

By: Robert Patterson – Head of Internal Audit

To: Governance and Audit Committee – 2nd October 2014

Subject: **INTERNAL AUDIT AND COUNTER FRAUD
BENCHMARKING RESULTS**

Classification: Unrestricted

Summary: This report summarises the 2014/15 Internal Audit and Counter Fraud Benchmarking Results.

FOR DECISION

Introduction

1. Internal Audit is currently a member of the CIPFA Audit Benchmarking Club. Through this club, information about Internal Audit's costs and productivity is compared against other Councils. We also compare our costs and productivity to the previous years to establish a direction of travel and improvement or if there are potential areas where we need to improve.
2. We are also a member of the County Council Audit Networking (CCAN) benchmarking club which offers less complex benchmarking comparisons amongst 29 County Councils.
3. Our Counter Fraud function is also able to compare fraud activity and returns to a number of information sources including The European Institute for Combatting Corruption and Fraud (TEICAFF), the Chartered Institute Public Finance and Accountancy (CIPFA) and also through data published by local authorities as a result of the new Local Government Transparency Code.
4. As a reminder, benchmarking is the start of an analytical process, not an end.
5. Unfortunately of the 45 local authorities who participated in the CIPFA internal audit survey only three were County Councils (down from 9 in the previous year and 21 in the year before that.). Surrey and Essex for example being the largest and geographically close Counties to Kent have not participated. The other two Counties in the survey are smaller Midlands based organisations. As reported previously a large number of County Councils have decided the cost of the subscription coupled to the cost of extracting the level of data required by CIPFA outweighs the outcomes and benefits.

6. The results from the CCAN survey are not yet available, but will be presented back to the January Committee meeting.

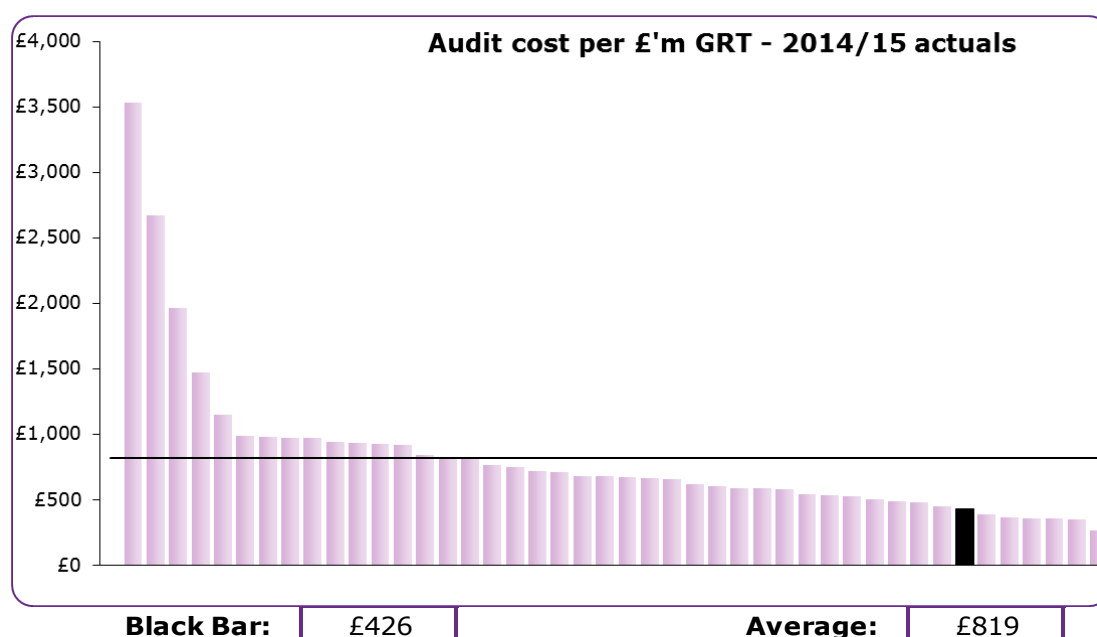
Headlines

7. Because of the small number of County Councils in the CIPFA survey we have determined to benchmark across the complete sample of 45 local authorities.
8. Table 1 below provides the main headlines:.

