

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

18 January 2021

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 December 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 the 27th 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.
- 1.2.2 Progress against the 2020/21 Internal Audit Plan continues to be challenging with the current status slightly behind target. There has been strain on the Council's resources due to the current pandemic such there has been delays in starting some audits and others have been delayed until later in the year or postponed until 2021/22.

- 1.2.3 The current audit plan has been reviewed to ensure that it adequately covers, and provides assurance against, the key risks of the Council. This has resulted in a number of changes made to the 2020/21 Plan. These changes have resulted in 3 audits being postponed to next year and replaced with 2 new audits. It has also been agreed to delay one audit until quarter 4 which will add additional pressure on delivery. Details of these changes are included in **[Annex 1]**.
- 1.2.4 The majority of audits on the 2020/21 Internal Audit Plan have now been commenced. Four final reports have been issued so far this year; and a further 3 audits are at draft report stage. The resultant opinions have been largely positive with 1 'High' rating, 3 'Substantial', 2 'Adequate' and 1 yet to be given an opinion rating. There are another 4 audits in progress and 5 that are being planned. A summary of the current status of all audits on the 2020/21 Plan, including a summary of findings where finalised or at draft report, is attached at **[Annex 1]**. Definitions of Audit Opinions are provided at **[Annex 2]**.
- 1.2.5 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. 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 currently no such risks to report.
- 1.2.6 Thirty-Six recommendations were due for implementation during 2020/21 to date. 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 2020. Progress is as follows:
- 8 have been closed as implemented.
 - 4 were closed due to being superseded as service is no longer provided.
 - A further 10 remain open as Internal Audit are awaiting a response from the service.
 - 11 have had a new implementation date agreed based on discussion with the business.
 - The remaining 3 will be covered in future audit engagements.

Details of the 21 recommendations that remain open are attached in **[Annex 3]**. There is considerable scope for improvements in internal control and the management of risk through the implementation of these recommendations.

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

- 1.3.1 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.
- 1.3.2 An External Quality Assessment (EQA) was last undertaken in 2016. It is a requirement for an EQA to be undertaken every 5 years. The next EQA will therefore be due in 2021. Quotes have been sought in partnership with Kent County Council and supplier will be selected to complete an EQA in the first 3 months of 2021.
- 1.3.3 A detailed self-assessment of the Internal Audit function has been undertaken. This, as well as the accompanying evidence, will be submitted to the organisation undertaking the EQA who will evaluate the assessment to provide independent assurance. The subsequent report and any identified improvement actions will be submitted to this Committee.
- 1.3.4 It is likely that the EQA will commence prior to the next Audit Committee in April and therefore, the format and provider of this assessment will be discussed with the Chair of the Audit Committee prior to the review taking place.

Counter Fraud Update

1.4 Prevention and Detection of Fraud, Bribery and Corruption

- 1.4.1 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.
- 1.4.2 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. 1,018 matches were received with a further 1,010 received and to date 1,840 have been closed with no further action and 160 have been closed with errors found, 7 have been opened to undertake further enquiries and 21 have yet to be reviewed. New data sets were submitted in December 2020 and the next set of biennial data matches are expected early in 2021.

- 1.4.3 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 Raising 18 referrals), 836 have been closed with no further action required, 32 have been closed with errors found and 39 have yet to be reviewed.
- 1.4.4 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 £9,548 with increased annual liability of £4,420 through the removal of Single Person Discounts.
- 1.4.5 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. The total identified additional business rates due for the year up to the end of September 2020/21 was £14,856 with increased annual liability of £10,261.
- 1.4.6 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.
- 1.4.7 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. A full summary of the Kent Intelligence Network data matches for Council Tax and Business rates is attached at **[Annex 4]**.
- 1.4.8 The team continue to review areas of fraud risk and direct our work accordingly. Including 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, 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.

1.5 Investigating Fraud, Bribery and Corruption

- 1.5.1 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.

1.5.2 In 2020/21 to end of November, the Counter Fraud Team have closed 89 cases and received a total of 158 referrals, 78 of which relate to NFI; there are 14 ongoing investigations with a further 8 being investigated from previous year. The total amount of income due as a result of investigations to end of November is £21,916.46 with increased annual liability of £19,123.00. Civil penalties (net) in the amount of £1,330.00 were also applied. **[Annex 5]** summarises the results of investigations concluded in 2020/21.

1.6 Small Business, Hospitality and Retail Grants

1.6.1 In response to the Covid-19 pandemic, the government announced there would be support for small businesses, and businesses in the retail, hospitality and leisure sectors.

1.6.2 Under the Small Business Grant Fund (SBGF), all businesses in England in receipt of either Small Business Rates Relief (SBRR) or Rural Rates Relief (RRR) in the business rates system will be eligible for a payment.

1.6.3 Under the Retail, Hospitality and Leisure Grant (RHLG), businesses in England that would have been in receipt of the Expanded Retail Discount (which covers retail, hospitality and leisure) on 11 March with a rateable value of less than £51,000 were eligible for the cash grants.

1.6.4 Tonbridge and Malling have paid out a total of 1,510 grants to date. The fraud team requested, and was provided with the full list of grants issued to detect possible fraudulent applications.

1.6.5 The Cabinet Office provide councils with access to the Spotlight system to manage grant applications. Spotlight performs automated due diligence checks on each application. This includes checks against Companies House information and also identifies where more than one application has been made over different administering councils. The system output highlights areas of risk that require further investigation. Tonbridge and Malling made the decision to carry these checks out in bulk post paying the grant.

1.6.6 To date, 713 applications have been passed through the Spotlight software with the remainder requiring additional information before they are accepted by the system. Of these 713, issues were found with 17. Of the 17, 4 required no further action, with 13 active enquiries.

1.6.7 As members of the National Anti-Fraud Network (NAFN) we have received regular alerts where fraud has been identified. To date, 93 alerts from NAFN have been received. These alerts cover issues such as false email addresses, false bank accounts and empty property alerts. Of the 93 alerts received none have required further investigation as they have not made applications in our area or the applicant was stopped prior to being accepted for a grant.

- 1.6.8 The full list of grants has also been processed through the Kent Intelligence Network Destin system. This has raised 12 referrals for further investigation where grants may have been paid to liquidated or dissolved companies.
- 1.6.9 The Counter Fraud team have completed 1 investigation for a small business grant that was paid to a company that was not eligible for Small Business Rates Relief. The investigation concluded that fraud was not proven in this case due to the information that the Council provided the applicant. Although the grant was issued in error, it was determined that as the business was eligible for Expanded Retail Discount and therefore could receive the Retail, Hospitality and Leisure Grant this money was not reclaimed.
- 1.6.10 There has been one other case of fraud identified where an expanded retail discount and grant application was received impersonating an existing company. A grant of £25,000 was paid to an account that was not associated with the business, along with a refund totalling £18,960. Counter Fraud are liaising with the bank on recovery of the funds. The bank has notified that the grant payment was stopped, and notification of the refund amount is awaited.
- 1.6.11 With the release of additional grants and post assurance still being undertaken in regard to the original grants, post assurance work is ongoing. The results of which will be reported to future meetings.

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:

contact: Richard Benjamin

Nil

Jonathan Idle
Chief Audit Executive