

Classification: Public

Key Decision: No

Gravesham Borough Council

Report to: Performance & Administration Committee
Finance & Audit Committee

Date: 11 June 2015
23 June 2015

Reporting officer: Assistant Director – Corporate Performance

Subject: Internal Audit & Assurance Arrangements

Purpose and summary of report:

To outline to Members the proposed way forward with regards to delivery of the Internal Audit & Assurance functions for Gravesham Borough Council.

Recommendations:

That Members endorse the approach as outlined for the future delivery of Internal Audit & Assurance services for Gravesham Borough Council.

1. Background

- 1.1 As Members will be aware, both the Management of Internal Audit and Fraud services have been delivered through a shared management between Gravesham Borough Council and Tonbridge & Malling Borough Council since 2010 and 2009 respectively.
- 1.2 In practice, this has seen the Internal Audit & Assurance manager (Katey Arrowsmith) splitting her time 50:50 between the two organisations to head up the Internal Audit and Fraud services at both organisations. In addition, the Fraud Investigations Manager (James Larkin) has also mirrored this arrangement, splitting his time 50:50 between the two organisations as a means of managing the two Counter Fraud teams. Both officers have been employed by Gravesham Borough Council during this arrangement, with a 50% contribution to their salary and overhead costs being received on a monthly basis from Tonbridge & Malling Council.
- 1.3 The introduction of shared management arrangements was always seen as being a precursor to the consideration of a fully shared service between the two organisations, given that both Internal Audit and Fraud services are often shared between organisations (such as the East Kent and Mid-Kent partnerships in Kent). The remainder of this report therefore outlines the progress that has been made in

that regard and the proposed way forward for the future delivery of these functions.

2. Internal Audit & Assurance

- 2.1 Detailed discussions have taken place with officers from Tonbridge & Malling Council over the past 18 months to establish whether the launching of a shared service for Internal Audit & Fraud would be possible. The outcome of these discussions has been Tonbridge & Malling Council has been unable to commit to the launching of a fully shared service at this moment in time. The reasons for not being able to commit to a fully shared service are unique to the Internal Audit & Fraud service at TMBC, and therefore, do not have any bearing on other shared working arrangements between the two organisations that are either in place, or could potentially be launched in the future.
- 2.2 Recently, an approach was made to Gravesham by Medway Council, asking if the possibility existed of buying-in some of the time of Gravesham's Internal Audit & Assurance Manager. This approach was made following a vacancy occurring for their Audit & Assurance Manager, and a concern that such a vacancy – for any extended period of time – would be detrimental to the effective governance arrangements of Medway Council. Whilst the selling of officer time to Medway Council was not considered viable, due to the officer concerned already splitting her time between Gravesham and TMBC, the discussions then centred on any potential opportunity for sharing Internal Audit & Fraud services between Gravesham and Medway Council.
- 2.3 What became apparent was an appetite between both organisations to explore a potential shared service opportunity further (both at Officer and Member level), and a number of synergies between the two organisations which lend themselves to a sharing of resource in Internal Audit & Fraud;
 - 2.3.1 Both have housing stock, and therefore experience similar issues with regards to attempted Right to Buy fraud and unlawful sub-letting of HRA accommodation. Furthermore, Internal Audit officers from both organisations are therefore auditing similar controls within the Housing Departments.
 - 2.3.2 The two organisations share a large common boundary, typically with a large migration of people between the two areas – resulting in much communication between the two Fraud teams already as Housing Benefit/Council Tax reduction scheme referrals are investigated.
 - 2.3.3 With Medway Council being a Unitary Authority and having responsibility for other functions, such as Schools and Highways, any sharing of resource would create development opportunities for the officers concerned.
- 2.4 With this in mind, and having discussed the situation with the Leaders, relevant Portfolio holders and Senior Management Teams of both organisations, it was agreed that Gravesham Borough Council serve notice upon TMBC that they wish to end the existing shared management arrangement for the Internal Audit & Assurance Manager, and instead, commence such an arrangement for shared management of the functions between Gravesham Borough Council and Medway Council.
- 2.5 In practice, as the notice period ended on 15 May 2015, the Internal Audit & Assurance Manager has now ended her duties at TMBC, and has commenced instead a formalised shared management arrangement with Medway Council with effect from 1 June 2015. During the months of April and May, the Internal Audit &

Assurance Manager spent several days at Medway Council getting to know the team, and beginning to plan the new expanded role, and Gravesham Borough Council has been reimbursed for these days at the appropriate daily rate taking into account salary costs and overheads.

