

## **Policy and Finance Committee**

2 July 2015

### **Internal Audit Shared Service**

Report by Director of Finance and the Head of Corporate Governance

#### **Purpose**

To seek approval to extend the current shared Internal Audit service with the London Borough of Richmond, to include the London Borough of Merton based on the proposal set out in the Business case at Annex A.

#### **Recommendations of the Lead Member for Policy**

To **RESOLVE** that -

1. The proposal to extend the shared Internal Audit Services with the London Borough of Richmond (LBR) to include the London Borough of Merton (LBM), from 1<sup>st</sup> October 2015 be agreed; and
2. Responsibility for finalising the detailed terms of the shared service be delegated to the Director of Finance and Head of Corporate Governance, in consultation with the Lead Member for Policy.

#### **Key Points**

- A. The Shared Internal Audit and Investigation Service with the RBK went live on the 1<sup>st</sup> June 2012. Since then, the service has continued to deliver 100% of the audit plan days. Improvements have been made to standardise the audit processes and implement best practice across the shared service and relationships with senior officers and members have been strengthened
- B. A number of key objectives and targets were established as part of the development of the service. Although this delivered some financial savings, one of the key drivers was to establish a more resilient service with a larger pool of staff, skills and resources which was better able to respond to the needs of the Councils. The decision to establish the shared service between the two councils was taken with the view that in the longer term, greater efficiencies would be obtained through further expansion of the service to include other Authorities.
- C. Kingston, Richmond and Merton are members of the South London Partnership, the group of South London Boroughs which have agreed to work together where appropriate in delivering new service delivery vehicles.

- D An independent review was commissioned in 2013/14 which examined the options for establishing a 4 Borough shared Internal Audit and Investigations Service with Richmond, Kingston, Sutton and Merton. Whilst this was not taken forward at the time, recommendations were made regarding future partnership working.
- E. Work was subsequently undertaken in agreement with the South London Partnership, to establish a 5 Borough shared investigations service led by Wandsworth Council with the South West London Fraud Partnership (SWLFP) going live on the 1<sup>st</sup> April 2015.
- F With staff numbers depleted and the resilience of the audit teams reduced as a result of the transfer of staff to the SWLFP, this has paved the way for further discussions with the LBM on joining the already established shared audit service between LBR and RBK.
- G Both the shared service and Merton's internal audit service are highly regarded within their organisations and proposals are on the basis of continuation of the same level of activity in each. The operating model assumes that the two current Heads of Internal Audit will remain responsible for each of the Authorities as is, with one of these officers taking the lead as Head of the Shared Service and the other deputising. The Head of the Shared Service will be responsible for the management of a shared pool of audit staff and resources across the partnership to deliver the respective Audit Plans.
- H Further consideration will need to be given to the future of the service in the light of the Wandsworth and Richmond shared staffing proposals which may impact on this service in the next 12 to 18 months. Any further proposals to expand the shared service or to consider other delivery options will be subject to consultation with stakeholders and formal member approval
- I A project plan is in place to develop and implement the shared service expansion by the 1<sup>st</sup> October 2015.
- J. A report seeking endorsement to this decision went to the Audit and Governance Committee on the 24<sup>th</sup> June 2015.
- K The Business Case is attached at **Annex 1**. Key points which the Policy and Finance Committee should note are:
- The key drivers and business benefits from the expansion of the shared service under the proposed operating model are:
    - To increase resilience and enable future savings and economies of scale to be realised
    - To deliver the service through a mix of in-house and contractor resource allowing greater flexibility to buy in specialise audit services and in a period of significant organisational change, allow the service to expand or contract as and when required

- The in-house staff can add value through being part of the organisation and having a deeper understanding of the Council's and their risk appetites.
  - 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
- Development costs are expected to be minimal particularly as an ICT solution already in place for the South London Legal Partnership (SLLP) and SWLFP can be rolled out to the internal audit shared service. No redundancies are anticipated as a result of this project.
  - The shared service will continue to be governed by the Shared Service Board which will be extended to include officers from Richmond, Kingston and Merton, including the three Directors of Finance (S151 officers). The Shared Service Board will report to Executive Board, Kingston's Strategic Leadership Team and Merton's Corporate Management Team.
- L. The proposed structure will be subject to full staff consultation starting in July 2015.
- M A report went to LBM's Cabinet on the 29<sup>th</sup> June and will be made the LBR's Cabinet on 2 July 2015.