Table 1: Summary of 2014 - 2015 position

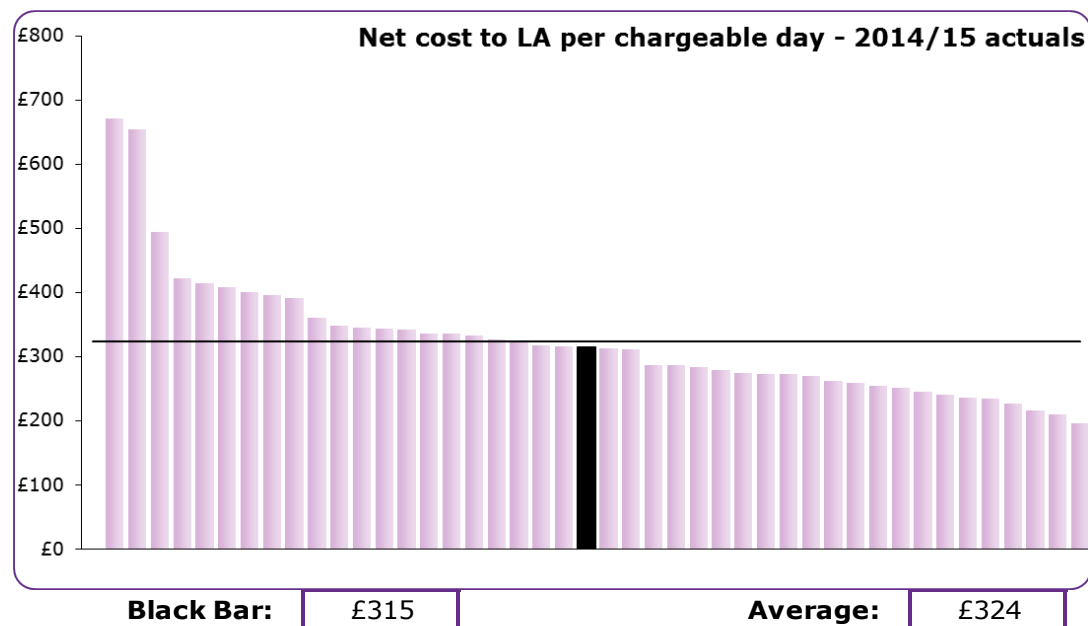
	Kent	Average
Cost per £'m	£426	£819
Cost per auditor (including on-costs and allocation of overheads) £'k	£49,946	£54,795
Chargeable days per auditor	175	179
Cost per chargeable day	£315	£324

