

INTERNAL AUDIT SHARED SERVICE

EXECUTIVE MEMBER: Councillor E Woodburn
LEAD OFFICER: Joanne Wagstaffe, Corporate Director Resources and Transformation
REPORT AUTHOR: Joanne Wagstaffe

WHAT BENEFITS WILL THESE PROPOSALS BRING TO COPELAND RESIDENTS

Deliver an effective internal audit service, which provides value for money and meets statutory and regulatory requirements. This should provide confidence to the public that the Council's management processes are fit for purpose and the control framework is robust and proportionate.

WHY HAS THIS REPORT COME TO THE EXECUTIVE?

Further information relating to Key Decision:

This report advises Members of progress in implementing the shared internal audit service and of the governance arrangements put in place. Members are now asked to ratify the decision to sign the legal agreement and to transfer the internal audit staff to Cumbria County Council.

RECOMMENDATION:

It is recommended that the Executive:

- (i) Note the progress in implementing the shared internal audit service and the governance arrangements put in place;**
- (ii) Agree that the set up costs can also be used to fund the legal costs of setting up the shared service;**
- (iii) ratify the decision to sign the legal agreement and to transfer the internal audit staff to Cumbria County Council;**
- (iv) grant delegated authority to the Director of Resources and Transformation to conclude the negotiations.**

1. INTRODUCTION

- 1.1 As previously reported to the Executive, the key drivers and proposed benefits from a shared audit service are as follows:-
- To establish a more robust audit service fully able to meet increasingly complex demands (overcoming recruitment and retention problems), through establishing a larger, more flexible, audit unit, including rotation of auditors to facilitate independence;
 - In the medium term, to provide more efficient audits (more audits for the same or less cash);
 - In the medium term, to increase the range of audit services (a wider mix of audits for the same or less cash e.g. specialist computer audit, value for money reviews).
- 1.2 A secondary driver was the opportunity to realise and release cash savings to all partner authorities. This was to be achieved through efficiencies in the appropriate mix of audit staff, in the promoting of specialist areas of expertise and in the rolling out of best practice. Copeland's share of projected savings was estimated at £4,000 in year 1 and £8,000 in year 2. These savings could either be taken as cash savings or be used to generate more audit days for the audit plan.
- 1.3 The conclusion of the business case, agreed by the Executive on 23rd March 2010, was that a shared internal audit service, hosted by Cumbria County Council, would ensure delivery of more robust audit arrangements. It would provide participants with assurance over statutory audit provision and provide scope for developing audit expertise and rolling out best practice. The benefits, as set out in the business case, had been subject to an independent review by Sector.
- 1.4 The potential impact upon other services within the Council from adopting a shared audit service approach has been considered. As the service is largely self-contained, impacts are limited to recharges from other departments. For example, recharges from Human Resources will no longer be charged to internal audit, as the employing Council will be Cumbria County Council. These previously recharged costs will have to be absorbed by the rest of the Council. Recharges have been reviewed and, except for office accommodation which will still be charged whilst audit staff have an office at Copeland, these totalled £8,967 in 2009/10. Mercers (the Local Government Pension Fund Actuaries) have commented that the TUPE of 4 staff (who were all in post at that time) would have negligible impact on employer's superannuation rates. There will now be 3 staff

- 1.5 At their meeting on 23 March 2010, the Executive noted the draft timetable for implementation of the internal audit shared service and agreed to the development of the TUPE arrangements to enable the transfer of staff to Cumbria County Council. They also noted the drafting of legal and governance arrangements and delegated the signing of the legal agreement to the Head of Legal and Democratic Services, in consultation with the portfolio holder. However, the agreed timetable has been considerably delayed, so this report has been brought back to the Executive.

2. ARGUMENT

- 2.1 Further to the report to Executive on 23 March 2010 and to the progress report to the Executive on 29 June 2010, the draft legal agreement – incorporating the governance arrangements and the performance standards – has now been produced. The key elements of the agreement are given at section 3 below. The legal agreement will be effective from 1 December 2010.
- 2.2 A separate agreement has been drawn up to enable the transfer of audit staff to the host Council – Cumbria County Council. The HR arrangements are in place and TUPE will apply. Staff will transfer when the appropriate notice period has elapsed.

