

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

24 July 2023

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 2022/23

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 2022/23 to support that opinion. In addition, the report also informs Members on the work of the Counter Fraud function in 2022/23.

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.

1.2.3 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

1.2.4 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 complete.
- The level of implementation by management of agreed actions to improve internal control and the management of risk. Including consideration of the timeliness of implementation.
- Referrals and outcomes of Counter Fraud activity.
- Wider knowledge of key risks and operations by the Chief Audit Executive.
- Knowledge of other work completed by other inspectorates or assurance providers.

1.2.5 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 2022/23, full details of which 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.

1.2.6 The Opinion of the Chief Audit Executive on framework for governance, risk management and control is:

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 2022/23.

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 2022/23, 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 2022/23 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 an Inter Authority Agreement. An Audit Manager and a Counter Fraud Manager lead the delivery of the TMBC Internal Audit and Counter Fraud Plan. During 2022/23, over twelve audit and fraud staff have supported its delivery.
- 1.3.2 There have been a number of new appointments during the year, including the recruitment of a specialist IT auditor. This has assisted with the delivery of the Cyber Security and IT Infrastructure audits and will resource technical IT audits in future.
- 1.3.3 The internal auditor or fraud officer assigned to each audit/fraud review is selected by the Internal 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 2022/23 was approved by this Committee on 17th April 2023. 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 reviews 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 providing 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 Of the original 22 audits (18 Assurance (A) and 4 Consultancy (C)) on the 2022/23 plan:
- Three audits were cancelled or deferred from the Plan during the year – Planning Applications (A), Housing Allocation Scheme (C) and Voter Identification (A).
 - 2 additional audits were added to the plan – Voter Identification (A) and Agile Project Board (C).
 - 1 Audit is ongoing and has continued into 2023/24,
 - 3 audits are currently at Draft Report. Risk Management (A) and Fire Safety – Gibson building(A) and Tonbridge Castle project.
 - Of the revised total of 21 audits, at the time of writing the team have completed 17 audits (both assurance and consultancy), with a further 3 audits at draft reporting stage and 1 Assurance Mapping exercise still in progress.

1.5 Assurance Work

- 1.5.1 A summary of the completed audit work for 2022/23, including a summary of findings, is shown in **[Annex 1]**.
- 1.5.2 Opinions provided for Assurance audits during were generally positive with 8 audits being given substantial and 6 with adequate assurance. There was one audit relating to Parking Income that received a limited 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 Sixty-Three recommendations were due for implementation in 2022/23. 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 31st March 2022. Progress is as follows:
- 44 (70%) have been closed as implemented or superseded.
 - 5 remain open and are to be part of full follow-up or re-audits in 2022/23 and will be reported separately.
 - 2 are still awaiting evidence of implementation from management.
 - 12 are partially implemented, in progress and/or have agreed, revised implementation dates.
 - 22% of recommendations due for implementation in the year, and not subject to re-audits, remain open. This is up slightly on the proportion reported last year of 18%, although there are a number of open recommendations that have been impacted by the delay in implementing the new Agile IT system.
 - Although the number of open outstanding recommendations has increased, it should be noted that only 1 of the 14 open recommendations having been open for longer than 1 year. This is a significant improvement on previous years.
- 1.5.5 Audit recommendations made from assurance work undertaken in 2022/23 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,

1.6 Consultancy Work

- 1.6.1 The Internal Audit team's consultancy work in 2022/23 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. The consultancy work completed in 2022/23 can be seen in **[Annex 1]**.

1.7 Training

- 1.7.1 Training of the Internal Audit Manager and Auditors completing the TMBC Audit Plan was undertaken during the year. This averaged above the planned 5 days allocated for Continuing Professional Development (CPD) as per the service KPI **[Annex 2]**. The Internal Audit Manager completed the required 40 hours CPD to maintain their professional qualification. During the year, 6 Internal Audit staff have started training towards professional qualifications.

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 internal Self-Assessment was undertaken and presented to Audit Committee in January 2023. Internal Audit were assessed as 'Generally Conforms' with the Public Sector Audit Standards. The Committee also approved an Improvement Plan to address the enhancements identified in the assessment. Delivery of these actions is on track and reported at **[Annex 3]**. There are 2 outstanding actions to complete.
- 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 2022/23, the team has achieved or exceeded the target set for four of the six Internal Audit indicators measured. Including exceeding the delivery target. Actual performance of the team against these measures, as well as the counter fraud and business measures are provided at **[Annex 2]**. Performance has remained consistent with last year with improvements noted for the business in

relation to percentage of audit recommendations implemented on time, although improved these measures are still 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.

