

**TONBRIDGE & MALLING BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**25 July 2022**

**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 2021/22**

**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 2021/22 to support that opinion. In addition, the report also informs Members on the work of the Counter Fraud function in 2021/22.**

**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 on the framework for governance, risk management and control is derived from evaluation of the outcomes of Internal Audit work, and additional knowledge of significant risks facing the Council. It is with a specific emphasis upon the following key factors:

- Assurance Opinions from audit assignments.
- Consultancy and advice given to the Council
- Outcomes of assurance mapping and the work completed by other assurance providers.
- The level of implementation by management of agreed actions to improve internal control and the management of risk.
- Wider knowledge of key risks facing local authorities and TMBC.

1.2.4 The conclusions and assurances from the work of the Internal Audit function during 2021/22 are provided in this report. 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 **adequately** contributed to the proper, economic, efficient and effective use of resources in achieving the Council's objectives during 2021/22.

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 2021/22, 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 2021/22 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 Counter Fraud service is delivered by Kent County Council via a Inter Authority Agreement. This commenced on 1<sup>st</sup> October 2021, when the Senior Internal Auditor, Counter Fraud Officer and Intelligence Analyst were TUPE'd to Kent County Council. The contractor that was also employed to deliver the Internal Audit Plan became directly contracted through KCC.
- 1.3.2 There have been significant changes to staffing during the year. Both the Senior Auditor and the audit contractor have moved on and there has been ongoing recruitment to replace these posts. Currently there is now a lead Senior Auditor, whose primary responsibility is TMBC, with an additional 11 Internal Auditors available to resource the Tonbridge and Malling Plan.
- 1.3.3 There is a 0.2 FTE Counter Fraud Specialist and 1 FTE Counter Fraud Technician with specific responsibility for TMBC with an additional 3 Counter Fraud specialists available to assist in delivery with the TMBC Counter Fraud Plan.
- 1.3.4 The internal auditor or fraud officer assigned to each audit/fraud review is selected by the Audit 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 2021/22 was approved by this Committee on 6<sup>th</sup> April 2021. The Plan set out the proposed work of the Internal Audit team for the year which can be summarised into two key work types: set out at 1.4.2 – 1.4.3.
- 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 2020/21 to the beginning of this year, progress against the 2021-22 plan started slowly. This was further compounded with staff turnover during the year. The increase in the pool of auditors available through the Shared Service arrangement has meant that delivery in the second half of the year has been very strong. Of the original 23 audits (17 Assurance (A) and 6 Consultancy (C)) on the 2021/22 plan:
- Three audits were cancelled or deferred from the Plan during the year – Cyber Security (A), Waste Contract Management (A) and Delivery of Corporate Plan (A).
  - An additional audit was added to the plan to replace the planned audit of Waste Services, Fly Tipping (A)
  - Two Audits are ongoing audits and have continued into 2022/23,
  - Two audits are currently in progress. Climate Change (A) and Fly Tipping (A). These were due to either requests from the business to delay the start of the audit, or as a result of being added to the 2021/22 audit plan late in the year.
  - Of the revised total of 21 audits, at the time of writing the team have completed 18 audits (both assurance and consultancy), with a further 1 audit at draft reporting stage and 2 in Fieldwork or Quality Assurance.

## 1.5 Assurance Work

- 1.5.1 A summary of the current status of audit work for 2021/22, including a summary of findings where finalised, is shown in **[Annex 1]**. Definitions of Audit Opinions are provided at **[Annex 2]**.
- 1.5.2 Opinions provided for Assurance audits during 2021/22 were generally positive with 8 audits being given substantial or high and 4 with adequate assurance. There was one audit relating to GDPR and data retention that received a no assurance opinion.
- 1.5.3 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.
- 1.5.4 74 recommendations were due for implementation in 2021/22; 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:
- 53 (72%) have been closed as implemented or superseded
  - 1 (1%) was closed with management accepting the risk
  - 7 (9%) remain open and are to be part of full follow-up or re-audits in 2022/23 and will be reported separately.
  - 4 (5%) are still awaiting evidence of implementation from management
  - 9 (12%) are partially implemented, in progress and/or have agreed, revised implementation dates.
  - 18% of recommendations due for implementation in the year, and not subject to re-audits, remain open. This is down on the proportion reported last year of 26%. Of the 13 recommendations remaining partial implemented, in progress or with a revised implementation date, the table below gives detail for which services these relate.

Audit	Medium	High
Asset Utilisation	1	1
Public Health	1	1
IT Network Physical Access and Security	1	
Facilities Management	1	1
Business Continuity	1	1
General Ledger	2	
Open Spaces Inspections	2	

Although the number of open outstanding recommendations has fallen significantly, the recommendations that remain open have been open for some time, with 9 of the 13 having been open for more than a year. Internal Audit will continue to engage with management to ensure these are progressed in 2022/23 and will report the results to the Audit Committee.