Comparative spend on audit

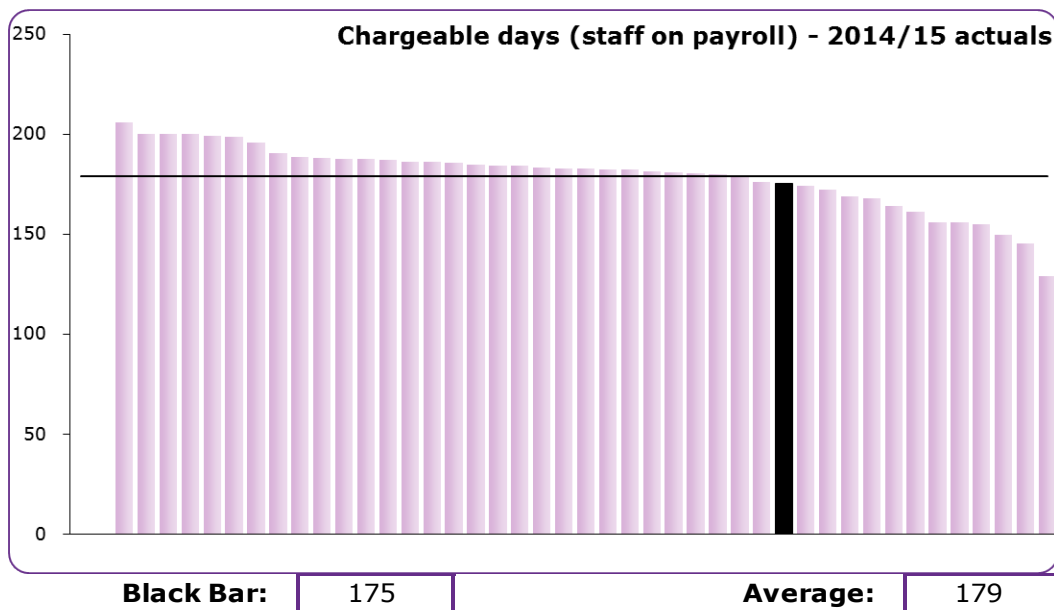
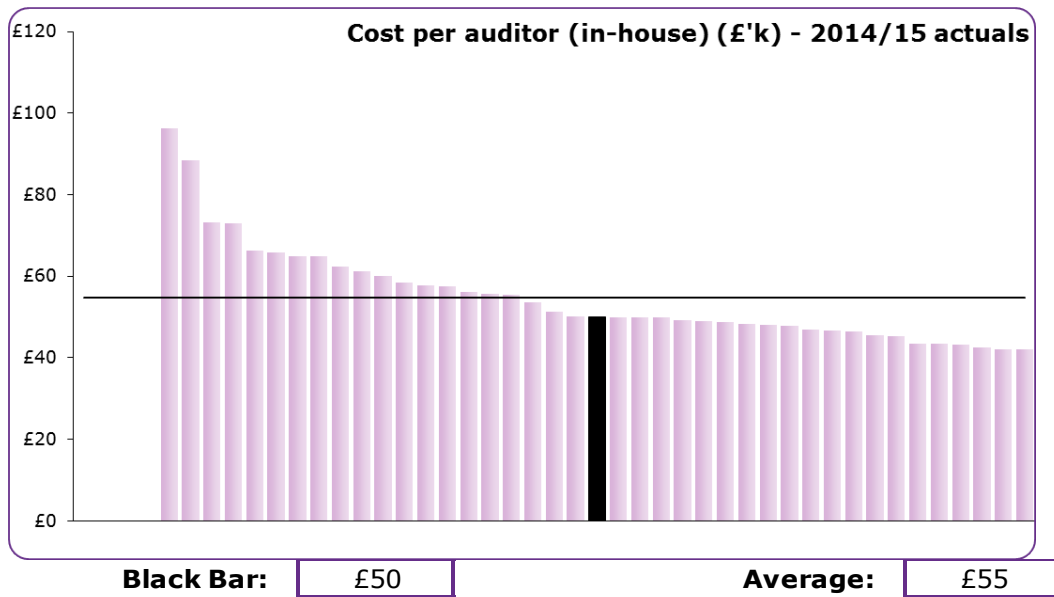


9. Across the survey Kent County Council continues to spend well below average on its audit service per £m gross turnover, (shown in black shade) and although it will increase slightly in 2015/16 it is still below 2012/13 levels. Clearly there are economies of scale with such a large organisation and in addition Kent's Internal Audit does not carry out school audits. In Kent, the Schools Compliance team within Finance undertake these.

Productivity



10. The net cost per chargeable day remains fairly static at £315 (from £311 in 2013/14) and is a significant decrease from £351 in 2011/12 which included significant costs associated with redundancy.
11. The cost per chargeable day is also lower than the average of £326 across the sample. Of note our knowledge of private sector chargeable rates and current internal audit call off contracts in the south east range from £370 - £800 per day.
12. The cost per chargeable day is affected by two variables – the **costs per auditor** (including pay, on costs and overheads) and the **chargeable days per auditor** shown in the next two graphs:



13. This shows that the section's auditor costs (Approximately £50,000) are below that of the sample. Indeed, costs per auditor for 2014/15 show a small drop on the previous year.
14. The chargeable days per auditor is marginally below average at 175 days, but shows a 7% increase on the previous year despite a cohort of staff studying for professional qualifications. This shows productivity is rising, more particularly as a result of a considerable reduction in staff turnover over the past year.

Counter fraud work and investigations

15. Because counter fraud data is more extensive it is possible to undertake more meaningful County Council comparisons both in terms of resource inputs through to outcomes in terms of fraud and irregularity detection and recoveries.
16. Nevertheless there are a number of challenges when considering counter fraud performance; firstly, fraud detection results are open to often widely differing interpretation. For example, if an authority reports that 'no fraud was detected' does this mean that there is no fraud being committed against the Council, or that the Council does not have adequate resources to detect fraud, or the Council is not looking for fraud in the right places? Secondly, to tackle fraud effectively authorities should be undertaking activity to detect, investigate *and* prevent fraud. None of the current sources requires authorities to provide information about their fraud prevention activity.
17. Our counter fraud team spends a significant amount of time promoting fraud awareness and reviewing key policies, process and systems to try and prevent fraud from occurring in the first place. This is difficult to reflect with the available information. We have sought to supplement the available data by forming our own county council specific benchmarking club with other county councils; however the majority of the information available still focusses on detected levels of fraud. As a result of these challenges fraud detection data reflects a number of variables including:
 - the amount of fraud being committed against the Council;
 - how well the Council prevents and deters fraud;
 - the investigative capacity at the Council to detect fraud;
 - how efficient and effective the investigative resources are; and
 - The timing, accuracy and interpretation of the data returns.

