

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

24 January 2022

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 2021.

The report contains a recommendation to close a recommendation and accept the risk. Details are contained in paragraph 1.3.7.

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 2021/22 Plan

1.2.1 The Annual Internal Audit and Counter Fraud Plan (the Plan) for 2021/22 was approved by Members of the Audit Committee on the 6 April 2021. The purpose of this report is to provide Members with an update on the progress of the Internal Audit team in 2021/22 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 2021/22 Internal Audit Plan is currently slightly behind target. This is, in part, due to 3 audits being postponed to quarter 4 of the year, either by request of the business or proximity to a previous review in the same area.

Unfortunately, it has not been possible to re-prioritise and move other audits to earlier in the year to balance this.

- 1.2.3 From the 1 October 2021, the provision of Internal Audit has been delegated to Kent County Council and the subsequent increase in resources pool has allowed all remaining audits to be allocated and there is confidence in delivering the Plan to inform the Internal Audits annual opinion.
- 1.2.4 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 not resulted in changes to the 2021/22 Plan, although the current recruitment process for the vacant specialist IT auditor post is progressing, this may require the Cyber Security audit to be delayed. Instead, it is proposed that the time in the Plan set for assurance mapping will focus on the cyber security risk.
- 1.2.5 The majority of audits on the 2021/22 Internal Audit Plan have now been commenced. 3 final reports have been issued so far this year; and a further 2 audits are at draft report stage. There are another 7 audits in progress and 1 that is being planned. A summary of the current status of all audits on the 2021/22 Plan, including a summary of findings where finalised, is attached at **[Annex 1]**. Definitions of Audit Opinions are provided at **[Annex 2]**.
- 1.2.6 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 should 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.
- 1.2.7 Sixty one recommendations were due for implementation during 2021/22 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 2021. Progress is as follows:
- 18 have been closed as implemented.
 - 5 were closed due to being superseded by other developments in the service or council.
 - 1 has been closed as the service has accepted the risk. Details are contained in **[Annex 4]** for the Committee's consideration.
- A further 37 remain open. Of which:
- 17 are in progress and a revised implementation date has been agreed with the business.

12 have not been followed up as they are part of upcoming audit engagements.

Internal Audit have not had responses to the remaining 8 recommendations.

Details of the 25 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. The level of implementation of these recommendations is also a key consideration in the Annual Opinion for the year.

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

- 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 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 undertaken in early 2021. It is a requirement for an EQA to be undertaken every 5 years. The EQA produced a number of recommendations to ensure better compliance with the professional standards and the final report and subsequent Action Plan were presented to Audit Committee in July 2021.
- 1.3.3 The action plan consists of 18 recommendations incorporating 13 issues and 5 enhancements. There are 16 due for implementation by December 2021, of which 12 are complete and 4 are still in progress.
- 1.3.4 Where actions that were due for implementation and are still in progress, this is primarily as the recommendations are common to recommendations raised in the KCC EQA and therefore a response is being coordinated across KCC. Updates to these recommendations will be reported to subsequent Audit Committees. Detail on the progress against the Action Plan is contained in **[Annex 5]**.

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 2021/22 to date.
- 1.4.2 Work continues to support the assessment of Business Rates grants with the Counter Fraud Team supporting in conducting pre-payment checks on grants. This is being achieved through data matching against company house data to ensure the business is active. Further work on post payments checks are due to commence in January 2022 with grant payments being subject to a National Fraud Initiative (NFI) check.
- 1.4.3 Reviewing of the NFI matches continues, a breakdown of matches received and progress against them can be found at **[Annex 6]**. The annual data match between Council Tax Single Person Discount and the Register of Electors has been uploaded and results are due in January 2022.
- 1.4.4 The Kent Intelligence Network continues to support Local Authorities in Kent in preventing and detecting fraud. The key focus area for 2021/22 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.
- 1.4.5 The total amount of underpayments identified for Quarter 1 & 2 to date is:
- Removal of Small Business Rate Relief - **£109,183** (+£38,038 in future income)
- Unrated Business Rates - **£84,488** (+£83,084 in future income)
- Removal of Council Tax Discounts/ Exemptions - **£163,878** (+£82,559 in future income) .
- 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 other discount and exemption has progressed during quarter two with reviews against, student and awaiting probate exemptions/ discounts. Further reviews will be progressed through the remainder of the financial year on the other exemption/ discount types.

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 2021/22 to end of November, the Counter Fraud Team have received a total of 70 referrals, the majority of which relate to referrals relating to Housing Benefit & Council Tax reduction. Cases where there is a Housing Benefit entitlement are being referred to the Department for Work and Pension for investigation, however their Counter Fraud Service is still not fully operational following Covid-19. Civil penalties (net) in the amount of £2,660 were also applied.

1.6 Legal Implications

- 1.6.1 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.
- 1.6.2 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.
- 1.6.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them.

1.7 Financial and Value for Money Considerations

- 1.7.1 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.
- 1.7.2 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.

1.8 Risk Assessment

- 1.8.1 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.
- 1.8.2 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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