- 1.5.5 Audit recommendations made from assurance work undertaken in 2021/22 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.
- 1.5.6 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 2021/22 included provision of ad hoc advice and information as and when requested by Council officers. 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. From the consultancy work completed in 2021/22, the most significant was the outcome of the 'Achievement of Savings' engagement. The results seen in **[Annex 1]** raise that although potential opportunities for savings have been identified greater urgency on implementing savings plans for this year and over the next 3 years is needed.

## **1.7 Training**

- 1.7.1 Training of the Internal Audit Manager and Senior Auditor was undertaken during the year. This averaged above 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 An External Quality Assessment was undertaken and presented to Audit Committee in July 2021. Tonbridge and Malling Internal Audit were assessed as 'Generally Conforms' with the Public Sector Audit Standards. The Committee also approved a detailed action plan to address the identified improvements and enhancements identified in the assessment. These have been delivered in 2021/22 and can be viewed at **[Annex 3]**.
- 1.8.3 The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement and learning for the team. For 2021/22, the team has achieved or exceeded the target set for four of the six Internal Audit indicators measured, including 1005 for client satisfaction. Actual performance of the team against these measures, as well as the counter fraud and business measures are provided at **[Annex 4]**. Performance has remained consistent with last year with improvements noted for the business in relation to percentage of recommendations implemented on time, percent of recommendations overdue and time taken to complete an Action Plan to address audit findings. Although improved, these measures remain below target.

## **1.9 Partnership Working**

- 1.9.1 Since October 2021, the Internal Audit and Counter Fraud service has been delivered through an Inter Authority Agreement 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 resources of the team have been 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.

## ***Annual Counter Fraud Report 2021/22***

### **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 2021/22.
- 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.
- 1.11.3 There are four key areas to the NFI exercise, undertaken in 2021/22, which are summarised in **[Annex 5]**. This has seen 5460 matches cleared or under investigation out of 9605 received. The remaining matches are being cleared with the majority of these being medium or low risk matches. This has resulted in £77,760 in cost avoidance for removing people of the social housing waiting list, in addition £195,899 of additional revenue has been identified through amendments to council tax liabilities due to discounts being adjusted or removed.
- 1.11.4 The Kent Intelligence Network (KIN) led by Kent County Council, has been in place since September 2016. The aim of this partnership is to prevent and detect fraud, reduce their risk profiles and to support development of fraud professionals locally. This partnership delivers further tools for data matching and debtor tracing in addition to external support in identifying unrated business and residential properties.
- 1.11.5 In 2021/22 KIN identified matches where Small Business Rates Relief needs to be reviewed due to the business occupying premises elsewhere in the country. This match has identified £121,868 in additional revenue. Furthermore, unrated business premises and untaxed council tax premises (mainly annexes) has identified a further £148,725 in additional income.
- 1.11.6 In addition to the above activity, an initiative has begun to review all Council Tax discounts and exemptions to confirm there is still an entitlement to the relevant discount or exemption.
- 1.11.7 This has identified a total of 745 discounts and exemptions to be reviewed, to date a total of 460 have been reviewed, resulting in additional council tax income of £48,813.

## **1.12 Small Business, Retail, Hospitality and Leisure Grants and other Business Grants.**

- 1.12.1 In response to COVID-19, the government introduced additional support grants for businesses. During 2021/22 we have been running Spotlight checks for the Omicron Hospitality and Leisure Grant over a 9-week period.
- 1.12.2 In order to meet the data specification requirements for Spotlight, a number of data quality adjustments were required to be made to the original data provided to the Counter Fraud Team.
- 1.12.3 After reviewing the applications and passing these through the Spotlight software 163 of the grants met the specified criteria. After the last week of applications came in, a final review was completed which identified that one duplicate payment was made. This gave the Revenues team the opportunity to request £4,000 back from the company which had made the duplicate application.

## **1.13 Investigating Fraud, Bribery and Corruption**

- 1.13.1 The Counter Fraud Team is responsible for investigating all allegations of fraud, bribery and corruption. In 2021/22, 124 cases have been referred for progression. There are 64 referrals closed with no further action. Of the 19 cases opened for investigation, one case has been closed and another resulted in the recovery of £411 which was allocated to fraud. The remaining cases are yet to be sifted.

## **1.14 Legal Implications**

- 1.14.1 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.
- 1.14.2 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.
- 1.14.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them.

## **1.15 Financial and Value for Money Considerations**

- 1.15.1 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.

1.15.2 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.

## **1.16 Risk Assessment**

1.16.1 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.

1.16.2 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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