

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

16 January 2023

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.

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 2022/23 Plan

1.2.1 The Annual Internal Audit and Counter Fraud Plan (the Plan) for 2022/23 was approved by Members of the Audit Committee on the 1 April 2022. The purpose of this part of the report is to provide Members with an update on the progress of the Internal Audit team in 2022/23 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 2022/23 Internal Audit Plan is currently on target, although there are a higher than usual number of audits still in progress. This is, in part, due to 2 IT audits being on hold and 1 audit being postponed to quarter 4 of the year. These 3 audits have already been planned and in 2 cases fieldwork has already commenced. The reasons for this were either by request of the business or specialist staff vacancies.

1.2.3 The majority of audits on the 2022/23 Internal Audit Plan have now been commenced. 4 final reports have been issued so far this year; and 1 audit is at

draft report stage. There are another 10 audits in progress. 2 IT audits are on hold and due to restart in January, with 5 audits to commence in quarter 4. A summary of the current status of all audits on the 2022/23 Plan, including a summary of findings where finalised, is attached at **[Annex 1]**.

1.2.4 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.

1.2.5 There were 57 recommendations due for implementation during 2022/23 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 2022. Progress is as follows:

- 27 have been closed as implemented or low risk.

Of the 30 that remain open:

- 9 will be followed up as part of upcoming audit engagements in the 2022/23 Plan.
- 5 are in progress and a revised implementation date has been agreed with the business.
- Internal Audit has not followed up, or not had responses to date for the remaining 16 recommendations and will report on these in the Annual Report in July 2023.

1.2.6 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's conformance with the PSIAS including the Code of Ethics.

1.3.2 The QAIP 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.

1.3.3 The TMBC QAIP consists of the following elements:

- **Quality Review** – The review process that is undertaken when an audit engagement is in progress. Quality Reviews ensure auditors are adequately supervised throughout the audit engagement.
- **Cold Reviews** – The review process that is undertaken once an audit engagement is complete. It is completed by an independent person.
- **Auditor Self Assessments** – Completed at the completion of each audit engagement. The purpose of the individual self-assessment is to promote continual improvement as well as identifying individual development needs.
- **Customer Feedback** – A customer feedback questionnaire will be sent to the relevant manager once the final report for each audit engagement has been issued. This informs service improvement. A summary of the results is reported to Audit Committee alongside the Annual Report.
- **Key Performance Indicators** – Key Performance Indicators (KPIs) assist the CAE, the Audit Committee and other stakeholders in understanding how Internal Audit is performing against its targets and where there may be areas for improvement to address. KPIs are reported to Audit Committee as part of the Annual Report.
- **Internal Self-Assessment** – The Internal Self-Assessment will be completed on an annual basis by the Chief Audit Executive, against compliance with the PSIAS. The results will be reported to the Audit Committee.
- **Annual Review of the Effectiveness of Internal Audit** – Each year, the Chief Audit Executive completes a pro-forma to review the effectiveness of Internal Audit. This is endorsed by Management Team and reported to Committee alongside the Annual Report.
- **External Assessment** – PSIAS require an External Quality Assessment (EQA) to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The last external assessment was reported to Audit Committee in July 2021.
- **Improvement Programme** – Action plans will be developed to address the findings of all internal and external assessments as relevant with a view to improving both conformance and quality in practice. These will be reported to Audit Committee as part of progress reports.

1.3.4 The QAIP was reviewed in December 2023. It has been aligned to Kent County Council Internal Audit Practices. Consistency and efficiency of practice was one

objective of the Shared Service. This has resulted in the addition of cold reviews to the QAIP, as detailed in 1.3.3.

- 1.3.5 A detailed internal self-assessment has been undertaken during December 2023 and it was determined that the service 'Generally Conforms' with the PSIAS. There were a number of enhancements identified and these are included in the improvement plan at **[Annex 2]**. Progress against the actions will be reported to Audit Committee in future progress reports.

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 2022/23 to quarter two.

National Fraud Initiative

- 1.4.2 The Counter Fraud Team have reviewed and cleared the matches provided as part of the biennial data matching exercise for 2020/21. The outcome of the exercise is shown in **[Annex 3]**.
- 1.4.3 The 2020/21 biennial exercise summary in **[Annex 3]** shows a total of 871 matches were released. The reports in the exercise include; DWP Housing Benefit claimants to TMBC data such as housing waiting list, taxi drivers, council tax exemptions and discounts.
- 1.4.4 Due to resourcing when the 2020/21 exercise was released, a proportion of matches were not reviewed in a timely manner. This was due to resources being diverted to support the Covid-19 Business Rate grants scheme. Therefore, when KCC's Counter Fraud Team reviewed the data within the NFI, it was historic. This has resulted in a bulk close of matches.
- 1.4.5 The reports for the 2022/23 NFI exercise will be released in Quarter 4. The exercise will be resourced so that matches are reviewed on a timely basis.
- 1.4.6 The annual exercise includes the reports; Council Tax Single Person Discount to Register of Electors, Single Person Discount to HM Revenue and Customs, and Single Person Discount to other data sets.
- 1.4.7 **[Annex 3]** shows the breakdown of progress of the annual exercise this financial year including quarter 3 to date. A total of 3,868 matches were released and 2,826 matches have been reviewed. The outcome of the matches that have been completed has resulted in increased council tax liability of £42,920.
- 1.4.8 A bulk closure of the matches within the Council Tax to other data sets was completed due to the low average value returned per case and the length of time taken to process each match. The NFI has recently removed the Council Tax to

HMRC matches without notice and as a result the outcome reported in **[Annex 3]** will be the final position.

Kent Intelligence Network

1.4.9 The Kent Intelligence Network continues to support Local Authorities in Kent in preventing and detecting fraud. The key focus area for 2022/23 continues to look 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 and the Counter Fraud Team can report the following outcomes:

- Single person discount – increased council tax liability £5,991
- Small Business Rate Relief – increased liability £51,797
- Unrated Businesses – increased liability £35,444
- Untaxed residential properties – increased liability £11,128
- Retriever Debtor Tracing £94,200 for recovery action.

1.4.10 Additionally, a review of discounts and exemptions has been completed, with the outcome shown in **[Annex 4]**. This has identified an additional £34,444 in increased liability due.

Fraud Awareness Sessions

1.4.11 The Counter Fraud Team had planned to deliver two fraud awareness sessions in quarter 3, in December 2022. The sessions have been created to ensure staff develop a greater awareness about fraud and how it can be committed against the Council caused by internal and external fraud threats.

1.4.12 A UK leading fraud prevention service is warning of an upsurge in CV and recruitment fraud, therefore the first session planned was due to be delivered to the Human Resources Team. However, HR have rearranged to Quarter 4.

1.4.13 The second session will be delivered to the Council's Revenues and Benefits Team and will focus on the fraud risks at the application, award and in payment stage of Council tax exemptions and discounts as well as the work that is done with the DWP.

1.5 Investigating Fraud, Bribery and Corruption

1.5.1 The Counter Fraud Team received 60 referrals in the first half of the financial year. The most common type of referral related to Single Person Discounts. A total of 29 referrals of this fraud type was reported in quarter one and two.

1.5.2 A total of 50 referrals have been closed, 18 are closed with no further action and 13 cases, where there is housing benefit entitlement, have been referred to the

Department for Work and Pension for investigation. 19 have been reported internally for discount or exemption review and 10 cases remain open for investigation.

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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