

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

28 September 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 both the Internal Audit function and the Counter Fraud function for the period April to August 2020.

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 2020/21 Plan

- 1.2.1 The Annual Internal Audit and Counter Fraud Plan (the Plan) for 2020/21 was approved by Members of the Audit Committee on 27 July 2020. The purpose of this report is to provide Members with an update on the progress of the Internal Audit team in 2020/21 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 20 assurance and 1 consultancy pieces of work.
- 1.2.2 Progress against the 2020/21 Internal Audit Plan is broadly equivalent to the position this time last year, but is still slightly behind target. The reason for this is largely due to the 2020/21 Audit Plan not being approved by Audit Committee until July. The plan would have usually been approved in April, subsequently this led to a delay starting audit engagements. There are, however, sufficient resources

to complete the 2020/21 Plan (through a mixture of permanent, seconded and contracted staff).

- 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. We have also issued a management letter as part of the Health and Safety audit which reviewed the Council's measures put in place to protect staff and visitors in relation to Covid-19. This too did not identify any significant risks.
- 1.2.4 A further audit is at draft report stage with 1 at quality assurance stage. There are another 6 reviews in planning. A summary of the current status of all audits on the 2020/21 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 2019/20 Internal Audit Plan

- 1.3.1 Members may recall that at the July Audit Committee meeting, we reported that there was 1 substantive audit that had not been finalised. At the time of compiling this current report, the audit is at draft report stage and we are awaiting responses to recommendations raised in the report. 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. The Committee will be updated further at the next meeting.

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". A self-assessment is currently being undertaken 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 2020/21 to date.
- 1.5.2 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 1657 have been closed with no further action and 157 have been closed with errors found, 50 have been opened to undertake further enquiries and 164 have yet to be reviewed.
- 1.5.3 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 (including referrals for Raising 18), 762 have been closed with no further action required and 22 have been closed with errors found. Of the remaining matches, 72 are subject to further enquiries and 51 have yet to be reviewed.
- 1.5.4 The Kent Intelligence Network continues to support Local Authorities in Kent in preventing and detecting fraud. The key focus area for 2020/21 has looked at fraud and error within Single Person Discounts, Small Business Rate Relief and unrated business premises. Data matches received through this route have been reviewed. The total income due as a result for 2020/21 to date was £23,401 with increased annual liability of £12,471 through the removal of Single Person Discounts.
- 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 identified additional business rates due to date in 2019/20 and 2020/21 as a result is £119,923 with increased annual liability of £249,072. The majority of this was in relation to two specific sites.
- 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 and this has identified a number of cases where they have removed the discount.
- 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. This includes the progression of Service specific fraud, bribery and corruption risk assessments and briefings have been provided to each service management team along with a draft risk assessment for them to review and complete. This work is due to be completed in 2020/21. Fraud awareness training continues to be provided to services, targeted at those where risk of fraud is greatest.

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 2020/21 in the period to the end of August, the Counter Fraud Team have closed 55 cases and received a total of 103 referrals, 58 of which relate to NFI; there are 9 ongoing investigations with a further 30 being investigated from previous years. The total amount of income due as a result of investigations to end of August is £12,223 with increased annual liability of £9,146. Civil penalties (net) in the amount of £630 were also applied. **[Annex 3]** summarises the results of investigations concluded in 2020/21.

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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