

AUDIT COMMITTEE

10 JANUARY 2017

AUDIT & COUNTER FRAUD UPDATE 1 SEPTEMBER TO 16 DECEMBER 2016

Report from: Katey Arrowsmith, Head of Audit & Counter Fraud
Shared Service (Chief Audit Executive)

Summary

This report provides Members with an update on the work, outputs and performance of the Audit & Counter Fraud Team for the period 1 September to 16 December 2016.

1. Budget and Policy Framework

- 1.1 This report falls outside the council's policy framework; Council delegates responsibility for the oversight and monitoring the effectiveness of the Audit & Counter Fraud Shared Service to the Audit Committee.

2. Background

- 2.1 The Public Sector Internal Audit Standards (the Standards) require that: *The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board.*

3. Update report and review of plan

- 3.1 Members are requested to note the positive progress the team are making with the agreed work plan, and the trend of improvements on the previous update as noted in the performance update within the Update report.
- 3.2 Section six of the report provides the results of the latest review of the achievability of the plan agreed with Members and note a predicted shortfall in resources. It is proposed that two reviews will be removed from the plan, but that the team hope to be able to deliver the remainder of the planned work during the year. Members are therefore requested to approve the removal of the reviews of Grant Payments to Voluntary Organisations and Customer Contact (Financial Assessments) from the Audit & Counter Fraud Plan 2016-17.

3.3 A further review of the plan will be carried out in advance of presenting the next update report to the Audit Committee; as such in March Members will receive confirmation as to whether any further revisions to the plan might be necessary.

4. Risk management

4.1. This report, summarising the work of the Audit & Counter Fraud team, provides a key source of assurance for the council on the adequacy and effectiveness of its internal control arrangements.

5. Financial implications

5.1. An adequate and effective Audit & Counter Fraud 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 financial statements of the council.

6. Legal implications

6.1. The Accounts & Audit Regulations 2015 require local authorities 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 or guidance. The Section 151 Officer of a local authority is responsible for establishing the internal audit service; Gravesham Borough Council has delegated this responsibility to the Section 151 Officer of Medway Council.

7. Recommendations

7.1. Members are requested to note the outputs and performance of the Audit & Counter Fraud Plan for Medway for the period 1 September to 31 December 2016 as detailed at Appendix 1.

7.2. Members note the results of the review of the Audit & Counter Fraud Plan at section six of the Update report, and approve the removal of the review of Grant Payments to Voluntary Organisations and Customer Contact (Financial Assessments) from the plan.

Lead officer contact

Katey Arrowsmith, Head of Audit & Counter Fraud (Chief Audit Executive)

Appendices

Appendix 1 - Audit & Counter Fraud Update for Medway.

Background papers

None

Audit & Counter Fraud Shared Service
Medway Council & Gravesham Borough Council

Audit & Counter Fraud Update

Medway Council

For the period:

1 September – 16 December 2016

1. Introduction

- 1.1. The Audit & Counter Fraud Shared Service for Medway Council & Gravesham Borough Council was established on 1 March 2016. The team provides internal audit assurance and consultancy, proactive counter fraud and reactive investigation services, and the Single Point of Contact between both authorities and the Department for Work & Pensions Fraud & Error Service for their investigation of Benefits Fraud.
- 1.2. The Public Sector Internal Audit Standards (the Standards) require that: *The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board.*

2. Independence

- 2.1. The Audit & Counter Fraud Charter was approved by Medway's Audit Committee in March 2016 and sets out the purpose, authority and responsibility of the team. The Charter sets out the arrangements to ensure the team's independence and objectivity through direct reporting lines to senior management and Members, and through safeguards to ensure officers remain free from operational responsibility and do not engage in any other activity that may impair their judgement. The work of the team during the period covered by this report has been free from any inappropriate restriction or influence from senior officers and/or Members.
- 2.2. Given its responsibilities for counter-fraud activities, the Audit & Counter Fraud Shared Service cannot provide independent assurance over the counter-fraud activities of either council. Instead independent assurance over the effectiveness of these arrangements will be sought from an external supplier of audit services on a periodic basis.

