

Classification: N/A

Key Decision: No

Gravesham Borough Council

Report to: Performance & Administration Committee
Finance & Audit Committee

Date: 12 November 2015
18 November 2015

Reporting officer: Assistant Director – Corporate Performance

Subject: Internal Audit & Fraud Partnership Performance Management Framework

Purpose and summary of report:

For both the Performance & Administration Committee and Finance & Audit Committee to consider and advise on the performance management framework to be adopted for the Internal Audit and Fraud Partnership with Medway Council, to take effect from 1 April 2016.

Recommendations:

That the committees;

1. Consider the existing performance management framework in place, taking into account the balanced scorecard approach used by other local authorities and relevant legislation/guidance, and make recommendations as to the performance management framework which Members would wish to be used with effect from 1 April 2016.

1. Introduction

- 1.1 As Members will be aware, Cabinet authority was granted on the 7 September 2015 for the launching of a combined Internal Audit and Fraud Service between Gravesham Borough Council and Medway Council. Consequently, officers from both organisations have been working towards a transfer date of 1 December 2015 for those staff currently employed by Gravesham Borough Council to be transferred to Medway Council and begin working within the combined service under a partnership arrangement.
- 1.2 In practice, whilst staff currently employed by Gravesham Borough Council will transfer to Medway Council on 1 December 2015, due to the introduction of the Single Fraud Investigation Service in early 2016 (which will see the Department for Work and Pensions take responsibility for Housing Benefit Fraud investigations), the formal partnership working arrangements between Gravesham and Medway will not commence until 1 April 2016.

- 1.3 As the effective date of transfer draws near, consideration needs to be given to the performance management framework which will be used to assess the outputs from the new partnership arrangement. It is considered that both the Performance & Administration Committee and Finance & Audit Committee should be consulted on these new arrangements for the following reasons;
- The Performance & Administration Committee has responsibility for performance management framework considerations affecting the authority, ensuring that the performance management frameworks are sufficient to assess value for money outcomes;
 - The Finance & Audit Committee has overall responsibility for ensuring that effective governance arrangements are in place for the organisation and an effective Internal Audit and Fraud service is a key component of an effective governance framework.
- 1.4 As the formal partnership working arrangements between Gravesham and Medway will not commence until 1 April 2016, it is therefore proposed that any recommended changes to the performance management framework be adopted from that date, and included within the formal partnership agreement. This will also enable annual comparisons covering 2015-16, and 2016-17, to be drawn in due course. There are no plans to change the frequency of reporting of performance data, with the current annual and half-yearly updates continuing for the foreseeable future.

2. Current Performance Management Framework

- 2.1 Local authority Internal Audit teams in the UK are required to work to The Public Sector Internal Audit Standards (PSIAS). The PSIAS require Internal Audit to *“develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity”*. To comply with this requirement, the performance of the Gravesham Internal Audit team is currently measured against a set of seven performance indicators:
- Percentage of the agreed audit plan delivered.
 - Percentage of available resources spent productively, i.e. contributing to the delivery of the agreed audit plan.
 - Client satisfaction based on surveys issued following the completion of every audit.
 - Client satisfaction based on a bi-annual survey issued to council management.
 - Percentage of recommendations made that are agreed by client management.
 - Percentage of recommendations that have been implemented by client management by the agreed date.
 - Opinion of the council’s external auditors on Internal Audit.

2.2 While there are no formal/standard performance measures for local authority fraud teams, Gravesham's performance has historically been assessed against the following indicators on an annual and half-yearly basis:

- Number of Investigations Concluded
- Weekly reduction in housing benefit entitlement (per year)
- Total Housing Benefit & Council Tax Benefit/Reduction overpayments
- Weekly reduction in Council Tax Reduction awards (per year)
- Excess Council Tax Reduction payments prevented
- Value of Single Persons Discount removals
- Increase to Council Tax base for future years through Council Tax Reduction changes & Single Persons Discount removal
- Number of Civil penalties issued and total value
- Number of Cautions issued
- Number of Administration Penalties issued and total value
- Number of successful prosecutions
- Number of people removed from the Housing Register
- Number of Right To Buy sales stopped and total saving
- Number of Housing Properties recovered and total estimated saving
- Number of Internal Investigations concluded
- Results of Internal Investigations
- Number of disciplinary cases with investigation team assistance
- Disciplinary results

2.3 Medway Council Internal Audit & Fraud services currently measure and report performance in different ways and with differing frequencies to the Gravesham Team. The implementation of a partnership service requires the introduction of arrangements to measure and report on a consistent suite of performance indicators. This will enable both authorities to receive consistent, reliable and comparable information to assure themselves they are receiving an effective service.

