

AUDIT COMMITTEE

12 JANUARY 2016

AUDIT AND COUNTER FRAUD SHARED SERVICE UPDATE

Report from: Phil Watts, Chief Finance Officer

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Summary

This report provides Members with an update on the implementation of the Shared Service 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. Medway Council and Gravesham Borough Council have agreed to share their Internal Audit and Counter Fraud Services from 1 April 2016 and a shared management arrangement has been in operation since 1 June 2015.

2.2. The benefit fraud investigation function, currently carried out by the Corporate Anti-Fraud Team, will be transferring to the Department for Work and Pensions (DWP) Single Fraud Investigation Service (SFIS). 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. Progress to date

3.1. A project group was established to implement the Shared Service, comprising officers from Legal Services, ICT, Human Resources, Finance and Property Services of both councils.

- 3.2. On 7 September 2015, Gravesham Borough Council formally delegated the functions associated with the delivery of Internal Audit & Counter Fraud services to Medway Council. Medway Council's Cabinet considered a report on 24 November 2015; at this meeting it was agreed that the Chief Executive would act on behalf of the Council using the Urgency Procedures in the Constitution to formally accept this delegation. This was because the Council's Constitution at Article 10 requires the decision to accept a delegation of functions from another local authority to be made by the full Council. The decision to accept Gravesham's delegation was urgent due to the timescales of the pending transfer of benefit fraud investigation functions to the DWP and the possible impact on retaining staff to carry out the services. In addition the Chairman of the business support Overview & Scrutiny Committee agreed that the executive decisions proposed were reasonable in all the circumstances, and to them being treated as a matter of urgency, and to waive call-in.
- 3.3. A formal Shared Service Agreement was signed on behalf of both councils on 30 November 2015; this agreement sets out the legal basis for the service and includes schedules detailing the services to be provided, performance measurement arrangements and the financial contributions to be made to Medway by Gravesham in respect of these services.
- 3.4. On 1 December 2015, Gravesham's internal audit and counter fraud staff transferred under TUPE regulations to Medway Council, and the Head of Internal Audit & Counter Fraud was formally appointed to the role as head of the Shared Service. The cost of Gravesham's staff will continue to be met by Gravesham until 1 April 2016 when the cost of the new team will be split between the councils on a proportionate basis, as set out in the Shared Service Agreement.
- 3.5. It will be necessary to restructure the team to enable it to deliver services across both councils within a reduced budget. Formal consultation with staff and unions on a proposed new structure began on 8 December and will end on 13 January 2016.
- 3.6. The DWP have agreed to align the date on which Medway Council transfers responsibility for Housing Benefit Fraud investigation to the new SFIS with that of Gravesham Borough Council; this means the function will now transfer on the 1 March 2016 instead of 1 February as was previously the case.

4. Next steps

- 4.1. At the end of the formal consultation period, the Head of Internal Audit & Counter Fraud, Chief Finance Officer, HR Business Partner and Gravesham's Director (Corporate Services) will consider feedback from staff. Subject to any amendments to the proposed structure resulting from the consultation, the new structure will be appointed to in line with Medway's Organisational Change Policy. It is anticipated that the new structure will be appointed to in late January.
- 4.2. Given the complexity of the ICT solutions required to enable a fully shared service to operate in both councils, the project group engaged an IT Consultant (with Gravesham contributing proportionately to the cost) to work

with both councils to design and implement the required hardware and software. The two councils have established a secure link for data via the Kent Public Service Network (KPSN) enabling staff in the Shared Service to access the networks of both councils from either site. Laptops will be provided to staff to enable them to be fully mobile to drive flexibility and efficiency in the service, with banks of flexible desks being made available at both sites to ensure the team retains a high profile at both councils.

- 4.3. Medway Council will cease Housing Benefit Investigation activity on 18 January 2016; at this date all new referrals relating to Housing Benefit Fraud will be dealt with by the DWP SFIS. Between this date and the formal transfer date of 1 March 2016, the council's counter fraud staff will work to transfer the current Housing Benefit Investigation caseload to the DWP.
- 4.4. It is anticipated that staff currently engaged in Housing Benefit Investigations will receive an offer of employment from the DWP SFIS in early February. Staff appointed to the new structure will take up their posts and the Shared Service will formally launch on 1 April 2016.
- 4.5. The new Audit & Counter Fraud Shared Service will present one combined work-plan setting out the internal audit and counter fraud services to be delivered for Medway Council in 2016-17 to the Audit Committee at its meeting in March.

5. Risk management

- 5.1 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.
- 5.2 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.

6. Consultation

- 6.1 As internal audit and fraud services are 'back-office' functions, this change will not impact on the public and so has not been subject to consultation.
- 6.2 Since the implementation of the shared service impacts on staff terms and conditions, informal and formal consultations are in progress lead by HR Services at both councils.

7. Financial implications

- 7.1 The total staffing budget for Medway's internal audit and counter fraud team in 2015-16 is £488,171 while the staffing budget for Gravesham's team in the same period is £305,523, a combined total of £793,694.
- 7.2 From 1 April 2015, the total cost of the shared service will be split between the two authorities on a proportionate basis, which has been agreed in the legal agreement between the two authorities.

7.3 It is anticipated that the new shared service will deliver savings for Medway of around £175,000 compared to the 2014-15 staffing budget, mitigating the reduction in Benefit Administration Grant.

8. Legal implications

8.1 The Transfer of Undertakings (Protection of Employment) Regulations (TUPE) is legislation designed to protect the rights of employees when a business transfers from one owner to another. These Regulations were taken into consideration and complied with when the employment of Gravesham Borough Council officers in internal audit and counter fraud transferred to Medway Council. Risks associated with any employment claims arising out of transfer are shared between the Councils on a proportionate basis in the shared services agreement.

8.2 The Shared Service arrangement has been made pursuant to a delegation of executive functions under the Local Authority (Arrangement for the Discharge of Functions) (England) Regulations 2012. Such arrangements are excluded from the requirement to competitively tender goods and services under the Public Contracts Regulations 2015.

8.3 Under Section 113 of the Local Government Act 1972, a local authority may 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. Goods and services required for the exercise of the functions are also provided between the Councils under the powers given by the Local Authorities (Goods and Services) Act 1970.

8.4 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.

8.5 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.

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

9.0 Recommendation

9.1 Members are recommended to note the contents of the report.

Lead officer contact: Phil Watts, Chief Finance Officer, Gun Wharf.

Appendices: None

Background papers: None