3. Resources

- 3.1. The Audit & Counter Fraud Shared Service Team reports to the Section 151 Officers of Medway Council and Gravesham Borough Council. The team has an establishment of 14 officers (13.6 FTE) consisting of the Head of Audit & Counter Fraud, the Audit & Counter Fraud Manager, two Audit & Counter Fraud Team Leaders, nine Audit & Counter Fraud Officers and one Audit & Counter Fraud Assistant. All members of the team started in these posts with the launch of the shared service on 1 March 2016.
- 3.2. The Shared Service Agreement sets out the basis for splitting the available resources between the two councils, approximately 64% for Medway with the remaining 36% for Gravesham. At the time the Audit & Counter Fraud Plans for 2016-17 were prepared, this establishment was forecasted to provide a total of 1,943 days available for audit and counter fraud work (net of allowances for leave, training, management, administration etc.) The Audit & Counter Fraud Plan for Medway was prepared with a resource budget of 1,195 days.
- 3.3. Net staff days available for Medway for the period 1 September to 16 December 2016 amounted to 386 days and 327 days (85%) were spent on productive audit and counter fraud work. Of this productive time, 42% was spent on audit assurance and consultancy work, while 58% was spent on counter fraud and investigations work. The current status and results of all work carried out are detailed at section 4 of this report.
- 3.4. The new shared service has moved the team members into multidisciplinary roles with all staff being responsible for delivering both audit work and counter fraud work over time. The first year of the shared service is being used to introduce staff to the disciplines that are new to them, with learning and development needs and objectives agreed through the Performance Development Review (appraisal)

process, and delivered through a mixture of formal qualification training, formal skills training, job-shadowing/mentoring and 'on the job' training. The team has monthly team meetings, and all team members have regular one to one meetings with their line manager to monitor progress with work-plans and to continue to identify and support staff to become proficient in all aspects of the team's work.

4. Results of planned Audit & Counter Fraud work

- 4.1. The Audit & Counter Fraud Plan 2016-17 for Medway was approved by the Audit Committee in March 2016. The Plan is intended to provide a clear picture of how the council will use the Audit & Counter Fraud Shared Service, reflecting all work to be carried out by the team for Medway during the financial year including the council's core finance and governance arrangements, operational assurance work, proactive counter fraud work, responsive investigations and consultancy services.
- 4.2. The productive days spent on Medway's plan have been primarily focused on proactive and reactive counter fraud work with 179 days spent on this type of work. A total of 125 days have been spent on assurance work and 23 days on consultancy work in the period.

2015-16 Internal Audit Assurance work completed in 2016-17 since the last Audit Committee meeting

Ref	Activity	Current status	Opinion, summary of findings & recommendations made
	Leisure Memberships	Final report issued	<p>The audit considered the following Risk Management Objectives (RMO):</p> <p>RMO1 – Arrangements are in place for sufficient sign up procedures and eligibility checks on applications. The council has a formal process for the setting of membership fees, with charges being set as part of the annual budget setting process and advertised on the council's website and in leisure facilities, however the website included a fee for a membership type not included in the budget setting report. Arrangements are in place to sign up new members including eligibility for any discounted memberships and agreement of payment terms. During the course of the audit the service introduced checks to ensure all members on age related memberships (i.e. youth) remained eligible or the membership type was amended and it is understood this checking will be expanded to other membership types.</p> <p>Opinion: Sufficient. Recommendations: One high priority, one medium priority.</p> <p>RMO2 – Financial processes and procedures are appropriate to ensure correct collection and recording of income due. Arrangements are in place to collect membership income, predominantly via direct debit but also by cash, cheque and cards and recent previous audit work has provided positive assurance over the cash handling arrangements at all of the leisure sites. Arrangements are in place to collect direct debit payments and to update Member accounts where direct debit collections fail, and members are prevented from accessing the facilities until their membership fees are paid. Audit testing identified data quality issues in the membership database caused by a known issue with the software that the service are working with ICT to resolve. There are not arrangements in place to reconcile membership records to records of income received and due to the data quality issues with</p>

Ref	Activity	Current status	Opinion, summary of findings & recommendations made
			<p>the database, it is not currently possible to demonstrate that all income due has been collected; however audit testing did not identify any evidence to suggest any income was missing.</p> <p>Opinion: Needs Strengthening. Recommendations: One high priority, one medium priority, one low priority.</p> <p>RMO3 – The security of premises and data may be adequate to prevent misuse. Access to the facilities at Strood and Medway Park Leisure Centres is controlled via a smart swipe entry system and this solution will be used at Hoo once technical issues with the wi-fi have been resolved. At other sites, membership cards are checked against the system to ensure membership is still active before access is granted and spot checks are applied to ensure gym use is appropriate. Access to membership data held on the Clarity database is restricted via logical access controls and hard copy records were found to be stored securely during the review.</p> <p>Opinion: Sufficient. Recommendations: Three low priority.</p> <p>Overall opinion: Sufficient.</p>

