.3.3 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. A summary of the matches received and the outcomes are attached at **[Annex 3]**.
- 1.3.4 We continue to review areas of fraud risk and direct our work accordingly. In 2019/20 to date this has included:
- Meeting with Service Management Teams to start the process of completing a comprehensive fraud risk assessment;
 - Raising fraud awareness thorough an email campaign that aligned to international fraud awareness week;
 - Supporting the Revenues Team in their approach to progressing credit reference data matching;
 - Working with other Kent Local Authorities at a workshop to support the refresh of the Fighting Fraud Locally Strategy;
 - 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 additional a Blue Badge enforcement day has been discussed, with exact timing to be confirmed once this is formally agreed.

Investigating Fraud

- 1.3.5 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.
- 1.3.6 In 2019/20 to end of December 2019, the Counter Fraud Team have closed 154 cases and received a total of 241 referrals, 90 of which relate to NFI. There are 28 ongoing investigations. The total amount of income due as a result of investigations to end of December is £64,004.45 with increased annual liability of £76,564.04. Civil penalties (net) in the amount of £840.00 were also applied.

1.3.7 **[Annex 3]** summarises the results of investigations concluded to date in 2019/20.

QUALITY ASSURANCE

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

1.4.1 Under the PSIAS, Internal Audit is required to maintain a Quality Assurance and Improvement Programme (QAIP). This summarises all of the measures in place to enable an evaluation of Internal Audit's conformance with the PSIAS including the Code of Ethics. The PSIAS stipulate that as part of the QAIP, Internal Audit must undertake periodic self-assessments of conformance and must also undertake an External Quality Assessment every five years. The Audit Committee are charged with oversight of the QAIP so that they can ensure the quality and effectiveness of Internal Audit.

1.4.2 Over the last few months, as a new Chief Audit Executive, I have undertaken a detailed self-assessment of the Internal Audit function and have created an action plan to address the gaps identified. This action plan is at **[Annex 4]** and a progress update will be provided as part of the Annual Report in July 2020.

1.4.3 An EQA was last undertaken in 2016 and the next EQA will therefore be due in 2021. The format and provider of this assessment will be discussed with Audit Committee prior to the review taking place.

Independent Review of Fraud

1.4.4 As part of the 2018/19 Internal Audit and Counter Fraud Plan it was agreed that an independent review of the 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. The report has now been finalised with recommendations / actions agreed. This action plan is also presented in **[Annex 4]** and updates will continue to be reported to Members until complete.

Performance Indicators

1.4.5 Key Performance Indicators (KPIs) exist to enable Members to review and evaluate the performance of the Internal Audit and Counter Fraud function. The indicators for 2019/20 were agreed by Members of the Audit Committee in January 2019 but with the caveat that these would be confirmed once all systems of measurement are in place.

1.4.6 I have now reviewed the KPIs and have proposed some changes for the financial year 2019/20 in **[Annex 5]** which Members are asked to agree. The following changes are proposed:

- Delete the KPI for VfM opportunities identified – *this is because there is no reliable and comprehensive way to measure this*
- Remove the indicative target of 95% from the outcome of the annual self-assessment KPI – *there are 56 Standards and each can be assessed as Generally, Partially or Non-conformant which does not readily translate into a percentage. Within the Annual Report, alongside the KPI results, Members will be provided with a summary detailing the numbers of standards that, in my view, fall into each of those categories*
- Remove the KPI for outcome of periodic independent review of Fraud as this does not apply to 2019/20
- Separate out the % completion of Audit and Fraud Plan into two individual KPIs – *the Fraud Plan is largely reactive whereas the Audit Plan is a programme of planned work and the two are therefore different*
- Add a KPI under Learning and Innovation for maintenance of Continual Professional Development (CPD) for relevant staff – *Members of the Institute of Internal Auditors are required to complete 40 hours CPD per year*
- Delete the % of recommendations implemented by agreed revised date – *this is difficult to calculate reliably as recommendation dates will often be revised more than once. The % of open recommendations overdue will indicate those that have been delayed with revised timescales not agreed with Internal Audit*

1.5 Legal Implications

- 1.5.1 The Accounts and Audit Regulations place a statutory requirement on local authorities to undertake an adequate and effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 1.5.2 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.
- 1.5.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them.

1.6 Financial and Value for Money Considerations

- 1.6.1 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.

1.6.2 Fraud prevention and detection is an area subject to central government focus with initiatives such as the National Fraud Initiative and Fighting Fraud Locally Strategy. The message coming from these initiatives is that effective fraud prevention and detection releases resources and minimises losses to the Council through fraud.

1.7 Risk Assessment

1.7.1 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.

1.7.2 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:

contact: Francesca Chivers

Nil

Francesca Chivers
Chief Audit Executive