

EAST HERTS COUNCIL

EXECUTIVE - 8 MARCH 2011

REPORT BY EXECUTIVE MEMBER
FOR RESOURCES AND INTERNAL SUPPORT

A SHARED INTERNAL AUDIT SERVICE

WARD(S) AFFECTED: NONE

Purpose/Summary of Report

- To confirm East Herts participation in the Herts Shared Internal Audit Service.
-

RECOMMENDATION FOR EXECUTIVE: that

(A)	the Director of Internal Service, in consultation with the Executive Member for Resources and Internal Services, be authorised to conclude agreement with other participating district councils and Hertfordshire County Council to set up a shared internal audit service.
------------	--

1.0 Background

The sharing of internal audit services was a Herts Pathfinder idea. Under Pathfinder an arrangement involving a local authority partnership, supported by a call off arrangement with a professional accountancy/audit firm was identified as a preferred option by Hertfordshire Chief Finance Officers and endorsed by the Pathfinder Chief Executives steering group in February 2010.

Progress on bringing forward specific proposals was deferred in part by lack of dedicated resourcing but also by Herts County Council's necessary focus on their Managed Service contract.

The appointment in September 2010 of an interim head of audit at the County and release of project management resources on completion of negotiations of the Managed Services contract has allowed more rapid progress to this point.

From East Herts perspective the partnership offers resilience, ready access to a wider range of skills and lower risk delivery of cost savings built into the MTFP.

2.0 Report

- 2.1.1 East Herts has an excellent internal audit service. The Audit Committee, external audit and its customers routinely praise the work of the team. The partnership option is therefore approached to reinforce the service rather than repair or address weaknesses.
- 2.1.2 As with all services, and support service in particular, there is a need to become more efficient and reduce costs while remaining abreast of current best audit practice. This will create challenges. Remaining as is would mean operating at a sub optimum level in terms of appropriate mix of skills and seniority and with a cost structure with little scope for efficiency gains. In the current year we have received assistance at cost but on a good will basis from North Herts to address staff shortages. Being reliant on goodwill and an assumption that resources will always be available is not sustainable. This is particularly so for a service from which the Section 151 Officer specifically and the Council generally seeks ongoing assurance about the adequacy of controls at a time when organisational change is taking place to reduce staffing across many services.
- 2.1.3 **Essential Reference Paper B** summarises the proposed arrangements. The proposed shared service “Shared Internal Audit Service” SIAS will be hosted by Herts County Council. It will be a collaborative arrangement overseen by each participating Council’s S151 Officer. Each Council’s Audit Committee will have unchanged responsibilities and reporting arrangements. The SIAS is effectively a start up venture and is not a continuation of the Herts County Council service with a district “bolt on”. It will draw on the best features of participating councils’ existing services with a remit to work to CIPFA’s best practice standards with the role of the Head of Internal Audit matching the outcome of the current consultation paper. That post is out to open competition at present and all subsequent appointments will be ring fenced in the first instance to existing staff in the first instance.
- 2.1.4 Costing to date indicates a daily rate per audit day of £240 which compares well with our current costs of £271. This rate will be

finalised once there is final confirmation of the requirements of the 4 or potentially 5 district participants. There is no intention to reduce audit days within East Herts below that within the 2011/12 budget. However, over time there may be scope to reduce coverage once it can be demonstrated that based on assessed risks fewer days would offer adequate assurance.

