

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

27 July 2020

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 THE YEAR 2019/20

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 2019/20 to support that opinion. In addition, the report also informs Members on the work of the Counter Fraud function in 2019/20.

1.1 Introduction

1.1.1 The Accounts and Audit Regulations 2015 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.

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 Annual Opinion is derived from evaluation of the outcomes of Internal Audit work with specific emphasis upon the following key factors:

- Assurance Opinions from audit assignments;
- The level of implementation by management of agreed actions to improve internal control and the management of risk.

1.2.4 The opinion on the framework for governance, risk management and control is principally based upon the evaluation of the findings, conclusions and assurances from the work of the Internal Audit function during 2019/20, full details of which are provided in this report. While all audit results are considered, including the outcomes of any consultancy work, any other reliable sources of assurance are identified and, where appropriate, considered when arriving at an overall opinion.

1.2.5 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 **adequately** contributed to the proper, economic, efficient and effective use of resources in achieving the Council's objectives during 2019/20.

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 2019/20, 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. Progress against these recommendations during 2019/20 has been good.

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, who in turn reports to the Head of Internal Audit (Chief Audit Executive).
- 1.3.2 The Internal Audit and Counter Fraud Establishment comprises 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 and Chief Audit Executive post has been secured by way of a shared management arrangement with Kent County Council.
- 1.3.3 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 2019/20 was approved by this Committee on 1 April 2019. 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 Due to the number of audit that were carried over from 2018/19 to the beginning of this year, progress against the 2019/20 plan started slowly. Good progress has been made during the year, but has again, at the later end of the year been impacted slightly by the Covid-19 lockdown. Of the original 20 audits (19 Assurance (A) and 1 Consultancy (C)) on the 2019/20 plan:

- Two audits were added to the Plan during the year – Delivery of Corporate Strategy (C) and Complaints Procedures (C).
- Two audits were cancelled and replaced by the two above – Corporate Governance (A) and Waste Contract (C)
- One Audit was completed as Consultancy (C) which was previously Assurance (A) – Budget Setting and Monitoring.
- One Audit had a reduced scope due to pressures associated with Covid-19 lockdown. The review of Homelessness subsequently only included the follow up on actions from the previous audit.

1.4.5 Of the revised total of 20 audits, three of which were consultancy, at the time of writing the team have completed 18 audits (both assurance and consultancy), with a further one audit at draft report stage. The final piece of work remains in progress, having been ongoing through the year as part of other audit engagements and will now form a themed report when complete.

Therefore, this represents 91.7% delivery of the amended Plan including Consultancy against a target of 90%. The remainder of the Plan is made up of ad hoc 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 A summary of the current status of audit work for 2019/20 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 PSIAS, 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 2019/20.

1.5.3 Ninety nine recommendations were due for implementation in 2019/20; this excludes 'Low' priority recommendations which are considered to be good practice only and are not followed up and includes any recommendations carried forward as not fully implemented at 31 March 2019. Progress is as follows:

- 46 have been closed as implemented
- 9 were closed due to being superseded by subsequent audit work of changes in services
- 5 were closed as risk accepted due to the service concluding after further investigation that, in their view, the work/cost required to implement is not justified based on the level of risk.
- A further 8 potentially closed but Internal Audit awaiting additional evidence from the service
- 4 were part of full follow-up audits reported separately.
- 27 are partially implemented, in progress and/or have agreed, revised implementation dates.

Having assessed the risk of extending these dates there are no concerns to raise. Therefore, in 2019-20, 73% of recommendations had either been implemented, partially implemented or closed.

- 1.5.4 Audit recommendations made from assurance work undertaken in 2019/20 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 2019/20 included provision of ad hoc advice and information as and when requested by Council officers. Areas of specific consultancy / advisory work include on the Complaints Procedures, Delivery of the Corporate Strategy and Forecasting and Budget Monitoring **[Annex 1]**. 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.

1.7 Training

- 1.7.1 Training of the one Senior Internal Auditor was undertaken during the year. Although this totalled the planned 5 days allocated for Continuing Professional Development (CPD), there is a need to conduct a skills and experience assessment on the service to inform future requirements for CPD and the approximate 100 days of outsourced contractor days of audit resource.

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

- 1.8.1 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.
- 1.8.2 During the year, a detailed Self-Assessment has been undertaken of the Internal Audit function. No instances of non-conformance have been identified but a number of areas have been assessed as 'Partially Conforms'. An action plan was created to address these areas and was presented to the Audit Committee in January. An update on the progress against this action plan is at **[Annex 3]**.

- 1.8.3 An External Quality Assessment (EQA) should be conducted at least every 5 years. The last EQA was undertaken in 2016 where the overall opinion was that Internal Audit “Generally Conforms” to the PSIAS. This will mean that the next EQA will be due in 2021. The format and provider of this assessment will be discussed with Audit Committee prior to the review taking place.
- 1.8.4 The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement and learning for the team. For 2019/20, the team has achieved or exceeded the target set for three of the four Internal Audit indicators measured. At the Committee in January 2020, new audit and fraud KPIs were approved to be implemented for 2019/20. Actual performance of the team against these measures is provided at **[Annex 4]**.