2016-17 Internal Audit Assurance work (items in italics reported to a previous meeting)

Ref	Activity	Current status	Opinion, summary of findings & recommendations made
1	Corporate governance	<i>Final report issued</i>	<p><i>The review considered the following Risk Management Objective (RMO):</i></p> <p><i>RMO1 – Medway Council’s Annual Governance Statement (AGS) provides a fair representation of the Authority’s governance arrangements.</i></p> <p><i>The audit determined whether there was sufficient and appropriate evidence to support all the information included within the AGS within the Authority’s constitution, committee papers or other available documentation, and whether it incorporated all the requirements as set out in the CIPFA/SOLACE guidelines. The headings covered in this review were:</i></p> <ul style="list-style-type: none"> • <i>Scope of responsibility</i> • <i>The purpose of the governance framework</i> • <i>The council’s governance framework</i> • <i>Review of effectiveness</i> • <i>Governance: key areas of focus.</i> <p><i>The audit was able to find evidence to support the statements in the AGS and we are satisfied that there are no outstanding queries regarding the AGS. The review concluded that the council’s AGS provides a fair and evidenced representation of the Authority’s governance arrangements, which meets the requirements of the CIPFA/SOLACE framework. Recommendations: None.</i></p> <p><i>Overall opinion: Strong. Recommendations: none.</i></p>

Ref	Activity	Current status	Opinion, summary of findings & recommendations made
2	Risk management framework	Fieldwork underway	The review considers the following Risk Management Objective (RMO): RMO1 – Effective arrangements are in place for the management of operational risk in line with the Risk Management Cycle in the council’s Strategy.
3	Purchase ledger	Final report issued	The review considered the following Risk Management Objective (RMO): RMO1 – Effective arrangements are in place for the payment of the council’s creditors. The review found that effective measures are in place for the council’s creditors to be set up on the Purchase Ledger system and to be paid accurately and in a timely manner. Security measures are generally in place to prevent fraud and error within the Purchase Ledger system; however, a need was identified for authorised signatory lists to be reviewed and updated on a periodic basis. Overall opinion: Strong. Recommendations: two medium priority.
4	Council tax	Fieldwork completed, in quality control	The review considered the following Risk Management Objective (RMO): RMO1 – Arrangements are in place to appropriately administer Council Tax Discounts, Disregards & Exemptions.
5	Asset management	Fieldwork underway	The review considers the following Risk Management Objective (RMO): RMO1 – Arrangements are in place to manage and account for the council’s assets.
6	Housing rents	Final report issued	The review considered the following Risk Management Objective: RMO1 – Appropriate arrangements are in place to monitor and take action against current and former rent arrears within Medway Housing Stock. The review found that appropriate arrangements are in place to monitor rent arrears and action is taken to recover current and former rent arrears within Medway’s Housing Stock. Expert benefit advice is provided by a dedicated team to help tenants who have rent arrears and to help prevent rent arrears occurring. Overall opinion: Strong. Recommendations: none.
7	Project management	Fieldwork underway	The review considers the following Risk Management Objectives (RMO): RMO1 – Management of projects across the council is effective. RMO2 – Based on a sample of projects selected throughout the council we will review arrangements to ensure that: <ul style="list-style-type: none"> • There are appropriate governance arrangements in place for major projects. • Each project has agreed outcomes / milestones / budget as appropriate. • There are reporting mechanisms in place that ensure the council is aware of the status of projects. • Arrangements are in place to share lessons learned for

Ref	Activity	Current status	Opinion, summary of findings & recommendations made
			completed projects.
8	Treasury management	Not yet started	
9	Income collection	Fieldwork complete, in quality control	The review considered the following Risk Management Objective (RMO): RMO1 – Arrangements are in place to ensure payments received from online payments are accurately accounted for.
10	Payroll	Not yet started	
11	Grant payments to voluntary organisations	To be removed from plan	See section 6 of this report.
12	Human Resources self service	Fieldwork underway	The review considers the following Risk Management Objective (RMO): RMO1 – Arrangements are in place to ensure only valid claims for payment are authorised through HR Self Service.
13	Medway Norse Governance	Fieldwork complete, in quality control	The review considered the following Risk Management Objective (RMO): RMO1 – Governance arrangements in place are effective to ensure the delivery of quality services and value for money through Medway Norse.
14	Homelessness – Temporary Accommodation	Final report issued	The review considered the following Risk Management Objectives (RMO): RMO1 – Suitable temporary accommodation options are available. The review found that there were suitable temporary accommodation options available and the re-introduction of the use of council owned properties had been thoroughly considered and agreed by members. One third of properties used for temporary accommodation were not being actively monitored by the property inspection team to ensure that the properties met the current legislative requirements. Opinion: Needs Strengthening. Recommendations: one high priority. RMO2 – All persons placed in temporary accommodate meet the eligibility requirements and all placements are in accordance with government guidelines. The review found that all persons placed in temporary accommodation did meet the eligibility requirements and all placements are in accordance with government guidelines. The council were usually able to find suitable temporary accommodation without having to use more expensive B&B options. Opinion: Sufficient. Recommendations: one medium priority. RMO3 – There are arrangements in place to ensure costs in respect of temporary accommodation are managed. The overall budget for temporary accommodation was monitored regularly by the Housing Strategy Manager and his team. The review found clients were all completing housing benefit applications and some were being assessed for the ability to make extra