- 2.1.5 Existing staff will transfer to Herts County Council. The current head of the service will not transfer being only 50% employed on audit activity and will continue to manage risk, procurement and support the review of governance arrangements along with the Monitoring Officer and S 151 Officer. This arrangement has the added advantage of back up during the period of transition. The aim is to start up the service from 1 July and consultation has commenced with staff and Unison.
- 2.1.6 That consultation has identified a number of concerns set out at **Essential Reference Paper C**. As noted above the Council is currently well served by its internal audit staff and their concerns over service quality are not taken lightly. However, all participating councils' Chief Finance Officers are committed to developing a high quality service – initially by recruitment of high calibre staff and a synergy of current best practice. Senior audit managers are meeting to draw on existing arrangements to establish the initial service delivery plan. Staff transfer issues, the final organisational structure and any issues of redundancy cannot be finalised until all Councils have signed up to the shared service and will be subject to further consultation with staff and Unison.
- 2.1.7 This will not be the first shared service for audit. The most developed Shared Internal Audit Service involving both County and District Councils is the South West Audit Partnership (SWAP). SWAP has stated that the key benefits it has delivered to its partners are:
- Productivity increases of the order 25 per cent
 - More affordable specialist services as costs are shared
 - Cost reductions of the order of 10 per cent
 - Streamlining in managerial arrangements allowing greater responsiveness and flexibility.

2.1.8 The Audit Committee requested that the Chairman be consulted on this report. Councillor Ranger comments that the proposal is in the best interest of the Council in particular:

- The shared vision and expectations of the service are critical to its success.
- The proposal that this be a new venture with oversight of all Chief Finance Officers addresses the concerns about the past performance of the County Council's service.
- The proposal to have a consistent link officer will promote a good relationship and location of the base (in Stevenage or Hertford) is not an issue for a service such as audit.

3 Implications

Essential reference paper A provides information on any corporate issues and consultation associated with this report.

Background papers

None

Contact Member Councillor M Tindale – Executive Member for Resources and Internal Support

Contact Officer Alan Madin – Director of Internal Services Ext No 1401

ESSENTIAL REFERENCE PAPER 'A'

Contribution to the Council's Corporate Priorities/ Objectives:	Fit for purpose, services fit for you <i>Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.</i>
Consultation:	Essential Reference Paper C refers and consultation is continuing. Presentations have been made to all staff involved and a dedicated web page established by Herts CC accessible to County and District council staff affected by the change includes an FAQ section for staff.
Legal:	The proposed model is a collaborative arrangement as set out at ERP B
Financial:	No additional saving beyond those set out in the MTFP is targeted in the next two years. Set up costs (ICT and similar) be funded by Herts County Council to be offset by a fist call on future savings
Human Resource:	EHC staff will transfer to Herts County Council.
Risk Management:	As Essential Reference Paper B

ESSENTIAL REFERENCE PAPER B

Shared Internal Audit Service Model

The original work to assess options for delivery of the internal audit function was carried out during 2009/10 under the aegis of the Pathfinder Programme. Four options for provision were initially assessed as viable:¹

Option 1	Current position (no change)
Option 2	Collaboration or 'virtual services' option
Option 3	Council 'hub' or shared service option with possibility of entering a contract with an external supplier for specialist services and additional capacity
Option 4	Outsourced services option.

The options were considered in the Outline Business Case for the Shared Internal Audit Service which was discussed by Hertfordshire Chief Financial Officers (HCFOs) in February 2010. The HCFOs decided that Option 3 should be explored in more detail. This shared service option was considered to provide the opportunity to deliver the benefits of a 'close' in-house service, greater resilience in an area where recruitment had been difficult, and the scope to deliver efficiencies of process resulting from the economy of scale of a larger service.

This decision led to the development of a detailed proposal for a Shared Internal Audit Service to be delivered through a partnership hosted by HCC. The proposal also includes the option to draw down additional resource from an external supplier in order to supplement the available 'in-house' resource.

The proposed objectives of the SIAS will be:

- to deliver a programme of high quality and reliable assurance on all key governance, risk and control systems to each Council, operating in accordance with statutory requirements, professional standards, and recognised best practice methodology

¹ These are defined in detail in Section 4 of the Outline Business Case 1 February 2010

- to deliver high standards of customer service and be responsive and flexible in its approach, offering the benefits of a 'close' in-house team
- to offer a wide base of experience, resilience, specialisms and skills, taking advantage of the economy of scale available to larger audit teams
- to deliver efficiencies through exploiting opportunities for joined up working, adopting a common methodology and service standards, sharing knowledge, skills and expertise
- to provide a supportive and stimulating working environment for those staff working in the Shared Service with opportunities for career development
- to be open to future opportunities to expand the Shared Service thus enabling greater efficiencies to be achieved.

