

**Meeting: AUDIT COMMITTEE /EXECUTIVE**

**Agenda Item: 11**

Portfolio Area: Resources

**Date: 7 / 9 MARCH 2011**

## **SHARED INTERNAL AUDIT SERVICE**

### **KEYDECISION**

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#### **1. PURPOSE**

- 1.1 To set out proposals for delivery of Internal Audit through a shared service with Hertfordshire County Council and other Hertfordshire authorities.

#### **2. RECOMMENDATIONS**

### **AUDIT COMMITTEE**

- 2.1 That Audit Committee consider the proposals detailed in this report and forward any comments to the Executive.

### **EXECUTIVE**

- 2.2 That Executive approve, subject to staff consultation, the proposal for delivering Internal Audit through a shared service with other Hertfordshire Districts hosted by Hertfordshire County Council as the lead authority.
- 2.3 That Executive give delegated authority to the Strategic Director (Resources), in consultation with the Resources Portfolio Holder and the Chair of Audit Committee, to negotiate and agree appropriate governance and management arrangements for the shared service.
- 2.4 That Executive note that the Strategic Management Board (SMB) will assess and deal with the responses to formal staff consultation on the transfer of the Council's Audit Team to Hertfordshire County Council.

#### **3. BACKGROUND**

- 3.1 The function of Internal Audit is recognised as core to the Council's effective governance, risk management and control arrangements. The requirement for Councils to maintain appropriate and effective internal audit arrangements is set out in the Accounts and Audit Regulations 2003 (as amended 2006).

3.2 Executive approved a report on the Future Delivery of Support Services in July 2010 which set out a number of support services which the Council would like to share and/or consider for outsourcing. Executive expressed a preference for shared services unless the savings delivered through outsourcing were significantly greater than those deliverable through shared services. The report proposed that the Director of Resources explore opportunities to partner with other local authority services to take this agenda forward.

3.3 Communication with the staff groups involved has been ongoing during the course of the project. The Unions have also been informally consulted and kept informed and they acknowledge the drivers for change behind this project.

3.4 Across the public sector an increasing number of partnerships and consortia are emerging for the delivery of internal audit. The development of the Shared Internal Audit Service within Hertfordshire is inline with these wider trends.

### 3.5 Hertfordshire Pathfinder Programme

3.5.1 The catalyst for change to the provision of Internal Audit service arose as a result of the Hertfordshire Pathfinder Programme which involved all eleven Councils in Hertfordshire and the Police Authority.

3.5.3 Expectations for increased resilience in support services, improvements in skills, capacity and efficiencies were high for this support services theme of Pathfinder. Leaders and Chief Executives unanimously agreed a need to set out clearly, business cases to test where efficiencies and savings can be found and services improved. In 2009, Chief Executives received a presentation from Hertfordshire Chief Financial Officers and Audit representatives outlining the current partnerships and service collaborations that have been tested and that should be built upon.

### 3.6 Shared Service Model

3.6.1 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:

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.

3.6.2 Following submission of the draft Outline Business Case in November 2009 a period of consultation and discussion took place. This involved initial feedback from senior management (Chief Executives and Chief Financial Officers) in December 2009 and then a period of consultation with the Hertfordshire Audit Group in January 2010. The options were considered in the Outline Business Case for the Shared Internal Audit Service which was discussed in February 2010 by the Hertfordshire Chief Financial Officers who decided that Option Three should be explored in more detail.

3.6.4 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.

### **3.7 Shared Internal Audit Service**

3.7.1 In December 2010 the proposals were reinvigorated with the creation of a Shared Internal Audit Service Programme Board, appointment of an Interim Chief Internal Auditor at Hertfordshire County Council and new Strategy for Hertfordshire County Council Internal Audit service.

3.7.2 The County Council put forward a proposal to interested Hertfordshire District Authorities of a £240 'daily rate', based on a joint County/District staff structure for a shared Hertfordshire Audit service.

## **4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS**

4.1 This report seeks approval to deliver the Council's Internal Audit service through a shared service with Hertfordshire authorities, hosted by Hertfordshire County Council. In December 2010 Hertfordshire County Council proposed hosting a shared service, based on a day rate of £240 per day. Five Chief Financial Officers gave their commitment, subject to Member approval, these were:

- ▶ East Hertfordshire Council
- ▶ Hertsmere Borough Council
- ▶ North Hertfordshire District Council
- ▶ Stevenage Borough Council
- ▶ Welwyn Hatfield District Council

### **4.2 Business Benefits**

4.2.1 Internal Audit teams have a vital role to play in helping Councils manage the challenges they face by ensuring that governance, risk management and control arrangements remain effective. To do this successfully Internal Audit teams need to be fit for purpose and provide assurance of the necessary quality, depth and coverage. Often this will mean giving assurance on complex and risky issues and using specialist resources when necessary.