Ref	Activity	Current status	Opinion, summary of findings & recommendations made
			<p>contributions towards the cost of their temporary accommodation. However even with these arrangements in place recovery of this extra contribution was not being effectively monitored.</p> <p>Opinion: Needs Strengthening. Recommendations: one high priority, two medium priority.</p> <p>Overall opinion: Needs Strengthening.</p>
15	Customer contact – financial assessments	To be removed from plan	See section 6 of this report.
16	Fostering – payments to carers	Not yet started	
17	Adoption & fostering – expenses claims and other related expenditure	Not yet started	
18	Child sexual exploitation	Not yet started	
19	Adult social care – assessments & reviews of financial support	Not yet started	
20	Advocacy	Not yet started	
21	Safeguarding adults	Not yet started	
22	Allowance for schools work	Fieldwork underway	<p>A risk assessment of the schools remaining in Medway’s control has resulted in the selection of the following schools for review in 2016-17:</p> <p>Bligh Federation – Fieldwork underway</p> <p>Wainscott Primary – Fieldwork underway</p> <p>St. Michael’s RC Primary – Not yet started</p> <p>St. Thomas More RC Primary – Not yet started</p> <p>Hilltop Primary – Not yet started</p>
23	Regeneration	Draft report with client for consideration	<p>The review considered the following Risk Management Objective (RMO):</p> <p>RMO1: Arrangements are in place to deliver regeneration projects effectively in line with good governance.</p>
24	Heritage assets – maintenance & preservation	Draft report with client for consideration	<p>The review considered the following Risk Management Objective (RMO):</p> <p>RMO1 – Heritage buildings are maintained and preserved.</p>
25	Tourism	Fieldwork underway	<p>The review considers the following Risk Management Objectives (RMO):</p>

Ref	Activity	Current status	Opinion, summary of findings & recommendations made
			RMO1 – Effective arrangements are in place for the management of tourism within Medway.
26	Procurement	Fieldwork underway	The Audit & Counter Fraud Team will carry out periodic sample checks of compliance with Public Contracts Regulations 2015 & council Contract Procedure rules. A summary report will be prepared based on the result of the testing throughout the year, with the results presented to Members in the Annual Audit & Counter Fraud Report.
27	Waste management – refuse collection & recycling	Not yet started	
28	Emergency planning	Not yet started	
29	Information requests	Fieldwork underway	The review considers the following Risk Management Objectives (RMO): RMO1 – Arrangements are in place for the council to assess and respond to information requests in accordance with legislation.
30	Cyber security	Not yet started	

Proactive Counter Fraud work

Ref	Activity	Current status	Opinion, summary of findings & recommendations made
37	Right to Buy	Final report issued	<p>The review considered the following Risk Management Objectives (RMO):</p> <p>RMO1 – There are adequate policies and procedures in place to support the Right to Buy process.</p> <p>The review found legislation, guidance and policies in place which guide housing staff and tenants through the entire process of Right to Buy. Staff comply with their duties in accordance with the Anti-Money Laundering policy but would benefit from more awareness of the policy and training, where appropriate, to understand the role they play in preventing money laundering.</p> <p>Opinion: Strong. Recommendations: one medium priority.</p> <p>RNO2 – Arrangements are in place to verify the legitimacy of Right to Buy applications.</p> <p>Evidence is available to show there are sufficient processes in place which are being followed. All cases tested had eligibility checks carried out including credit checks, internal system checks and tenancy history. Officers verify tenant identity documentation as part of the eligibility process. The lack of training or awareness of security features for identity documents presents a risk that false documents are verified as genuine.</p> <p>Information in the application process is fully recorded but use of the Capita & Idox systems will improve the way in which information is</p>