Local Government Transparency Code 2015

18. Under the Local Government Transparency Code there is a requirement for local authorities to publish annually the following:
 - number of occasions they use powers under the Prevention of Social Housing Fraud (Power to require Information) (England) Regulations 2014, or similar powers¹;
 - total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud;

¹ These powers are not relevant for County Councils.

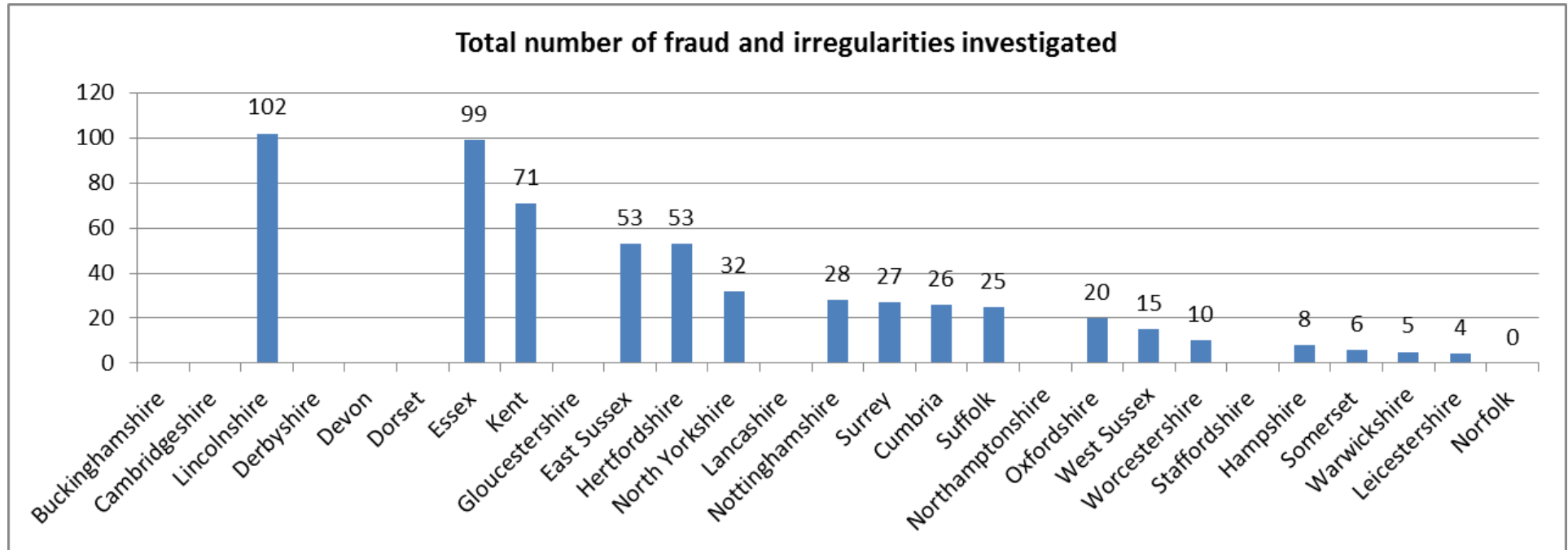
- total number (absolute and full time equivalent) of professionally accredited counter fraud specialists;
- amount spent by the authority on the investigation and prosecution of fraud;
- number of fraud cases investigated.

