

## **AUDIT COMMITTEE**

**24 SEPTEMBER 2015**

### **INTERNAL AUDIT & COUNTER FRAUD PARTNERSHIP**

Report from: Phil Watts, Chief Finance Officer

#### **Summary**

**This report provides Members with an update on the development of a Partnership to deliver Internal Audit and Counter Fraud Services to Medway Council and Gravesham Borough Council.**

**The report also provides an update on the transfer of Housing Benefit Fraud work to the Department for Work and Pensions Single Fraud Investigation Service.**

#### **1. Budget and Policy Framework**

1.1 Council delegates responsibility for the oversight and monitoring of the Internal Audit and Counter Fraud service to the Audit Committee.

#### **2. Background**

2.1 A shared management arrangement for Internal Audit and Counter Fraud has been in operation with Gravesham Borough Council since 1 June 2015, with the cost of the Head of Service being shared in the ratio 60/40. Both organisations entered into this arrangement with a commitment to exploring the potential for a fully shared Internal Audit and Fraud service. The target for implementation of such a service is 1 April 2016.

2.2 As Members will be aware, the benefit fraud investigation function, currently carried out by the Fraud team, will be transferring to the Department for Work and Pensions (DWP) Single Fraud Investigation Service (SFIS). Medway is due to transfer this element of the service in February 2016 while Gravesham is due to transfer in March 2016. The government have announced that the administration grant funding received by local authorities will reduce; for Medway this cut represents £155,000 and for Gravesham £60,000.

#### **3. Future arrangements**

3.1 Owing to the need to realise savings to offset the loss of government grant outlined at paragraph 2.2 of this report, and the anticipated improvements to service and staff development that this would bring, it is intended to implement a shared service arrangement as soon as possible.

- 3.2 On 1 December 2015, it is proposed that all staff employed by Gravesham Borough Council in internal audit and counter fraud roles will be transferred under the TUPE regulations to Medway. Medway and Gravesham will then develop a new structure for the delivery of the service in future and appoint to that new structure, with the new service fully launched on 1 April 2016. This approach will enable Medway and Gravesham to more accurately determine the level of fraud resource required in the partnership following the transfer of Housing Benefit Fraud Investigations to DWP SFIS. To facilitate this and minimise disruption and uncertainty for fraud staff, we have requested that the DWP delay Medway's SFIS transfer to coincide with Gravesham's date in March 2016.
- 3.3 Informal consultation meetings have already commenced with the affected staff and any proposed changes to the joint structure post 1 December will be carried out in accordance with Medway's Organisational Change Policy and Procedure. Further informal and formal consultation will be undertaken with both staff and trade unions at the appropriate time.
- 3.4 It should be noted that any reduction in cost originating from the proposals is specifically aimed at offsetting the loss of Housing Benefit Administration grant, and will not therefore produce a saving against the bottom line of either Council unless that reduction in cost exceeds the reduction of £215,000 in Housing Benefit Administration grant.
- 3.5 There are a number of synergies between the two organisations which lend themselves to a sharing of resource;
  - 3.5.1 The two organisations share a large common boundary and a similar population demographic, with significant migration of residents between the two areas;
  - 3.5.2 There are a number of existing partnership arrangements between the two councils including STG Building Control and CCTV;
  - 3.5.3 Both councils have housing stock, and therefore experience similar issues with regards to attempted Right to Buy fraud and unlawful sub-letting of HRA accommodation.
- 3.6 It is proposed that one combined audit and fraud team would support both authorities. Detailed financial analysis need to take place in order to fully understand the financial benefits of such an arrangement for both authorities.
- 3.7 In addition to any financial savings realised from the shared arrangement, there are also a number of non-financial benefits for both organisations:
  - 3.7.1 Added resilience across the two authorities. There will be a larger pool of officers covering both authorities providing additional resilience to cover sickness absence/vacancies or increased workload should this be required.
  - 3.7.2 Availability of specialist skills across both authorities, leading to increased efficiency through the potential for one auditor to complete the same audit at both authorities or for investigators to work on similar investigations.
  - 3.7.3 Sharing of best practice in the delivery of Internal Audit and Fraud functions resulting in improvements in the service delivered to both councils. The team will be better placed to provide advice to clients prior to issues arising. In addition this will also provide an improved quality of service to clients as more value can be added through sharing of best

practice in service areas identified through audit and fraud teams at either council.

- 3.7.4 Sharing of best practice in the delivery of other council services identified through audit work being done by the same auditor at both councils.
- 3.7.5 Expansion of knowledge base of individual auditors ensuring audits can be conducted within short time with little impact on the services being audited i.e. auditors become more experienced.
- 3.7.6 Greater development opportunities and exposure for the staff within the partnership, resulting in improvements in the service.

#### **4. Risk management**

- 4.1 The risks associated with this arrangement are considered to be 'low' at this time. A shared management arrangement is in place, and successful fully shared services are common for audit and fraud services in local authorities across Kent.
- 4.2 It should be noted however that risks will be reviewed regularly throughout the implementation of this arrangement to ensure they are identified and, where required, managed/mitigated as necessary.

#### **5. Financial implications**

- 5.1 As set out in section three of the report, there is the potential for both authorities to benefit financially from this arrangement. Detailed financial analysis is still to be undertaken but indicative figures suggest that savings could be in the region of £250,000 on the base budget across the two sites, to be split proportionally across the two councils.
- 5.2 It should be noted that any reduction in cost originating from the proposals is specifically aimed at offsetting the loss of Housing Benefit Administration grant, and will not therefore produce a saving against the bottom line of either Council unless that reduction in cost exceeds the reduction of £215,000 in Housing Benefit Administration grant.

#### **6. Legal implications**

- 6.1 The Transfer of Undertakings (Protection of Employment) Regulations (TUPE) is a law designed to protect the rights of employees when a business transfers from one owner to another. These will need to be taken into consideration as the arrangement progresses as it is anticipated that the employment of GBC officers will transfer to Medway Council.
- 6.2 Any resulting partnership arrangement will be made pursuant to Section 113 of the Local Government Act 1972, which allows a local authority to place any of its officers, who consent to the arrangement, at the disposal of another local authority on such terms as may be agreed between the parties.
- 6.3 Section 151 of the Local Government Act 1972 requires the council to "make arrangements for the proper administration of their financial affairs". Funding received via a Central Government Administration Grant requires Local

Authorities to maintain arrangements to prevent fraud and error in the welfare benefits that they administer.

- 6.4 Further to this, the Accounts & Audit Regulations 2011 require a relevant body 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 has been defined as that contained within the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note to the Public Sector Internal Audit Standards.
- 6.5 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them.
- 6.6 It is considered that the changes to Internal Audit & Fraud services outlined within this report will still enable the authority to meet its statutory obligations as outlined above.

## **7. Recommendation**

- 7.1 Members are asked to note the report.

### **Lead officer contact**

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### **Appendices**

None

### **Background papers**

None