Ref	Activity	Current status	Opinion, summary of findings & recommendations made
			<p>recorded and retained.</p> <p>By registering a charge on a property there is a control in place to prevent applicants using the Right To Buy discount to purchase a cheap property and sell it quickly for a profit. The council do not receive assurance land registry have placed the charge as instructed.</p> <p>Opinion: Sufficient. Recommendations: six low priority.</p> <p>Overall opinion: Sufficient.</p>
38	No Recourse to Public Funds	Fieldwork underway – on consultancy basis	Please see entry in table: Other consultancy services including advice & information, on page 13 of this report.
39	Disabled Parking	Fieldwork underway – on consultancy basis	Please see entry in table: Other consultancy services including advice & information, on page 13 of this report.
40	Action plan for each stream of Fighting Fraud Locally Strategy: Housing Tenancy fraud Council Tax fraud Procurement fraud Grant fraud Employee fraud	Underway	<p>Individual Audit & Counter Fraud Officers have been tasked with researching legislation, policies, guidance and best practice in one of these areas each to create some areas of specialism within the team. In this period:</p> <p>Housing Waiting List: A data match was undertaken to compare households on the council's Common Housing Register to household data on Housing Benefit claims to identify individuals that may have had changes in their personal circumstances that affected their eligibility for housing or their allocation banding.</p> <p>The exercise identified 357 people and details of these cases were shared with the council's Housing Services for review. The results of the exercise are currently being collated but due to delays in processing the changes, it would not be appropriate to pursue criminal investigations.</p>
41	Data matching exercises, including National Fraud Initiative and Kent Intelligence Network	Underway	<p>During the period the Audit & Counter Fraud Team has continued to liaise with Kent County Council over the implementation of the Kent Intelligence Network. Legal agreements for the sharing of data have now been signed, and the first piece of data matching has compared the social housing waiting list to Single Persons Discounts. Minor snagging issues are still being resolved with the software suppliers before work can commence on the matches.</p> <p>All the data required for the latest National Fraud Initiative has been submitted to the Cabinet Office and the results of this matching exercise are expected in late January 2017.</p>
42	Fraud awareness	Underway	<p>The briefing planned for Medway Members in late September was cancelled but instead the team are exploring opportunities to deliver this through a different mechanism, for instance an online awareness briefing.</p> <p>A similar presentation is planned for the council's Service Managers in 2017.</p>

Reactive Investigations work: external investigations

Area	Number of cases concluded	Summary of results
Housing	1	A referral was received from the housing team regarding customer potentially having been resident with her partner at the time of a housing application. The investigation concluded that it was not possible to prove the circumstances at the address where the customer resided at the time of the application. As such the case was passed to the Department for Work & Pensions to investigate the possible benefit fraud at the current address.
Council Tax (including Council Tax Reduction)	14	Cases completed in the period have identified additional Council Tax liabilities with a total value of £3,440. The removal of Council Tax Single Person Discounts also means that the Council Tax liability for future years has increased by £937.
Blue Badge	5	The team investigated referrals made by the council's Civil Enforcement Officers and from members of the public where it was suspected that a Blue Badge was being misused. The majority of cases have resulted in no fraud being established but a warning letter has been issued to a badge holders.
Concessionary Passes	1	A referral was received after a bus pass application was received in the name of a deceased person. The application was not processed due to effective fraud prevention. As the application was made online it is not possible to establish who submitted it and as such, no formal action could be pursued.
No Recourse to Public Funds	7	The team have been assisting with verification of some applications. While no fraud has been identified to date, one application has been refused as a result of the additional verification. Another application check also led to the removal of an SPD from the council tax account, creating additional liability of £1,176.89
Procurement	1	Concerns were raised by the procurement team regarding multiple payments to an organisation. Enquiries confirmed that all payments were accurate and accounted for with no evidence to suggest fraudulent activity.
Social Care	1	A case was referred as officers had concerns over the declared circumstances of someone seeking financial assistance. Enquiries showed no evidence to suggest that false information had been provided or that circumstances had been manipulated.
Benefits	3	While all Benefit fraud investigation work transferred to the Department for Work & Pensions on 1 March 2016, any cases that were already with the council's Legal Services Team or with the Crown Prosecution Service remained the responsibility of the local authority. Work on these cases has resulted in the following: <ul style="list-style-type: none"> • Sharon Allard was convicted of Housing Benefit fraud totalling £34,892.21. Sentenced to 26 weeks imprisonment suspended for two years, £750 costs and £80 victim