4.2.2 Establishing a Shared Internal Audit Service in Hertfordshire would provide greater resilience within the Audit service, through the formation of a larger team and increasing the mix of skills.

4.2.3 The current requirement to commission specialist audits from external suppliers would be reduced with these audits being undertaken by staff within the shared service.

4.2.4 The shared service would deliver a professional service in line with best practice, providing risk based assurance on governance, risk management and control arrangements.

4.2.5 The proposed creation of a single team would provide greater opportunities for staff with options for skills development and career progression.

4.2.6 It is anticipated that there would be financial savings as a result of the shared service through the delivery of an increasingly efficient, cost effective service over time. However, in the first year there may be implementation costs associated with the change.

#### 4.3 **Consultation with Members and Partners**

4.3.1 All five of the districts are taking forward reports to their respective Executive / Cabinet in February and March 2011 seeking approval to participate in the shared service.

4.3.2 The Head of Finance has raised these proposals with the Chair of Audit Committee in February 2011. This report will be taken to the Audit Committee on 7<sup>th</sup> February 2011 and a verbal update will be provided at Executive.

4.3.3 The Internal Audit service also provide services to Stevenage Homes Limited, they have been consulted on these proposals.

#### 4.4 **Consultation with Staff**

4.4.1 The creation of the proposed shared service would require the transfer of the Internal Audit team to Hertfordshire County Council. The staff transfer would be undertaken under Transfer of Undertakings (Protection of Employment) Regulations (TUPE).

4.4.2 Consultation with staff is proposed to take place in March and April 2011 on:

- ▶ TUPE Transfer
- ▶ Draft structure of the Shared Internal Audit Service and arrangements for ring-fencing, recruitment and selection
- ▶ New Hertfordshire County Council terms and conditions which are proposed for all Hertfordshire County Council staff from April 2012.

4.4.3 The consultation process may result in feedback which alters the proposals. If that is the case, the Senior Management Board and the other Local Authorities participating in the proposed shared service will be advised and the timing of any changes may alter.

4.4.4 Subject the outcome of the consultation, the staff may be transferred to Hertfordshire County Council, the proposed date for this transfer is June 2011.

#### 4.5 **Shared Service and Governance**

4.5.1 The proposal is to create a Shared Internal Audit Service which will deliver a full, professional internal audit function to meet the needs of the partner Councils and the requirements defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

- 4.5.2 It is envisaged that the Shared Internal Audit Service will perform the role of the current Internal Audit function with the exception of residual work which will be absorbed within the Finance service.
- 4.5.3 This means that Internal Audit will not be delegated to the shared service and the Council will retain the Audit Committee and assurance role.
- 4.5.4 There will be a dedicated Audit Manager assigned to the Council who will perform the client relationship role and will also be present at the Audit Committee. The Committee will have access to the shared services and the Hertfordshire County Council's Head of Internal Audit will attend the Committee as required.
- 4.5.5 Governance and management arrangements for the shared service are being developed by Chief Financial Offices from the participating authorities. These arrangements will include regular meetings between the Chief Financial Officer / Section 151 Officer, the Deputy Section 151 Officer and Hertfordshire County Council's Head of Internal Audit.

#### 4.6 **Next steps**

- 4.6.1 Should these proposals set out in this report be approved:
- ▶ The staff consultation will be undertaken and the outcomes assessed and dealt with by the Strategic Management Board (SMB).
  - ▶ The Council will formally advise Hertfordshire County Council of the intention to participate in the shared service.
  - ▶ The Strategic Director (Resources) in consultation with the Resources Portfolio Holder and the Chair of Audit Committee will negotiate and agree appropriate governance and management arrangements for the shared service
- 4.6.2 It is currently anticipated that the Shared Internal Audit Service would go live in June 2011.

### 5. **IMPLICATIONS**

#### 5. **Financial Implications**

- 5.1 It is envisaged that there will be financial savings from 2012-13, part of which will be a saving to Stevenage Homes Limited and the Housing Revenue Account. In the first year (2011-12) the Council will have to contribute to start up costs for the Shared Internal Audit Service and any share in redundancy costs resulting from the change. This partnership work stream forms part of the 'working together programme' which has targeted savings over the financial period 2012-13-2014-15.

#### 5.2 **Legal Implications**

##### **Transfer of Undertakings (Protection of Employment) Regulations**

- 5.2.1 The Transfer of Undertakings (Protection of Employment) Regulations (TUPE), are designed to protect staff terms and conditions of employment when a business, or service, is transferred from one body to another.
- 5.2.2 The Council is obliged to follow TUPE regulations unless an exception applies. The exception to TUPE is if the service is an 'administrative function' as described under the regulations.
- 5.2.3 Although the law does not appear to be entirely clear on the point, the County's legal advisers consider that TUPE applies to the proposals as they do not consider it to be an 'administrative function' in the meaning of TUPE.
- 5.2.5 The employment issues are more straight forward if TUPE applies, certainly from the Council's point of view as the employment contracts would transfer to Hertfordshire County Council and the Council would not be concerned directly with any restructuring arrangements (though these may be covered by indemnity arrangements between the parties).
- 5.2.6 It is important to note that should there not be a TUPE transfer the parties would have to have regard to the Code of Practice on workforce matters which is statutory guidance by virtue of Section 101 of the Local Government Act 2003. Essentially this prescribes that parties would treat TUPE as applying even though it does not. A failure to have regard to this Code of Practice would expose the Council, at least in theory, to judicial review of the decision to transfer.