19. Authorities are also encouraged to publish the following non-mandatory information:

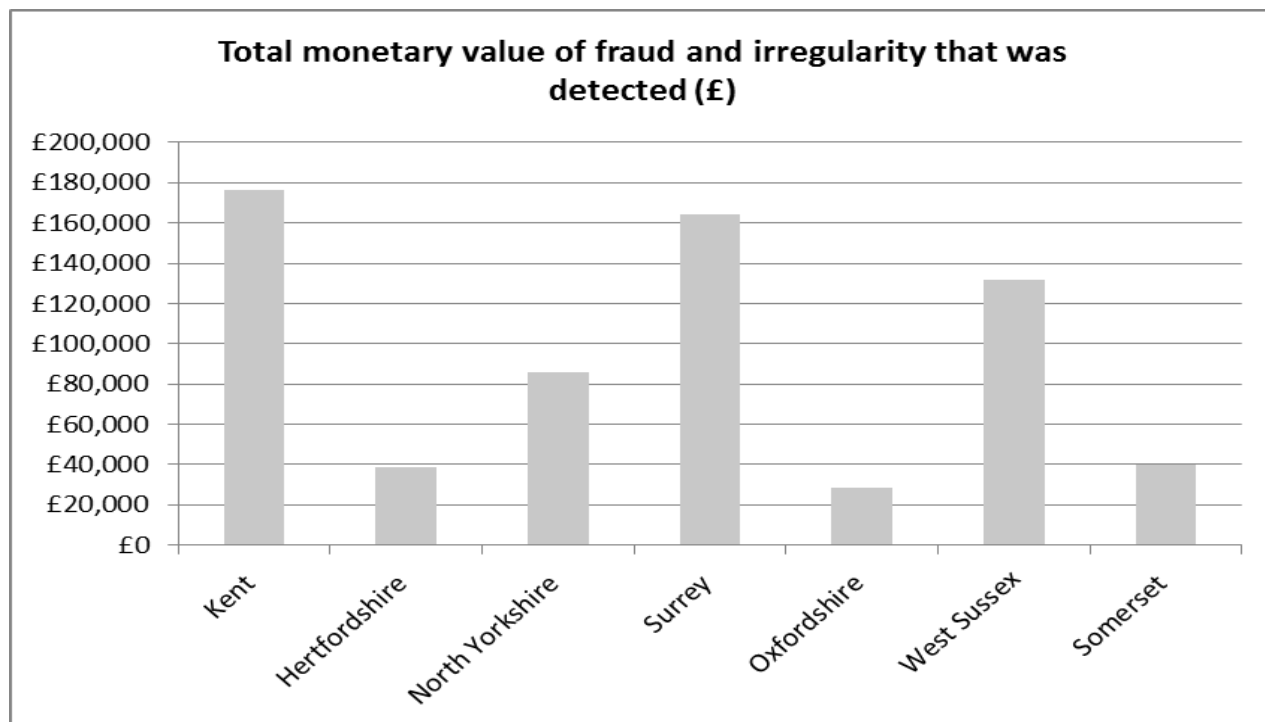
- total number of cases of irregularity investigated;
- total number of occasions on which a) fraud and b) irregularity was identified;
- total monetary value of a) the fraud and b) the irregularity that was detected; and
- total monetary value of a) the fraud and b) the irregularity that was recovered.

20. The code required local authorities to publish the data by the 1st February 2015 and then annually thereafter. Although a number of authorities do not appear to have complied, the data still provides some opportunities for benchmarking. We have obtained and compared the published data, in summary these results show that:

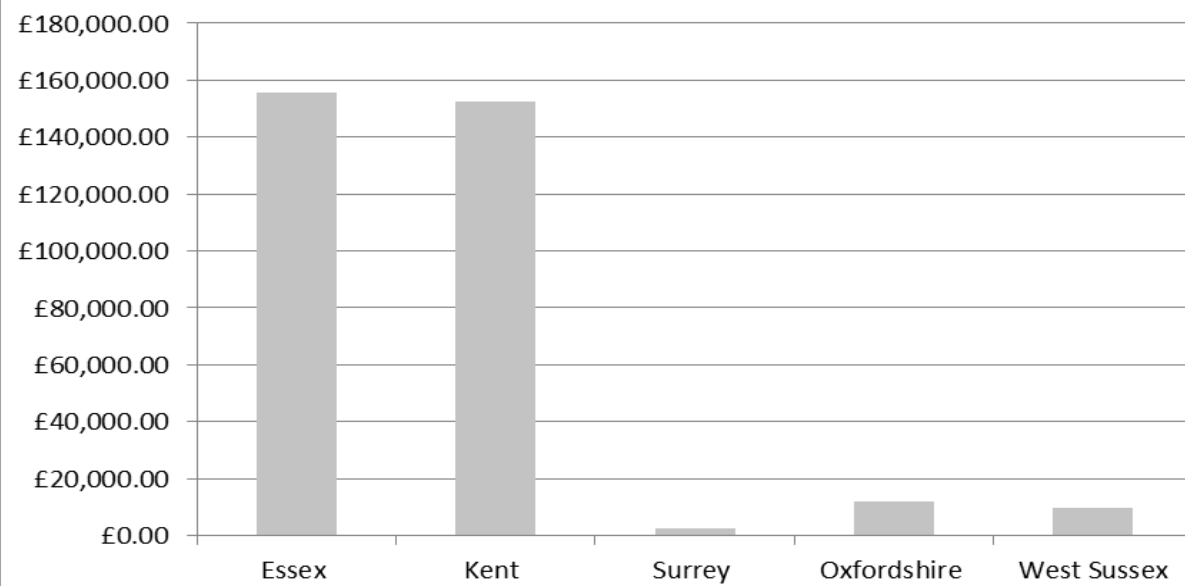
The average number of fraud and irregularities cases investigated is 32. KCC investigated 71, the 3rd highest overall.



