

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

26 July 2021

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 2020/21

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 2020/21 to support that opinion. In addition, the report also informs Members on the work of the Counter Fraud function in 2020/21.

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.
- Wider knowledge of key risks and operations by the Chief Audit Executive

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 2020/21, full details of which are provided in this report. The Chief Audit Executive has also considered the key risks facing the authority. 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 **substantially** contributed to the proper, economic, efficient and effective use of resources in achieving the Council's objectives during 2020/21.

Whilst it has been identified that the authority has largely established substantial and effective internal controls within the areas subject to Internal Audit review in 2020/21, 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 2020/21 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; one vacant fraud assistant (this post to also provide support to internal audit as required) and one Intelligence Assistant. Since May 2015, the Fraud Manager, 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 2020/21 was approved by this Committee on 27th July 2020 which was 3 months later than usual due to Audit Committee in April 2020 being cancelled. 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 audits that were carried over from 2019/20 to the beginning of this year, and the delay in approving the Plan, progress against the 2020-21 plan started slowly. Good progress has been made during the year. Of the original 21 audits (19 Assurance (A) and 2 Consultancy (C)) on the 2020/21 plan:
- Two audits were added to the Plan during the year – Budget, Savings and Income (A) and Temporary Accommodation Costs (C).
 - Four audits were cancelled and replaced by the two above – Sickness Management (A), Recruitment and Retention (A), Local Plan (A) and Housing Allocation Scheme (C)
 - Two Audits are ongoing audits and have continued into 2021/22, Business Continuity and Customer Service Review.
- 1.4.5 Of the revised total of 19 audits, 2 of which were consultancy, at the time of writing the team have completed 16 audits (both assurance and consultancy), with a further 1 audit at draft reporting stage. The final 2 pieces of work are ongoing reviews and continue into 2021/22.
- 1.4.6 Therefore, this represents 92.1% 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 2020/21 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.

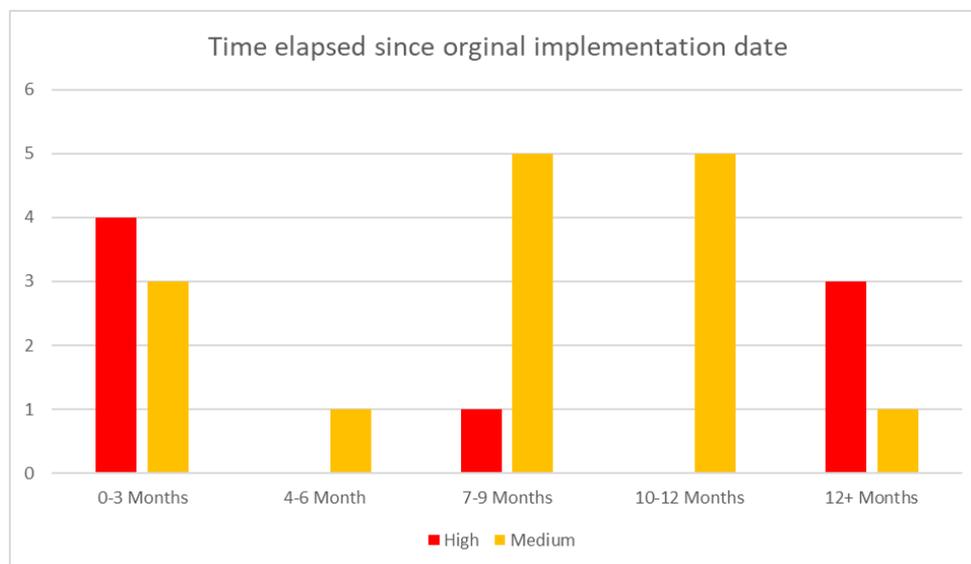
1.5.3 Eighty-Four recommendations were due for implementation in 2020/21; this excludes 'Low' priority recommendations which are considered to be good practice only and are not followed up and includes any recommendations carried forward as not fully implemented at 31 March 2020. Progress is as follows:

- 48 have been closed as implemented or superseded.
- A further 1 will potentially be closed but Internal Audit awaiting additional evidence from the service.
- 12 have not been followed up as they are to be part of full follow-up or re-audits in 2021/22 and will be reported separately.
- 23 are partially implemented, in progress and/or have agreed, revised implementation dates.

27% of recommendations due for implementation in the year remain open. This is a similar proportion to those reported last year. Of the 23 recommendations remaining partially implemented or in progress, the table below detail for which services these relate.

| Audit | Medium | High |
|---|---------------|-------------|
| Creditors and VAT | 1 | |
| Contaminated Land | | 1 |
| Information Governance | | 1 |
| Public Health | 1 | 2 |
| IT Network Physical Access and Security | 1 | |
| Facilities Management | 2 | 1 |
| Empty Properties | 1 | 1 |
| Corporate Credit Cards | 1 | |
| Parking - Residential permits and PCN's | | 1 |
| Enforcement | 4 | 1 |
| Land Charges | 3 | |
| Risk Management | | 1 |

In addition to the above detail, the chart below sets out the time elapsed since the original implementation date for these 23 recommendations. Recommendations over 12 months will be subject to targeted reviews during 2021/22 to establish whether significant risks remain or whether recommendation have been superseded.