3. PROPOSALS

Terms of Agreement

- 3.1 The originally agreed term of the legal agreement was for a period of six years or until terminated by one or more of the parties, giving the others not less than six months' written notice, to expire on 31 March in any year. As the start of the agreement has been delayed, it is now suggested the term will now be for a period of 5 years 4 months. However, the precise length is still to be agreed, but should not exceed 6 years and 4 months. If a partner chooses to withdraw, the withdrawing partner will make payment for any losses caused to the other partners by the withdrawal. Withdrawal will not take effect until this payment has been made. The delivery of its internal audit service, and the staff involved in that service delivery, will then return to the withdrawing Council.

- 3.2 The legal agreement may be varied but no variation will be implemented unless all partners have confirmed their agreement in writing.
- 3.3 The agreement may also be extended, if all partners confirm their agreement in writing.
- 3.4 In the event of any dispute, the matter will be referred to the Operational Board and, thereafter, to the Chief Executives and Leaders if necessary. If the matter is still unresolved, it will be referred to mediation.

Budget

- 3.5 Each partner shall contribute their base budgets for staff and oncosts associated with delivery of the audit service. Premises overhead costs and site-related expenses, e.g. photocopying, postage etc., will be the responsibility of the partner where the audit staff are based. All partners will agree base budgets by no later than 28th February in each year, with changes to take effect from 1st April each year. Indications of potential changes to the audit budget should be given in the preceding October.
- 3.6 Partners will approve their individual audit plans, in line with the audit days available for their base budget contribution to the shared service. Partners may wish to commission additional audit days during a financial year, if the need arises.
- 3.7 The Section 151 Officers, or other authorised officers of the partners, will have access to the financial records in relation to the budget contributions to the shared audit service and will be able to seek explanations to related queries.

Payments / Savings

- 3.8 Copeland B.C. and Carlisle City Council will make quarterly payments in arrears to Cumbria County Council for the audit service provided, following receipt of an invoice from Cumbria.
- 3.9 The first quarter's payment in any financial year will be adjusted to reflect under or over delivery of the agreed audit plan.
- 3.10 The first quarter's payment in any financial year will also be adjusted, if appropriate, to reflect any efficiency savings achieved in the previous financial year, in proportion to the base budget contributed by each partner.

Governance

- 3.11 The **Strategic Board** will comprise:
Audit Committee Chairs, Portfolio Holders and Section 151 Officers/Directors (or their chosen substitutes) to represent each

participating organisation. The Board will meet twice yearly to agree the shared service's strategy and to review the shared service performance. There must be an Audit Chair or Portfolio Holder presence to represent a minimum of 2 out of 3 participating organisations. To achieve a quorum, there must be a minimum of one Member or officer present to represent each organisation. The Chairmanship will rotate annually. The issue of voting rights has still not been agreed, but will be resolved prior to the legal documentation being signed. In exceptional circumstances, a decision may be sought from the Chief Executives and Leaders of all parties to the agreement. Meetings are not open to the general public.

3.12 The role of the Board will be to:

- Reach common agreement over issues such as standards, goals and objectives and reporting requirements;
- Agree on the range of audit outputs;
- Confirm the scope and remit of the audit function in relation to areas such as the preparation of a governance statement; and
- Agree reporting and performance arrangements for internal audit, including a range of performance indicators, delivery of the plan, cost and impact tracking.

3.13 The **Joint Operational Audit Steering Board** will comprise:

Section 151 Officers (or their chosen substitutes) plus one other officer from each participating organisation.

The Board will meet four times a year or as required. The quorum will be a minimum of a Section 151 Officer (or their representative) present from two of the three participating organisations. The chairing of the board has still to be agreed, and this will be done prior to the legal agreement being signed. The Head of the Shared Audit Service and/or Audit Manager(s) will also attend the Board.

3.14 The role of the Board will be to:

- Oversee the overall direction and focus of the shared service;
- Monitor performance against audit plans;
- Monitor performance against targets set by the Strategic Board; and
- Review quarterly and annual financial statements regarding the shared audit service.

Preparation and Delivery Outputs of an Audit Plan

3.15 A risk-based annual Audit Plan will be prepared for each organisation, taking account of the adequacy and outcomes of the organisation's risk management, performance and other assurance processes and in consultation with the Chairman of the Audit Committee, Portfolio Holder,

Chief Executive, Directors, Assistant Directors of each organisation and the Audit Commission.