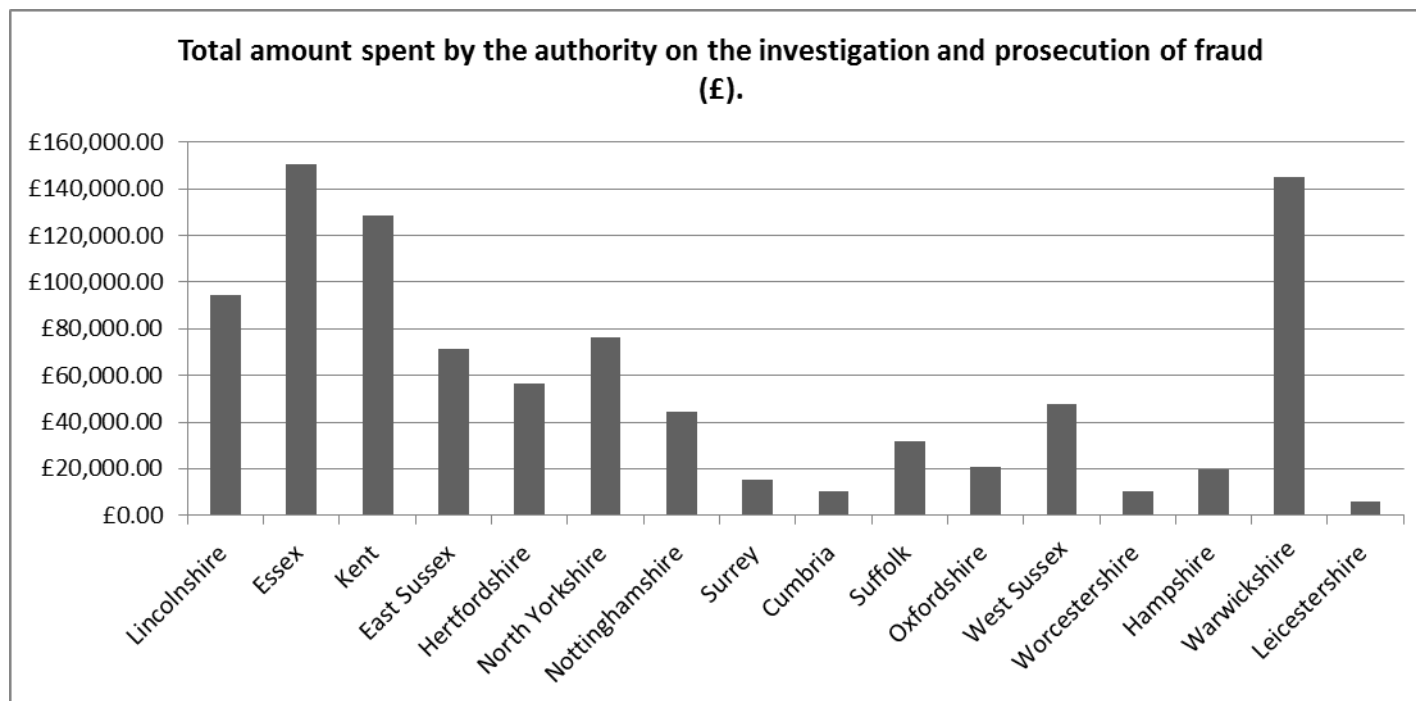
KCC identified the highest financial value of detected fraud and irregularity (a combined total of £176,000) and identified the highest amount for recovery (a combined total of £152,000).