1.9 Partnership Working

- 1.9.1 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. It must be noted, however, that according to the PSIAS it is the responsibility of Tonbridge and Malling Council to maintain an effective Internal Audit activity.
- 1.9.2 The organisational independence of the Internal Audit activity has been achieved during the year through direct interaction with the Audit Committee and the Audit Committee Chair.

1.10 Internal Audit Summary

- 1.10.1 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.
- 1.10.2 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.
- 1.10.3 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 2019/20

1.11 Prevention and Detection of Fraud, Bribery and Corruption

- 1.11.1 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.
- 1.11.2 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. 1,018 matches were received with a further 1,010 received and to date 1,553 have been closed with no further action and 143 have been closed with errors found, 143 have been opened to undertake further enquiries and 189 have yet to be reviewed.
- 1.11.3 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 2020. There were 907 matches received, 651 have been closed with no further action required and 11 have been closed as errors resulting in underpayments totalling £4,744. This is money owed to the council. Of the remaining matches, 77 are subject to further enquiries and 168 have yet to be reviewed.
- 1.11.4 An additional data matching exercise, known as supplementary, using Council Tax Single Person Discount data to a myriad of other data sets held resulted in 1,739 matches. To date 871 have been closed with no further action required. Of the remaining matches 868 have yet to be reviewed.
- 1.11.5 We also received a Council Tax to HMRC Household composition match in August 2019. There were 2,482 matches received of which 945 have been closed with no further action required, 2 have been closed with errors identified resulting in underpayments of £562. 38 are subject to further enquiries along with 1,497 yet to be reviewed.
- 1.11.6 Details of the NFI data matching exercises above are summarised in the table below.

SPD to Electoral Register	2019 Biennial	Council Tax to HMRC Household Composition	2020 SPD	2020 other Data sets	Total
Total Matches	2028	2482	907	1739	7156
Closed NFA	1553	945	651	871	4020
Closed Error	143	2	11	0	156

Closed Fraud	0	0	0	0	0
Further Enquiries	143	38	77	0	258
To open	189	1497	168	868	2722

- 1.11.7 The Kent Intelligence Network (KIN), a government funded partnership led by Kent County Council, has been in place since 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.
- 1.11.8 The key focus area for 2019/20 has looked at fraud and error within Single Person Discounts, Small Business Rate Relief and unrated business premises. For Single Person Discount activity there has been an additional £14,294 in additional Council Tax liability being identified and £8,160 in future increased annual liability through the removal of Single Person Discounts.
- 1.11.9 In 2018, Kent Finance Officer Group (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, the cost contribution from Tonbridge and Malling was £1,000. Data matches received through this route have been reviewed. The total income due as a result for 2019/20 was £64,923 with increased annual liability of £8,034.00, one case identified income due in the amount of £6,279.87, which was immediately recovered, with increased annual liability of £1,104.48 and a caution issued. This was the first case in Kent where a formal sanction was applied.
- 1.11.10 We have also identified through the KIN activity unrated business rates properties, this has seen an additional £236,008 in business rates being identified, increasing business rates income.
- 1.11.11 At its May 2020 meeting, KFOG agreed to fund the software for a further year and the software providers are now working in partnership with the KIN, this partnership has had a successful year having been shortlisted for the 2019 Public Finance Awards in the Solutions Partner category and winning the award for Best Initiative in Combatting Fraud at the ALARM Risk Awards.
- 1.11.12 We continue to review areas of fraud risk and direct our work accordingly. In 2019/20, this has included:
- The progression of Service specific fraud, bribery and corruption risk assessments, briefings have been provided to each service management team along with a draft risk assessment for them to review and complete, however this work is due to be completed in 2020/21.

- Fraud awareness training to Customer Services to ensure as first points of contact for customers they are 'fraud aware'.
- An authority wide fraud awareness week that aligned with international fraud awareness week in November to raise awareness.
- The planned blue badge enforcement day in March 2020 has had to be deferred due to Covid-19 and will be included in the 2020/21 Fraud Plan.

1.12 Investigating Fraud, Bribery and Corruption

- 1.12.1 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.
- 1.12.2 In 2019/20, the Counter Fraud Team have closed 232 cases. A total of 337 referrals were received, 169 of which relate to NFI. There are currently 26 ongoing investigations. The total amount of income due as a result of investigations concluded in 2019/20 was £93,840.57 with increased annual liability of £96,579.36. Civil penalties (net) in the amount of £2,030.00 were also applied. **[Annex 5]** summarises the results of investigations concluded in 2019/20.

1.13 Counter Fraud Resources

- 1.13.1 The 2019/20 resource dedicated to Counter Fraud is 0.2 FTE management support provided under a secondment agreement with KCC, 1 FTE Counter Fraud Specialist and 0.8 FTE Counter Fraud Assistant.
- 1.13.2 The Counter Fraud Assistant is currently undertaking the 'Accredited Counter Fraud Specialist' qualification and has to date completed 3 of the 4 modules.

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:

contact: Richard Benjamin

Nil

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