3. The Future Delivery of Internal Audit & Fraud Services

- 3.1 Whilst the Internal Audit & Assurance Manager has now commenced her shared management role between Gravesham and Medway Council, this arrangement is very much seen as a precursor to the launching of a fully shared service between the two organisations.
- 3.2 Not only is such an arrangement expected to save both organisations money compared to their substantive arrangements (subject to more detailed discussions outlined below), but it will also maximise the benefits of the synergies and opportunities outlined at paragraph 2.3 above.
- 3.3 A provisional target date of 1 April 2016 has been established for the launching of a fully shared service between the two organisations covering Internal Audit and Fraud services. In practice, detailed discussions will take place over the remainder of 2015 and early 2016 to establish if a fully shared service is truly deliverable, and cost effective, with a further report to the relevant committee in due course outlining the outcome of those detailed discussions.
- 3.4 A target date of 1 April 2016 has been established as this corresponds with the changes to Fraud Services currently being implemented by the Government (through the Department for Works and Pensions) in the form of the roll-out of the Single Fraud Investigations Service. Under this initiative, the DWP is systematically taking responsibility for all Housing Benefit fraud investigations and prosecutions (a function carried out by Local Authorities until now). Over a two year period, all Local Authorities are mandatorily moving to this new arrangement, with the transfer date for Gravesham Borough Council being March 2016 (Medway Council will transfer in February 2016). As part of the transfer, to mirror the shift in responsibility for Housing Benefit Fraud matters, Local Authorities will be subjected to a reduction in the level of Housing Benefit Administration Grant received, and correspondingly, will work with representatives of the DWP to TUPE-transfer any necessary staff to the DWP, broadly in proportion to the amount of officer time spent by the in-house teams when dealing with Housing Benefit Fraud referrals.
- 3.5 It is not yet known what the exact implications of this will be for the teams at Gravesham and Medway Council, as detailed discussions with DWP representatives are not due to commence until the Autumn of 2015, but it is the intention of both organisations to consider in parallel the structure and size of the shared service team which will deliver residual fraud and Internal Audit services to both organisations with effect from 1 April 2016.

4. Financial Implications

- 4.1 The longer-term financial implications of the commitment to a fully-shared service between Gravesham and Medway Council cannot be determined at this time, due to the fact that detailed discussions have not yet taken place, and are dependant to a large degree upon what conclusions are reached with the Department for Work and Pensions as to the numbers of staff transferring from each Local Authority. With that in mind, a further report will be brought to the relevant

committee/s in due course outlining the outcome of those discussions, and seeking the necessary authorities to proceed as necessary.

- 4.2 In the meantime, prior to the impacts of a fully shared service and the introduction of SFIS being known, the financial implications are confined to the split of the salary and overhead costs for the Internal Audit & Assurance Manager between Gravesham and Medway Council, and this has been outlined below;

	Current Situation (TMBC Contribution)	Proposed Situation (Medway Contribution)	Difference
Audit & Assurance Manager (Gross Cost)	62,511	66,372	3,861
Shared Management Contribution (50:50 with TMBC, 60:40 with Medway)	(31,256)	(39,823)	(8,567)
Net Cost to GBC	31,255	26,549	(4,706)

- 4.3 As can be seen, the move towards a shared management role with Medway Council has yielded a small saving of £4,706 per annum to Gravesham Borough Council – driven by the fact that Medway’s Internal Audit plan is approximately 50% larger than Gravesham’s, and therefore agreement has been reached to split the costs on a 60:40 basis in favour of Gravesham. The gross cost of the Audit & Assurance Manager has risen as a result of the need to increase the officer’s gross pay marginally to align with the salary band of the substantive Audit & Assurance Manager post at Medway Council. In reality, this saving will be accrued for a period of ten months (with the arrangement commencing on 1 June 2015), and therefore the actual saving will be £3,922.