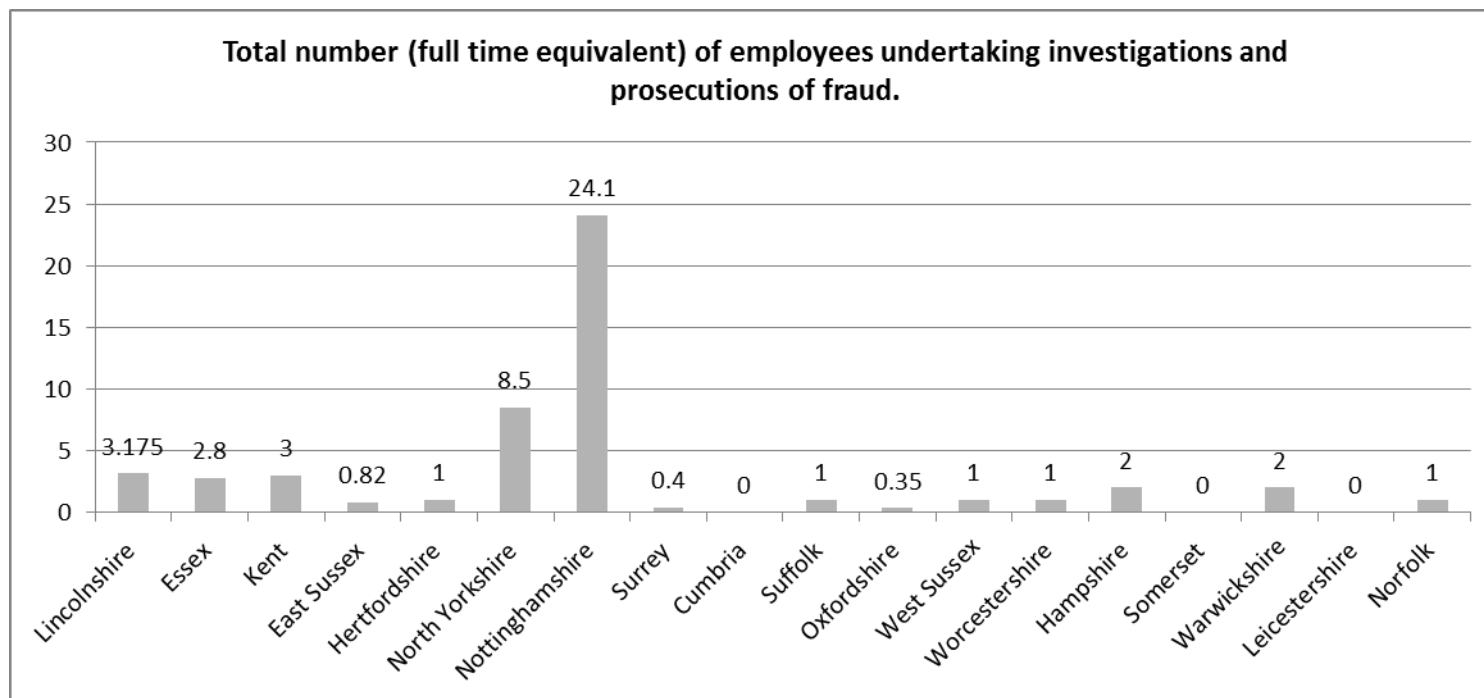
Total monetary value of fraud and irregularity that was recovered (£).