### **Procurement**

- 5.2.7 The details of the governance and management arrangements are not yet developed but a shared service arrangement in principle should fall outside of the EU Public Procurement regime which, should they apply, would require the Council to tender for the service.

### **5.3 Risk Implications**

- 5.3.1 The table below sets out the risks identified and the proposed mitigation.

Risk	Proposed Mitigation
Complexities in the work required to share services could lead to extended timeframes for the project.	<p>Learning lessons and re-using decisions from within the Working Together programme where appropriate.</p> <p>Best practice and guidance from specialist external agencies and local authorities working successfully in partnership will be taken into account.</p> <p>Expert external advice will be sought to address complex / high impact decisions.</p>
Staff resistance to change could lead to extended timeframes for the project.	<p>Regular communication and engagement with staff during the life of the project and encouraging staff to attend training designed to support them working in a changing environment.</p> <p>Early involvement of HR experts in planning and delivering the communication to staff will ensure the communication material and method of delivery are fit for purpose.</p>

Risk	Proposed Mitigation
The inability of either the Council or the Shared Internal Audit Service to deliver the Audit work required during the transitional period.	Applying best practice programme, change and risk management through the period of change. In addition provision is being made by Hertfordshire County Council for accessing additional audit resource via the establishment of a framework contract.
The inability of the Shared Internal Audit Service to provide adequate and effective audit services in line with professional and statutory requirements at a time of major change in the partner Councils.	All management roles within the service will require significant experience of successful delivery of internal audit services.  Existing employees across the Councils have long standing and in depth knowledge of audit requirements. In addition it is proposed that the governance arrangements will provide Chief Financial Officer oversight.
Loss of key staff, knowledge and experience.	Prior to go live, early involvement of HR in the approach and early engagement with the staff. All engagement and consultation will be inline with Council policy.  Post go live of the Shared Internal Audit Service the approach to managing the service and client relationship will build on experience from previous partnership working. In addition, the shared service will include arrangements with external suppliers to buy in services when required.

## 5.4 Accommodation Implications

- 5.4.1 Appropriate accommodation and facilities will be provided to support the service, including appropriate and secure access to the Council buildings and areas of work. As part of the project team Facilities Management are already engaged in the proposals and will work closely with Hertfordshire County Council to arrange appropriate accommodation of shared service staff.

## 5.5 Human Resources Implications

- 5.5.1 The proposal does have Human Resources implications, although we have established in the past a variety of methods for delivering services for the Council.
- 5.5.2 These implications relate both to considering a model for delivering the service in a different way and also the impact on the staff group concerned.
- 5.5.3 The implications relating to the different model will be dealt with through the development of the management and governance arrangements, in particular addressing the relationship between the Council and the shared service. There will be significant activities related to cultural and operational integration where appropriate.
- 5.5.4 Appropriate support to the staff undergoing this extent of change will be provided as part of developing the proposals. Officers are working closely with the other Districts and Hertfordshire County Council to ensure that we fully meet our duty of care to the staff.
- 5.5.5 When transferring staff under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) both the transferor and the transferee have

responsibilities. The actual Human Resource implications will depend on how the changes take place, the emphasis for the Council is in acting as the 'transferor' and we will take all reasonable action to minimise the impact on staff.

- 5.5.6 As part of the project team, Human Resources are already contributing to the approach for communicating and engagement with staff. Appropriate consultations with Staff and Unions will be undertaken as set out in section 4.3 and Human Resources are leading on the support to management and staff undergoing change.

## **5.6 Equalities and Diversity Implications**

- 5.6.1 Officers have considered the proposals set out in the report in the light of the various Public Sector equalities duties imposed on the Council.
- 5.6.2 As the proposals currently stand no discernable equalities impacts have been identified. However, as proposals are further developed an equalities impact assessment will be made of any implications which might arise (which at that stage will be under wider implications arising from the Equalities Act 2010) and these will be properly considered and taken into account as the proposals develop.

## **5.7 Information Technology Implications**

- 5.7.1 Appropriate ICT will be implemented to support the shared service staff when they are working within the Council or on Council Audits, including appropriate and secure access to information and ICT systems. As part of the project team ICT are already engaged and working with Hertfordshire County Council and participating Districts to develop proposals for the ICT arrangements.

## **BACKGROUND DOCUMENTS**

- Executive Report July 2010 – Future Delivery of Support Services

## **APPENDICES**

None