Area	Number of cases concluded	Summary of results
		<p>surcharge.</p> <ul style="list-style-type: none"> Karen Crittenden was convicted of Housing and Council Tax Benefit fraud totalling £9,253.56. Sentenced to a 12 month community order with 100 hours unpaid work and rehabilitation activity of 20 days, £700 costs. <p>One case was closed after a determination that prosecution action was not suitable.</p>

Reactive Investigations work: internal investigations

Allegation	Investigation activity & recommendations
Cash Theft – Medway Park	Disciplinary investigation was already active when the team were contacted and the employee had already tendered her resignation. There was insufficient information available to determine whether thefts had taken place.
Corruption	Employee accused of taking personal payments in exchange for the cancellation of parking tickets. No evidence was found to suggest that tickets had been cancelled for those named in the allegations although potential inappropriate conduct was identified and this was reported to the Service Manager for action.

Reactive Internal Audit Assurance work (items in italics reported to a previous meeting)

Activity	Current status	Opinion, summary of findings & recommendations made
Markets Income	Draft report with client for consideration	<p>Following an investigation into the theft of market income takings, it was agreed with the service management that an assurance review would be conducted to ensure arrangements in place were robust enough to prevent further instances of theft.</p> <p>The review considered the following Risk Management Objectives (RMO):</p> <p>RM01 – Records exist to accurately record income received from all market traders.</p> <p>RM02 – Arrangements are in place to ensure income collected is adequately protected against loss until such time as it is banked.</p> <p>RM03 – Income collected is banked intact on a timely basis.</p>
<i>Medway Action for Families – Certification of grant claim to the government’s Troubled Families Programme.</i>	<i>May 2016 Claim verified September Claim in progress</i>	<i>The Department of Communities & Local Government requires local authority internal audit teams to verify claims for payment before they are submitted. The Audit & Counter Fraud Team have verified the May 2016 claim and work is underway to verify the September 2016 claim.</i>
<i>Social Care Petty Cash</i>	<i>Final report issued</i>	<i>The Audit & Counter Fraud Team were commissioned by the service to review the arrangements to manage petty cash. The review found no significant control weaknesses, but made a number of suggestions to further strengthen existing arrangements.</i>

Other consultancy services including advice & information

Client service area	Services provided
Disabled Parking – Blue Badges	<p>The Audit & Counter Fraud Plan 2016-17 included a proactive counter fraud review of Disabled Parking, intended to be an assurance (opinion) review. Early discussions with management in Business & Administration Support Services concluded that the resources would be better used to support the service to implement planned arrangements to manage this risk area.</p> <p>An assurance (opinion) review will considered for inclusion in the 2017-18 Audit & Counter Fraud Plan, and arrangements are in place to preserve the independence of other members of the team to carry out the later work objectively.</p>
No Recourse to Public Funds (NRPF)	<p>The Audit & Counter Fraud Plan 2016-17 included a proactive counter fraud review of No Recourse to Public Funds, intended to be an assurance (opinion) review. Early discussions with management in Children & Adults concluded that the resources would be better used to support the services to implement planned arrangements to manage this risk area.</p> <p>The team were then involved in a project group on this topic that produced a report to the council’s Corporate Management Team making recommendations for a single team to provide a more robust joined up approach to NRPF cases across Children and Adults Directorates.</p> <p>An assurance (opinion) review will considered for inclusion in the 2017-18 Audit & Counter Fraud Plan, and arrangements are in place to preserve the independence of other members of the team to carry out the later work objectively.</p>
SEND Transport review	<p>Medway Norse is responsible for managing the operation of the framework of suppliers of SEN transport. They also directly deliver transport for three school routes and some routes for a fourth school. At the request of the Chief Finance Officer, the Audit & Counter Fraud Team assessed the arrangements in place and reported to senior management with an action plan to enhance the control processes. A working group has been established, chaired by Cllr Andrew Mackness and the team retain a role in this group, which will oversee the implementation of planned improvements to the administration and delivery of this function.</p>
Purchase cards	<p>The Audit & Counter Fraud Team are working with colleagues across Finance and Category Management to consider the wider use of purchase cards to reduce administration costs of low value payments.</p>
Security & Information Governance Group	<p>Audit & Counter Fraud have a representative on this corporate working group, which supports the council in identifying its information needs, management and risks.</p>