5. Shared Management – Fraud

- 5.1 The changes outlined above do not directly, in the short term, affect the shared management arrangement between Gravesham Borough Council and Tonbridge & Malling Council for the delivery of Fraud Services provided by James Larkin, with the intention being to continue with such an arrangement with TMBC until such time as a fully shared service is launched for both functions with Medway Council, should that be acceptable to both organisations in due course.
- 5.2 However, due the future arrangements which have been put in place for the delivery of Internal Audit and Fraud services at TMBC, they have recently taken the decision to serve notice that they wish to terminate the shared management arrangement for Fraud services between themselves and Gravesham Borough Council.
- 5.3 Officers are currently considering the implications of this, and the alternative options with regards to the additional resource that this yields for Gravesham in the short-term (until such time as detailed discussions about SFIS and a fully shared service with Medway are undertaken), however, such options include the selling of the Fraud Manager’s time to other organisations in the short term.

6. Background Papers

- 6.1 There are no background papers to this report.

<p>Legal</p>	<p>Section 151 of the Local Government Act 1972 requires the council to “make arrangements for the proper administration of their financial affairs”. 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.</p> <p>The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them</p> <p>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.</p> <p>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.</p>																	
<p>Finance and Value for Money</p>	<p>The financial implications of the move from a shared management arrangement with Tonbridge & Malling Council to Medway Council are outlined within Section 4 to the report, however, in summary, the anticipated saving to Gravesham is in the order of £4,700 per annum, with this accruing a saving of £3,922 during the ten months of 2015-16 during which the alternative arrangement is in place. Due to the uncertainty surrounding the introduction of the Single Fraud Investigation Service and pending detailed discussions about future shared service structures between Gravesham and Medway Council, a full report outlining the future financial implications of the proposal will be brought to the relevant committee/s in due course.</p>																	
<p>Risk Assessment</p>	<p>Considered to be low risk at this time, as a shared management arrangement has been in place for several years already, and considered to be functioning well.</p>																	
<p>Equality Impact Assessment</p>	<table border="1"> <thead> <tr> <th colspan="3" data-bbox="416 1379 1500 1417">Screening for Equality Impacts</th> </tr> <tr> <th data-bbox="416 1417 783 1458">Question</th> <th data-bbox="783 1417 1145 1458">Answer</th> <th data-bbox="1145 1417 1500 1458">Explanation</th> </tr> </thead> <tbody> <tr> <td data-bbox="416 1458 783 1778"> <p>a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?</p> </td> <td data-bbox="783 1458 1145 1778"> <p>No</p> </td> <td data-bbox="1145 1458 1500 1778"></td> </tr> <tr> <td data-bbox="416 1778 783 2024"> <p>b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?</p> </td> <td data-bbox="783 1778 1145 2024"> <p>No</p> </td> <td data-bbox="1145 1778 1500 2024"></td> </tr> <tr> <td data-bbox="416 2024 783 2094"> <p>c. What steps are you taking to mitigate,</p> </td> <td data-bbox="783 2024 1145 2094"> <p>N/A</p> </td> <td data-bbox="1145 2024 1500 2094"></td> </tr> </tbody> </table>			Screening for Equality Impacts			Question	Answer	Explanation	<p>a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?</p>	<p>No</p>		<p>b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?</p>	<p>No</p>		<p>c. What steps are you taking to mitigate,</p>	<p>N/A</p>	
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	<p>reduce, avoid or minimise the impacts identified above?</p>		
<p><i>In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above</i></p>			
<p>Corporate Business Plan</p>	<p>The work of Internal Audit, Fraud and Investigations contributes to the delivery of Priority 5: Managing the council's business responsibly.</p>		
<p>Crime and Disorder</p>	<p>Internal Audit provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisations' objectives. The work of Internal Audit combined with a sound internal control environment has a positive contribution to community safety in its broadest sense.</p> <p>The counter fraud arrangements of the council acknowledge that the council can be exposed to fraud and are intended to, as far as possible, prevent fraud occurring and pursue criminal action if needed when fraud is detected. Working with partners to combat crime and disorder has a positive contribution to community safety in its broadest sense.</p>		