3. The Legislative/Guidance Requirements

- 3.1 There are various pieces of legislation and guidance which help to inform what an effective performance management framework might look like for Internal Audit and Fraud services, with the relevant extracts set out below;

Accounts & Audit Regulations 2015

- 3.2 Part 2, Section 5: Internal audit. *“5.—(1) A relevant authority must 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”.*

Public Sector Internal Audit Standards

- 3.3 As the Relevant Internal Audit Standards setter for local government, the Chartered Institute of Public Finance and Accountancy (CIPFA) has stated that, from 1 April 2013, the Public Sector Internal Audit Standards (PSIAS) are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2011 (as amended in 2015).
- 3.4 PSIAS 1300: Quality Assurance and Improvement Programme: *“The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.”*
- 3.5 Interpretation: *“A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity’s conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.”*

The Local Government Application Note (LGAN) for the UK Public Sector Internal Audit Standards

- 3.6 CIPFA has published guidance on the PSIAS for local authorities; the Local Government Application Note (LGAN) for the UK Public Sector Internal Audit Standards. The relevant extracts of this guidance note are reproduced below;
- 3.7 Paragraph 2.40 *“Ongoing performance monitoring may also incorporate the following:*
- *a comprehensive set of targets to measure performance, developed in consultation with appropriate parties. Performance measures should be included in any service level agreement. The Chief Audit Executive should measure, monitor and report appropriately on the progress against these targets*
 - *stakeholder feedback, and*

- *an action plan to implement improvements (as the interpretation to PSIAS 1300 states that the Quality Assurance Improvement Plan is also for assessing the efficiency and effectiveness of the internal audit activity and identifying areas for improvement)."*

4. Future Performance Management Framework

- 4.1 Is it the intention of the Assistant Director – Corporate Performance (as Chief Audit Executive under the regulations) and the Head of Internal Audit & Counter Fraud to develop and agree (with the Finance & Audit Committee at Gravesham and Medway’s Audit Committee) a new Quality Assurance & Improvement Programme for the partnership service, to cover both audit and fraud services. This would be introduced in line with the formal launch of the new partnership service from April 2016.
- 4.2 At this stage, Members are asked to consider the measures they would wish to receive performance information on to satisfy themselves that Gravesham continues to receive an effective internal audit and fraud service from the partnership. The performance measures in place at other Kent Local Authority audit partnerships are provided for Members information at Appendix Two. Many follow the ‘balanced scorecard’ approach which is intended to provide a holistic view of performance, considering financial stewardship, internal business process (efficiency), capacity (knowledge & information) and customer satisfaction. For ease of comparison, Gravesham’s current suite of performance indicators are reproduced at Appendices Three and Four.
- 4.3 Members could give consideration to the following areas. It will be necessary to ensure a balance is struck between collecting and monitoring enough information to enable Members to be satisfied with the information and service they receive, while not being overly burdensome that the collation reduces effectiveness:
- 4.4 Financial indicators:
- Total cost of service
 - Cost per audit day
 - Average cost per audit
 - Value of overpayment identified
- 4.5 Efficiency indicators:
- Percentage of time spent productively
 - Percentage of time spent on assurance
 - Percentage of time spent on consultancy
 - Number of live cases per investigator
- 4.6 Capacity indicators:
- Percentage of staff professionally qualified or undertaking professional qualification training
 - Staff turnover

- Percentage of available time spent on CPD/non-professional qualification training

4.7 Customer satisfaction indicators:

- Customer satisfaction with the auditor conduct
- Customer satisfaction with the overall audit service
- Member satisfaction
- Opinion of external audit

4.8 Local Authorities are now required to have an external assessment of their compliance with the PSIAS/LGAN at least once every five years, with Gravesham's assessment being indicatively scheduled for 2017. Both Kent County Council and Mid Kent Audit Group have recently had their external assessments carried out with both delivering favourable outcomes. It is worth noting that as per Appendix Two, both Kent County Council and Mid Kent Audit Group use a balanced scorecard model for performance data relating to their Internal Audit and Fraud partnerships.

5. BACKGROUND PAPERS

9.1 There are no background papers in relation to this report.

<p>Legal</p>	<p><u>Accounts & Audit Regulations 2015</u> Part 2, Section 5: Internal audit 5.—(1) A relevant authority must 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.</p> <p><u>PSIAS 1300: Quality Assurance and Improvement Programme:</u> The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.</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>Finance and Value for Money</p>	<p>There are no direct financial considerations resulting from this report, however, the development of a comprehensive and relevant suite of performance management indicators for the Internal Audit and Fraud service should ensure that the authority continues to deliver value for money from any future arrangements.</p>								
<p>Risk Assessment</p>	<p>Direct risks associated with this report are considered to be low, as at this stage Members are being consulted only on the performance management framework to be adopted with effect from 1 April 2016. Should an effective performance management framework not be adopted, there is the risk that should the service not perform as expected, this will not be identified in a timely and efficient manner, enabling corrective action to be taken where necessary.</p>								
<p>Equality Impact Assessment</p>	<p>Screening for Equality Impacts</p> <table border="1" data-bbox="405 1339 1525 1402"> <thead> <tr> <th data-bbox="405 1339 778 1402">Question</th> <th data-bbox="778 1339 935 1402">Answer</th> <th data-bbox="935 1339 1525 1402">Explanation</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>			Question	Answer	Explanation			
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	<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, 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 the fourth Corporate Plan objective; <i>A Sound and Self-Sufficient Council</i>.</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>		