2 ANNUAL COUNTER FRAUD REPORT 2020/21

2.1 Prevention and Detection of Fraud, Bribery and Corruption

- 2.1.1 This section of the report provides details of the Council's activity against the Fraud Plan in preventing and detecting fraud and corruption in 2022/23.

2.2 National Fraud Initiative

- 2.2.1 The Council proactively takes part in the National Fraud Initiative (NFI), which comprises of a nationwide data matching exercise comparing Council data to both other Council and third-party datasets.
- 2.2.2 In 2022/23, the Counter Fraud Team have delivered activity on the biennial data matches received within the 2021/22 exercise. The delay was due to the need to divert resources to support the due diligence checks on the Covid Grant Payments made through 2020 to 2022.
- 2.2.3 A summary of the matches for 2021/22 and the outcome of the exercise are shown in **[Annex 4]**. Although not all matches were cleared (Council Tax to HMRC data), high risk matches have been. A sample of lower risk matches was completed and it was determined not to be value for money to check all the matches.
- 2.2.4 The data for the 2023/24 exercise was submitted in November 2022 with the matches released in January and March 2023. A summary of the matches for 2022/23 and the outcomes so far are shown in **[Annex 4]**. For 2021/22 matches a total of £151,815 in additional liability was identified due to changes in discounts and exemptions being either removed or adjusted from Council Tax accounts.
- 2.2.5 It is noted that the number of matches has reduced compared to the 2021/22 exercise.
- 2.2.6 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 2022. A summary of the matches for 23/24 exercise is shown in **[Annex 4]**. To date 50% of the Council Tax to electoral register matches have been cleared with £18,063 in additional liability having been identified due to changes in discounts or exemptions. Work has started on the biennial matches with some being cleared by the relevant team, an update will be provided in the next progress report.

2.3 Kent Intelligence Network

2.3.1 The Kent Intelligence Network (KIN), a partnership led by Kent County Council, has been in place since September 2016. The aim of this partnership is to prevent and detect fraud, reduce 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. The results for 2022/23 are:

- Single person discount to financial matches £12,414 increased council tax liability.
- Unrated Businesses £350,639 increased liability.
- Small Business Rate Relief £51,797 increased liability annually.
- Untaxed Residential properties £12,523 increased liability.
- Retriever Debtor Tracing £211,621 of Council Tax liability not passed for write off.

2.4 Risks Assessments and Awareness

2.4.1 The team have delivered awareness training to staff within Revenues and Benefits and Human Resources. The aim of the sessions was to provide greater awareness about fraud and how it can be committed against the Council by internal and external fraud threats. The sessions provided clarity around the fraud referral process and enabled staff to meet the Counter Fraud Team responsible for the TMBC referral management and investigation process.

2.4.2 Additionally, the Counter Fraud Team have provided support to management in reviewing their fraud management plan on the Home Upgrade Grant phase 2 funding.

2.4.3 As part of the team's horizon scanning and threat analysis, TMBC HR team were informed of the increased risk of employees holding second jobs and failing to declare this to the employer. The new ways of working from home creates opportunities for staff to hold other forms of employment without it being detected. A reminder has been sent to all TMBC staff about the requirements for declaring second employment.

2.4.4 Furthermore, the Counter Fraud Team will be delivering Document Verification Training to staff responsible for the review of identity documents for new starters.

2.5 Investigating Fraud, Bribery and Corruption

2.5.1 A total of 112 referrals have been received by the Counter Fraud Team in 2022/23. The most reported fraud type is in regard to Council Tax reduction, where housing benefit or universal credit is in payment. The second most common type of referral received is in relation to single person discount.

2.5.2 From the cases closed in 2022/23, there has been a total of £84,843 of detected fraud and error. Included in the closed cases is a Council Tax Reduction with Benefit in payment, investigated by the DWP resulting in a recoverable overpayment of £26,104.

2.5.3 Joint working with the Department for Work and Pensions (DWP) has been a challenge during 2022/23, this is due to a significant amount of DWP investigation resource having been diverted to other areas of their business. In the latter part of 2022/23, there has been more investigation resource available at DWP. This has helped progress the referrals being overloaded to the DWP and to support joint working cases where there is a Council Tax Reduction (CTR) interest.

3 LEGAL IMPLICATIONS

3.1.1 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.

3.1.2 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.

3.1.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them.

4 FINANCIAL AND VALUE FOR MONEY CONSIDERATIONS

4.1.1 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.

4.1.2 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.

5 RISK ASSESSMENT

5.1.1 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.

5.1.2 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:

Nil

Richard Benjamin
Chief Audit Executive

James Flannery
Counter Fraud Manager