The key benefits will be:

- Increasingly effective use of the total audit resource available to participating authorities resulting from knowledge sharing, efficiency in research and development work and efficiency in audit planning
- Economies of scale in terms of management structure, working practices and systems. For example, only one Audit Manual will need to be maintained result in efficiency savings; many similar such opportunities exist
- Enhanced career development and career opportunities for staff who obtain roles in the SIAS
- Potential for other partners to join the SIAS with further efficiencies arising.

The proposed arrangement will be a collaboration falling within the scope of Section 1 of the Local Authorities (Goods and Services) Act 1970 which allows authorities to collaborate in relation to administrative, professional or technical assistance. This permits HCC to offer an internal audit service to the other Councils and allows those other Councils to commission HCC to provide this service for a fee. The legality of this approach has been confirmed by legal opinion.

The arrangement will be governed through a detailed Partnership Agreement/Memorandum of Understanding which will set out the arrangements in place, standards and expectations and performance targets. The Memorandum of Understanding will be agreed by all parties.

Thereafter, it is proposed that oversight of the SIAS will be through a joint officer board comprising those Chief Financial Officers of council's participating in the service, given their particular interest in ensuring the adequacy and effectiveness of internal audit arrangements. The board will monitor the performance of the Shared Service to ensure that it delivers the standards and expectations set out in the Memorandum of Understanding.

Whilst the partners will jointly oversee the performance of the SIAS, the responsibility for the adequacy of the whole system of internal audit will remain with the Councils themselves, who will retain responsibility for approving audit plans and monitoring delivery via the Councils' respective Audit Committees (or equivalent). The individual Councils will continue to:

- be responsible for overseeing the effectiveness of the internal audit function at Council level, and holding the Head of Internal Audit to account for delivery
- be responsible for the effectiveness of their respective governance, risk management and control arrangements, holding managers to account for delivery
- Receive regular progress updates on internal audit work, consider key themes and issues, and take them forward as necessary.

Risks and Mitigations

In order to ensure that the SIAS is successful it will be necessary to ensure that the following key risks are managed:

Risk	Mitigation
SIAS is unable to deliver required work during transitional period	<p>Best practice programme management, change management and risk management processes through the transformation, and support to establish new ways of working beyond into the 'business as usual' phase</p> <p>Provision is being made for accessing additional audit resource via the establishment of a framework contract.</p>
SIAS is unable to provide adequate and effective audit services in line with professional and statutory requirements at a time of major change in the partner Councils	<p>All management roles within the service will require significant experience of successful delivery of internal audit services</p> <p>Existing employees across the Councils have long standing and in depth knowledge of audit requirements</p> <p>HCFO oversight via the proposed joint board.</p>
Loss of key staff, knowledge and experience	<p>Pre go-live: Equality Impact Assessments; compliance with HR processes; a commitment to staff consultation and engagement</p> <p>Post go-live: creation of a stimulating and rewarding working environment.</p>
Failure to deliver efficiencies	<p>Recognition within the Memorandum of Understanding of the responsibilities on both provider and client to deliver an efficient process</p> <p>Development of suitable management information systems to allow performance</p>

Risk	Mitigation
	monitoring and remedial action as necessary.

ESSENTIAL REFERENCE PAPER B1

The attached document was not finalised on the grounds of cost saving and timing. All figures are to be regarded only as at best indicative, were not subject to rigorous evaluation, and not endorsed by HCFOs.

However, both HCFO's and CEO's accepted that this provided a minimum but adequate analysis to determine that a local authority based single service option should be taken forward for further work

ESSENTIAL REFERENCE PAPER C

UNISON Response to Proposals for an Internal Audit Shared Service (IASS)

UNISON supports shared service partnerships between councils, where a business case identifies financial benefits and where service delivery is maintained or improved. This is a viable and preferential alternative to privatisation and a positive way of finding efficiency savings. It can, when successful be a way of safeguarding both jobs and public service delivery.