## **Options**

1. Alternative delivery vehicles were considered in the initial Outline Business Case undertaken as part of the current shared service development in 2011/12. This included a reduced in-house service, and full or partial outsourcing. The initial options appraisal identified that a shared service with a mix of in-house and contract resources would be the optimal solution. This initial business case was subject to an officer challenge / review session to validate the findings, including from the Strategic Leadership Team.
2. A further independent review was undertaken in 2013/2014 recommending a shared service delivery model. Although this was not taken forward at the time and the review related to the establishment of a four borough shared service, the principles remain relevant.

## **Consultations**

3. Consultation with stakeholders is in progress and an event for staff to mark the beginning of the formal consultation period is due to be held on the 7<sup>th</sup> July 2015. Regular progress reports are made to the Audit and Governance Committee on the expansion of the shared service and any associated risks. The Committee have been keen to stress that it would not wish to see any diminution in capacity for RBK or impact on the quality of the service provided. The proposals set out in the Business Case are on the basis of a continuation in the same level of activity in all three of the Authorities

## **Timescale**

4. A detailed project plan has been established for the expansion of the current shared service arrangements to be implemented by the 1<sup>st</sup> October 2015. This project plan is monitored by the Project Board which includes the Heads of Internal Audit for the current shared service and LBM, and will be overseen by the Shared Service Board.

## **Resource Implications**

5. A financial evaluation of the business case for expanding the Shared Internal Audit Service has been undertaken. The key driver is to establish a more resilient, flexible and effective internal audit service. Any savings will be made through improved audit processes and the development of in-house expertise in areas such as contract and IT audit, currently procured externally. More significant savings are anticipated where other Authorities join the shared service through the sharing of management costs and the generation of greater economies of scale. Project management and implementation related costs will be shared between Kingston and Richmond and Merton and appropriate approval for these will be sought via the Shared Service Board.
6. The current shared internal audit service comprises 9 FTE posts and procures a number of audit days from Mazars via the Croydon Framework contract equivalent to c2FTE. The total staff and contract budget for 2015/16 is £568k and this delivers 1600 audit days split equally between LBR and RBK.
7. The LBM internal audit service comprises 6 FTE posts and a budget to procure audit days from Mazars equivalent to c0.3FTE. These posts will be subject to TUPE transfer to LBR as part of the expansion of the service. The total staff and contract budget for LBM is £346k and this delivers 993 audit days
8. The total number of audit days to be delivered under the tri borough shared audit service is 2,593 within a combined salary/contractor budget of £914k. Costs for the shared service will be charged based on the split of audit days delivered as above.

## **Legal Implications**

9. The proposal is that staff will be employed by LBR as the host authority but the service will continue to be governed by the Shared Service Board. Staff currently employed by LBM will transfer to LBR under TUPE regulations. TUPE is a complex area of law and advice will be sought where necessary to ensure that legislation is complied with.
10. The shared service arrangement between LBR and RBK is currently overseen by a Collaboration Agreement. This will be reviewed by Legal Services and extended to include LBM. The Agreement once amended will be agreed by the Shared Service Board.
11. There is a statutory requirement for internal audit to comply with the Accounts and Audit Regulations 2015.
12. Councils have the power to arrange for the discharge of their functions by another authority by virtue of the Local Government Act 1972.

## **Risk Assessment**

13. Risks are set out in the detailed Business Case at Annex 1.

## **Equalities Impact Assessment**

14. An Equalities Impact and Needs Analysis has been undertaken as part of the Business Case at Annex 1 together with a Screening for Relevance exercise. These assessments conclude that there is no evidence to suggest that changing to a shared and jointly managed service will have any impacts on external organisations or individuals.

## **Environmental Implications**

15. At this stage there are no environmental implications but, in due course, opportunities to reduce the carbon footprint for all three Councils, for example through accommodation and working arrangements, will be explored.

**Background papers** - held by the Authors of the Report Alix Wilson 0208 8547 5125 and Andrew Bessant – 020 8547 4628

None