5. Quality Assurance & Improvement Programme

- 5.1. The Standards require that: The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. A Quality Assurance & Improvement Programme (QAIP) has been prepared to meet this requirement. The Audit & Counter Fraud Shared Service QAIP was agreed by Gravesham's Finance & Audit Committee in March 2016 and a review and update to that QAIP is presented elsewhere on the Agenda for this Committee.
- 5.2. The arrangements set out in the QAIP have been implemented with the collection and monitoring of performance data largely automated through the team's time recording and quality management processes. It should be noted that the results recorded below have not been subjected to independent data quality verification; it is planned that officers in the team will carry out checks to ensure the accuracy of the calculation of performance data reported to Members in future.
- 5.3. In line with the QAIP, the team monitor performance against a suite of 25 performance indicators based on the balanced scorecard, covering the four perspectives; financial, internal process, learning & growth and customer. Performance targets have been set for 15 of the 25 indicators however it should be noted that these are for full year outturns; as such outturns at present are not to target levels for the majority of these but are provided for Members information.

Ref		Target	Outturn to end December 2016
Financial			
A&CF 1	Total cost of the Audit & Counter Fraud Service (compared to the 2015-16 baseline year budgets)	N/A	Medway cost £364,881 (2015-16 budget £522,060)
A&CF 2	Average cost per assurance review	N/A	£4,704 (32 reviews averaging 16 days)
A&CF 3	Cost per A&CF day	N/A	£294
A&CF 4	Value of fraud losses identified, by fraud type (cashable & non-cashable)	N/A	£220,101 Housing & Council Tax Benefit Overpayments. £34,018 Council Tax £500 Blue Badge (Notional Saving)
Internal Process			
A&CF 5	Compliance with PSIAS	100%	N/A – initial assessment found no significant variances in May 2016, self-assessment to be updated in Q3/4 2016-17.
A&CF 6	Proportion of available resources spent on productive work	90%	83%
A&CF 7	Proportion of productive work time spent on assurance work	75-85%	37%
A&CF 8	Proportion of productive time spent on: a) consultancy work b) proactive counter fraud work c) reactive counter fraud work	15-25%	Total: 62% 5% 10% 47%
A&CF 9	Investigator average caseload	10	10
A&CF 10	Proportion of agreed plan: Delivered (fieldwork completed)	95%	23%

Ref		Target	Outturn to end December 2016
	Underway (fieldwork current)		44%
A&CF 11	Proportion of assignments completed within allocated day budget	90%	60%
A&CF 12	Proportion of recommended actions agreed by client management	90%	100%
A&CF 13	Proportion of recommended actions implemented by agreed date	95%	72%
A&CF 14	Number of recommendations agreed that are: a) not yet due b) implemented c) outstanding	N/A	15 16 6
A&CF 15	Number of referrals received	N/A	34
A&CF 16	Number of investigations closed	N/A	48
Learning & growth			
A&CF 17	Proportion of staff with relevant professional qualification	25%	43%
A&CF 18	Proportion of non-qualified staff undertaking professional qualification training	25%	36%
A&CF 19	Time spent on CPD/non-professional qualification training, learning & development	TBC	46 days
A&CF 20	Staff turnover	N/A	0%
A&CF 21	Proportion of completed reviews subject to a second stage (senior management) quality control check in addition to the primary quality control review	10%	12.5%
Customer			
A&CF 22	Customer satisfaction with overall service	95%	N/A – full client survey planned for Q4 2016-17. During the year the team has received 18 formal complements from customers (both internal and external); 7 from Gravesham customers, 11 from Medway customers.
A&CF 23	Member satisfaction on effectiveness of internal audit (as set out in the terms of reference of the Audit Committee)	Positive	N/A – Members views on their satisfaction with the service to be sought through survey planned for Q4 2016-17
A&CF 24	Statement of external audit on internal audit and/or their ability to rely on the work of internal audit	Positive	N/A – no such statement made in reports received by the Committee in year to date.
A&CF 25	Customer satisfaction with individual review/assignment	95%	N/A – A new post audit client satisfaction survey has been developed and will be issued to clients for all reviews completed from January 2017.