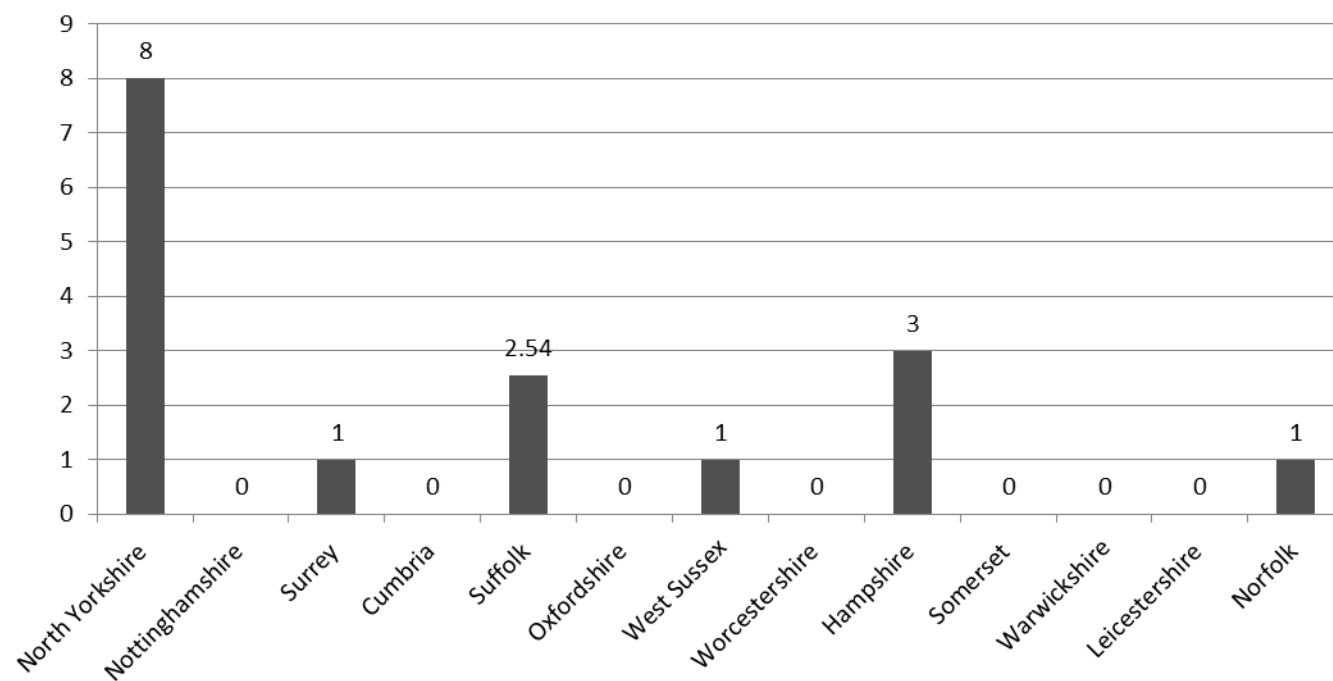
On average County Councils spend £55,000 investigating and prosecuting fraud. KCC spent £129,000 and has the 3rd highest spend overall.



On average County Councils employed 2.9 full time equivalent (FTE) staff to investigate and prosecute fraud. Of those 1.5 FTE were professionally accredited counter fraud specialists. KCC employed 3 FTE staff, 2 of which are professionally accredited counter fraud specialists (now 3).



Total number (full time equivalent) of professionally accredited counter fraud specialists.



TEICCAF and CIPFA Counter Fraud Surveys

21. TEICCAF have published their analysis of the data returned for all the English councils that chose to participate in their survey. A copy of the report is available at www.teiccaf.com. The report from CIPFA is expected later this year. The participants in our benchmarking club provided copies of the returns they submitted to these organisations on the basis the results remained anonymous. These returns reveal the following information:

Detected Fraud

- Across the benchmarking club participants fraud was most frequently detected in the Blue Badge Scheme, Social Care and when procuring goods and services (excludes the 'other' fraud category). In addition to these areas Kent detected the most fraud in the Kent Support and Assistance Scheme (although the value of this fraud was very low).
- The total value of detected fraud across the participants was £1.4million. The highest financial values of fraud were detected within Social Care, procurement and the Blue Badge Scheme (excluding the other and abuse of position fraud categories).

Counter Fraud Activity (in days)

- On average the participants spent 174 days investigating allegations of fraud. Kent spent 160 days and was the second highest overall.
- On average the participants spent 14 days promoting fraud awareness. Kent spent 22 days and had the second highest level of activity in this area.
- On average the participants spent 37 days undertaking fraud prevention work. Kent spent 49 days and was the second highest in the group.

Conclusions - Fraud Benchmarking

22. There are limitations to the available and accuracy of benchmarking data. Having considered this benchmarking data, and the requirements set out in CIPFA's code of practice on managing the risk of fraud and corruption, in our view KCC is at no higher risk of fraud than any other County Council, although Kent is successfully detecting and investigating fraud.
23. As a reminder the data for 2014/15 (previously reported) demonstrated that the KCC counter fraud team more than covers its costs from fraud recoveries.

Recommendations

24. Members are asked to note the benchmarking outcomes in relation to internal audit and counter fraud
25. That the results from the CCAN benchmarking are brought to the next meeting of the Committee

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3 October 2014