UNISON acknowledges this attempt to informally consult with staff before a report is submitted to CMT but does question how genuine a consultation process it is, since it appears that in principle approval has already been given by senior officers to form the Internal Audit Shared Service (IASS). Genuine consultation implies presenting future plans at an early enough stage to influence the outcome. It remains to be seen whether or not these plans change as a result of this consultation exercise.

UNISON does have serious concerns about these particular proposals and would like the following issues addressed, some of which have also been raised by existing internal audit staff at East Herts and other district councils. UNISON believes that the officers currently engaged in the service are best placed to know how viable the proposals are.

1. Lack of a Business Case

No details have been provided as to how savings will be achieved. In the report submitted to the Herts County Council Resources and Performance Cabinet Panel on 11 February, a list of key benefits was given but no supporting evidence supplied. There is also no mention of the hidden costs of redundancy and relocation expenses.

2. Failure of the HCC Audit Service

The Deloitte review identified a number of serious concerns about the HCC Audit Service with an assessment practice level of 'basic' in three of the five categories examined and 'acceptable' in the other two. The requirement for HCC to implement a new strategy for Internal Audit to improve performance forms a main driver for the partnership. This is not a good basis on which to form a partnership from the district councils' perspective. There is a high risk that the quality of service at district level will be dragged down as a result of the underperformance of HCC.

It would make more sense for HCC to put their own house in order first and for the districts to form a separate partnership with a view to HCC joining at a later date. Audit could be added to the services currently being looked at by Stevenage and East Herts.

3. Other Quality Issues

East Herts Internal Audit staff have raised a number of concerns about the future quality of the service, including the feasibility of a daily rate of £240. There is little point in repeating these, other than to say, they are genuine concerns warranting a detailed response.

It is also worth mentioning that in the HCC Consultation Information document for staff and UNISON the following paragraph (3.38) automatically implies a reduction in the level of service provided.

“The costs of delivering the Internal Audit service will need to reduce. The overall direction will therefore be for fewer staff, better skilled in modern audit practice, and deployed at areas of maximum importance, risk and potential impact.”

4. New Staffing Structure

The proposed staffing structure appears to have been created with HCC in mind with the districts tagged on almost as an after thought. All the posts have been given HCC grades with no salaries attached to them so that district staff have no means of comparison with their current grades.

5. TUPE Issues

UNISON would expect TUPE principles to apply throughout the whole process. This would mean that staff transfer on their current terms and conditions of service, which under the regulations cannot be harmonised where the sole or main reason for doing so is the transfer itself. All collective agreements would also transfer, including redundancy agreements and salary protection arrangements.

UNISON would like a detailed explanation of how staff can be transferred under TUPE and at the same time join the selection process for the new service as detailed in the HCC Information and Consultation document.

6. No compulsory Redundancies

UNISON would want to negotiate a shared service/no compulsory redundancy agreement. Any compulsory redundancies due to ETO exemptions will be rigorously challenged. As at HCC, volunteers for voluntary redundancies should be encouraged.

7. Equality impact Assessment

UNISON would ask that this is undertaken in order to assess the impact on staff of the proposed changes in terms of equality issues.

Conclusions

UNISON wishes to see a detailed business case for how savings will be realised as a result of the proposed partnership and a comparison between these and the level of savings that could be achieved by retaining the service in house.

UNISON believes that a further option should be included to explore the possibility of a partnership between district councils. This will reduce the risk of the HCC service not improving and adversely affecting quality at district level. There is also the advantage of the respective staff being familiar with auditing their own services and making the most effective use of limited resources.

It is essential to ensure that the service does not deteriorate as a result of these proposals and UNISON would ask that further options are explored before embarking on a high risk course of action that may be regretted at a later stage.

Jane Sharp – East Herts Branch of UNISON

10 February 2011