

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

06 April 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 2020 to March 2021.

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 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.
- 1.2.2 Since the last Audit Committee in January, progress against the Audit Plan has been good, with completion expected by the Annual Report to Audit Committee in July. There has been sufficient coverage in the Plan to enable the Chief Audit Executive to provide an overall opinion on risk management, governance and control for the financial year.

1.2.3 The majority of audits on the 2020/21 Internal Audit Plan have now been commenced. Nine final reports have been issued so far this year; and a further 2 audits are at draft report stage. The resultant opinions have been largely positive with 1 'High' rating, 3 'Substantial', 3 'Adequate' and 2 not given an opinion rating as completed as consultancy engagements. There are another 5 audits in progress and nearing completion and 4 that have been planned and due to commence, 2 of which will run through into 2021/22 and have also been included in the draft 2021/22 Audit Plan. 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]**.

1.3 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 between January and March. It is a requirement for an EQA to be undertaken every 5 years. Initial feedback from the Review are positive. The final report from the review, and the resulting recommendations in the improvement plan will be presented to the Audit Committee in July.

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. New data sets were submitted in December 2020 which have resulted in 767 matches which will be reviewed during the year.

1.4.3 The NFI have opened a consultation on proposed new powers to support further data matching outside of fraud, these being:

- to assist in the prevention and detection of crime (other than fraud);

- to assist in the apprehension and prosecution of offenders;
- to assist in prevention and detection of errors and inaccuracies; and
- to assist in the recovery of debt owing to public bodies.

We have responded to the questions asked, generally agreeing that the new powers would be of benefit to TMBC.

- 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.
- 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 TMBC was £1,000. The total identified additional business rates due for the year to the end of December 2020 was £46,571 with increased annual liability of £8,034. Data matches have also identified missing business rate referrals and this has led to an increase in business rates received to December 2020 of £5,901 with a future loss provision of £12,725.
- 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, this has amounted to £29,156 with a future loss provision of £23,579. A total of £420 penalties have been applied.
- 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.

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 agencies mainly the DWP and other local authorities to progress investigations.
- 1.5.2 In 2020/21 to date, the Team have closed 111 cases and received a total of 208 referrals, 87 of which relate to NFI; there are 10 ongoing investigations with a further 3 being investigated from previous year. The total amount of income due as a result of investigations to date is £49,404.52 with increased annual liability of £22,444.06. Civil penalties (net) in the sum of £1,400.00 were also applied. **[Annex 3]** summarises the results of investigations concluded in 2020/21.

1.6 Small Business, Retail, Hospitality and Leisure Grants and other Business Grants

- 1.6.1 In response to Covid-19, 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 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 administrating 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.
- 1.6.5 To date, 763 applications have been passed through the Spotlight software with the remainder requiring additional information that may not be available in order to be processed by the system. Of these 763, issues were found with 17. Of the 17, 4 required no further action, with 13 requiring further work to establish entitlement.
- 1.6.6 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.
- 1.6.7 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. These have now been cleared with no outstanding issues.
- 1.6.8 The Counter Fraud team have 7 ongoing investigations regarding business grant payments. This includes working with national investigation teams where there is organised crime operating at a national level.
- 1.6.9 There has been a review conducted on a 10% random sample of grant recipients of the Local Restrictions Support Grant. This resulted in 58 businesses being contacted to confirm they still meet the grants criteria with 7 business not

responding within the agreed timescale and therefore payments have been suspended pending their response. 1 is currently under investigation and 1 business that no longer meets the criteria.

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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