- 1.5.4 Audit recommendations made from assurance work undertaken in 2020/21 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 2020/21 included provision of ad hoc advice and information as and when requested by Council officers. Areas of specific consultancy / advisory work included Health and Safety (Covid-19) and Temporary Accommodation costs. 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. This totalled the planned 5 days allocated for Continuing Professional Development (CPD) as per the service KPI. The Audit and Assurance Manager completed the required 40 hours CPD to maintain their professional qualification.

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 and evaluated during an External Quality Assessment. No instances of non-conformance were identified. The External Quality Assessment was conducted during February to March 2021. Tonbridge and Malling Internal Audit were assessed as 'Generally Conforms' with the Public Sector Audit Standards.
- 1.8.3 An action plan has been developed where improvements or enhancements were noted. This will be presented to the Audit Committee and monitored to completion at future Committee meetings.
- 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 2020/21, the team has achieved or exceeded the target set for four of the six Internal Audit indicators measured. Actual performance of the team against these measures is provided at **[Annex 3]**.

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.

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 2020/21

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 2020/21.
- 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. To date, we currently have 2,763 matches received within the 2018/19 biennial exercise and to date 1,900 have been closed with no further action, 160 have been closed with errors found and 1 has been closed as Fraud. The remaining matches unopened are linked to the Covid-19 Business Grant applications which are uploaded to NFI as part of our pre-payment checks; the matches that are marked as low risk have not been looked at. We have received a further 767 matches from the 2021 biennial matching process. These have not been actioned as yet.
- 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 December 2020. There were 886 matches received, 374 have been closed with no further action required and 140 have been closed as errors resulting in underpayments totalling £51,382. This is money owed to the Council. Of the remaining matches, 78 are subject to further enquiries and 294 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 in 2020. To date 1731 have been closed with no further action required and the remaining 8 matches have been closed as errors resulting in underpayments totalling £4,201.92

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 1,010 have been closed with no further action required, 14 have been closed with errors identified resulting in underpayments of £6,676.72, 3 are subject to further enquiries along with 1,455 yet to be reviewed.

1.11.6 Details of the NFI data matching exercises are summarised in the table below.

| SPD To Electoral Register | 2019 Biennial | Council Tax to HMRC Household Composition | 2020 SPD | 2021 SPD | 2021 Council Tax to Other Datasets | 2021 Biennial | Total |
|----------------------------------|----------------------|--|-----------------|-----------------|---|----------------------|--------------|
| Total Matches | 2763 | 2482 | 907 | 886 | 1498 | 767 | 9303 |
| Closed NFA | 1900 | 1010 | 836 | 374 | 0 | 2 | 4122 |
| Closed Error | 160 | 14 | 32 | 140 | 0 | 0 | 346 |
| Closed Fraud | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Further Enquiries | 7 | 3 | 5 | 78 | 0 | 0 | 93 |
| To Open | 695 | 1455 | 34 | 294 | 1498 | 765 | 4741 |

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 2020/21 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 £31,757 in additional Council Tax liability being identified and £45,615 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 2020/21 was £66,756 with increased annual liability of £20,983.

1.11.10 We have also identified through the KIN activity unrated business rates properties, this has seen an additional £5,901 in business rates being identified, increasing business rates income.

1.11.11 In addition to business rates, we have also identified through the KIN activity unrated council tax properties, usually annexes, which has seen an additional £7,915 in council tax being levied.

1.11.12 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 2020 Public Finance Awards in the Solutions Partner category and winning the award for Best Initiative in Combatting Fraud at the ALARM Risk Awards.

1.11.13 We continue to review areas of fraud risk and direct our work accordingly. In 2020/21, 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. These are now being reviewed against service risk registers by the Fraud Officer.
- Fraud awareness training currently being updated whilst we were unable to conduct awareness sessions due to Covid-19 to aim to deliver to services as well as to any new starters so they are 'fraud aware'.
- An authority wide fraud awareness week that aligned with international fraud awareness week in November.
- The planned blue badge enforcement day in March 2020 has had to be deferred due to Covid-19 and will be included in the 2021/22 Fraud Plan.

1.2. Small Business, Retail, Hospitality and Leisure Grants and other Business Grants.

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

1.2.2. To date, 1,617 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 1,617, issues were found with 21. Of the 21, 7 required no further action, 10 were fraud prevented, 2 were incorrect benefit, and the remaining 2 are currently the subject of ongoing investigation.

1.2.3. With involvement with Small Business Rate Relief as well as working with the Business Rates team to spot fraud and error within the Covid-19 Business Grant

applications has resulted in £21,994.81 being identified as error, as well as a £10,000 Covid-19 grant prevented from being paid out in error.

1.3 Investigating Fraud, Bribery and Corruption

1.3.1 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.

1.3.2 In 2020/21, the Counter Fraud Team have closed 111 cases. A total of 211 referrals were received, 87 of which relate to NFI. There are currently 18 ongoing investigations. The total amount of income due as a result of investigations concluded in 2020/21 was £59,404.52; with £10,000 prevented from being paid out in error, with increased annual liability of £22,444.06. Civil penalties (net) in the amount of £1,400 were also applied. **[Annex 4]** summarises the results of investigations concluded in 2020/21.

1.4 Counter Fraud Resources

1.4.1 The 2020/21 resource dedicated to Counter Fraud is 0.2 FTE management support provided under a secondment agreement with KCC, 1 FTE Fraud Officer, 0.8 Fraud and Audit Assistant (vacant since October 2020) and 0.8 FTE Intelligence Assistant.

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 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.

1.5.2 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.

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 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.

1.7 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: Richard Benjamin

Nil

Jonathan Idle
Chief Audit Executive