- 3.16 The annual Audit Plan will be subject to approval by the respective organisation's Audit Committee.
- 3.17 The Audit Plan will reflect the number of days to be purchased by the participating organisation and will outline the assignments to be carried out, their respective priorities and the estimated resources needed. It is the responsibility of the Shared Audit Service to ensure that this Audit Plan is delivered.

Internal Audit Functional Responsibilities

- 3.18 The **Head of the Audit Shared Service** is responsible for:
- Development of the strategy for the Shared Audit Service;
 - Overall co-ordination and resourcing of the Shared Audit Service;
 - Delivery of the agreed Audit Plans;
 - Ensuring overall audit quality and performance; and
 - Raising the awareness and impact of audit.
- 3.19 Each **Audit Manager** to take the lead for an organisation, including:
- Liaison with, and attendance at, the Audit Committee;
 - Liaison with the Section 151 Officer;
 - Preparing and reporting on the Audit Plan; and
 - Lead audits performed within the organisation, based on the audit approach and programme devised by the Audit Manager with the functional responsibility.
- 3.20 Each Audit Manager will also be assigned one or more Cumbria County Council Directorate responsibilities:
- Preparing the Audit Plan and reporting to the Directorate Management Team;
 - Liaison with the Director / Heads of Service; and
 - Lead audits performed within the Directorate, based on the audit programme devised by the Audit Manager with the functional responsibility.
- 3.21 Each Audit Manager will be assigned a functional responsibility e.g. Fraud, Efficiency/Value for Money, Accountable Bodies/Partnerships, Main Financial Systems, Computer/IT audit, etc. for which they will:
- Act as the expert regarding functional areas;
 - Prepare Scope / Risk profile / audit programmes;
 - Operate each Scope / Risk profile / audit programmes at least once;

- Assist in rolling out the Scope / risk profile / audit programmes to other Audit Managers; and
- Review audit reports produced by other Audit Managers.

Performance Reporting

- 3.22 Delivery of the Audit Plan will be monitored by the Joint Operational Audit Steering Board, as described at 3.14 above, and by the respective organisation's Audit Committee.
- 3.23 Each participating organisation operates its own Audit Committee, with its own terms of reference which, as a minimum, will cover:
- Approval of the annual Audit Plan;
 - Monitoring progress against the Audit Plan;
 - Acceptance of the internal audit annual report, which will include an opinion on internal control; and
 - Acceptance of other ad hoc audit reports.
- 3.24 The internal audit service will be delivered to the standards set out in the CIPFA Code of Practice for Internal Audit in Local Government. Each organisation has a statutory requirement to make an annual report on compliance with this Code of Practice.

Initial Set up Costs

- 3.25 The Executive has previously approved £10,000 for initial set up costs of the shared audit service. This will be used to contribute towards IT arrangements to meet the Government Connect Code (COCO), enabling data and audit files to be accessed throughout the partnership. However, there are also some initial legal costs which need funding and it is proposed that the £10,000 for the initial set up costs is also be used to fund the initial legal costs.

4. CONCLUSIONS

- 4.1 The proposals in the legal agreement, as detailed at section 3 above, provide the framework for delivery of the Internal Audit Shared Service and a basis for monitoring and reporting performance.

5. WHAT ARE THE LEGAL, FINANCIAL AND HUMAN RESOURCES IMPLICATIONS?

- 5.1 The legal agreement and Staff Transfer Agreement address the legal, financial and human resources implications.

6. HOW WILL THE PROPOSALS BE PROJECT MANAGED AND HOW ARE THE RISKS GOING TO BE MANAGED?

- 6.1 The delivery of the Shared Service has been project managed, led by Cumbria County Council, with the involvement of all partner organisations. This has included a risk assessment of the business case. The legal agreement has been considered, and drafted to address as far as possible, the risks posed by the shared service to Copeland Borough Council.
- 6.2 Once the legal agreement has been signed, delivery will be monitored by the Strategic and Operational Boards.

7. WHAT MEASURABLE OUTCOMES OR OUTPUTS WILL ARISE FROM THIS REPORT?

- 7.1 The outcomes will be an effective internal audit service, as measured against the CIPFA Code of Practice, and delivery of the audits as per the approved annual Audit Plan for each organisation, within the approved budget.

List of Appendices: None

List of Background Documents:

Legal Agreement, Staff Transfer Agreement

Executive report 10/2/10 on the Internal Audit Shared Service Business Case
Appendix 1 to the above Executive report – Internal Audit Shared Service Business Case