6. Review of Audit & Counter Fraud Plan

- 6.1. Monitoring of the delivery of planned work is built into the team's processes with individual officer time recording data feeding into an automated performance monitoring workbook; this tracks the performance of the team against the shared service work-plan as a whole and enables the supervisory staff to plan and support officers to deliver their individual work plans. On at least a quarterly basis, a projection of the resources that will be available to the year end is carried out and compared to forecasts for each item of work on the plan to be completed.
- 6.2. The latest review projects that the team will have less work days available than would be required to deliver the plan, with an estimated variance of 90 days in total for the shared service. This would equate to around 54 work days for Medway and around three reviews.
- 6.3. It is therefore proposed that the planned reviews of Grant Payments to Voluntary Organisations (10 days) and Customer Contact – Financial Assessments (15 days) will not be completed in 2016-17 and will instead be considered for the 2017-18 plan, based on an assessment of the relative risk of each of the remaining areas of the plan. The team are not proposing to make any further removals from the 2016-17 plan for Medway at this time; it is anticipated that the required days may be released for the team's supervisory staff to conduct some reviews through the continued automation and refinement of the team's working practices over time.
- 6.4. As outlined at section three of this report, all staff in the team are adjusting to new ways of working and new disciplines while building the relationships necessary to deliver this work efficiently within organisations they are new to. Supervisory staff are supporting the team and staff are making good progress in improving the proportion of their reviews that are completed within the allocated resources and timeframes.

7. Follow up of agreed recommendations

- 7.1. Where the work of the team finds opportunities to strengthen the council's risk management, governance and/or control arrangements, the team make and agree recommendations for improvement with service managers. The Standards require that a follow-up process is established: to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. As with all audit work, resources should be prioritised based on risk.
- 7.2. Following the launch of the new shared service, the follow up arrangements in place at both Gravesham and Medway were reviewed and a revised process, consistent across both sites, was agreed with senior management. Previously at Medway the team carried out full follow up audits of all reviews given an overall opinion of Weak or Needs Strengthening (including re-testing of controls originally given opinions of Sufficient or Strong). Where an overall opinion of Sufficient or Strong was awarded, no follow up activity was carried out to confirm any recommendations had been implemented. As such the team's resources were being used to verify that low and medium priority recommendations agreed as part of Weak or Needs Strengthening audit reviews have been implemented, while high priority recommendations that were made as part of Sufficient and Strong reviews, were not verified.
- 7.3. It was agreed that service managers will be asked to provide an update on action taken towards implementing all recommendations agreed, but they will also be asked to supply evidence to confirm the action stated and the Audit & Counter Fraud Team will verify this. In addition, recommendations made as part of proactive and reactive counter fraud work will be incorporated into the follow up process to ensure action is taken to address fraud risks identified. The results of follow up work will be reported through these Update reports, and should any weaknesses fail to be addressed, the team will follow an escalation process that would ultimately result in reporting the matter to the Audit Committee.

Audit & Counter Fraud Review title	Overall opinion and number of recommendations of each priority agreed with management	Proportion of recommendations due for implementation where a positive management response has been received
Disciplinary investigation – Client Financial Affairs	Opinion: N/A Two recommendations agreed as a result of the investigation.	One recommendation due but both implemented – 100%
Bank Account Management	Opinion: Sufficient One recommendation agreed: low risk	One recommendation due and implemented – 100%
Corn Exchange	Opinion: Sufficient Seven recommendations agreed	Seven recommendations, six implemented – 86% One outstanding recommendation – the service are in ongoing discussions with HR on how to resolve the issue without increasing staffing costs.
Innovation Centre	Opinion: Needs strengthening Nine recommendations agreed: Four high and four low risk	Nine recommendations, nine implemented – 100%.

Definitions of audit opinions	
Strong (1)	<p><u>Risk Based:</u> Appropriate controls are in place and working effectively, maximising the likelihood of achieving service objectives and minimising the Council's risk exposure.</p> <p><u>Compliance:</u> Fully compliant, with an appropriate system in place for ensuring ongoing compliance with all requirements.</p>
Sufficient (2)	<p><u>Risk Based:</u> Control arrangements ensure that all critical risks are appropriately mitigated, but further action is required to minimise the Council's risk exposure.</p> <p><u>Compliance:</u> Compliant with all significant requirements, with an appropriate system in place for monitoring compliance. Very minor areas of non-compliance.</p>
Needs Strengthening (3)	<p><u>Risk Based:</u> There are one or more failings in the control process that leave the Council exposed to an unacceptable level of risk.</p> <p><u>Compliance:</u> Individual cases of non-compliance with significant requirements and/or systematic failure to ensure compliance with all requirements.</p>
Weak (4)	<p><u>Risk Based:</u> There are widespread or major failings in the control environment that leave the Council exposed to significant likelihood of critical risk. Urgent remedial action is required.</p> <p><u>Compliance:</u> Non-compliant, poor arrangements in place to ensure compliance. Urgent remedial action is required.</p>