
SHARED INTERNAL AUDIT SERVICE

Responsible Cabinet Member - Councillor Stephen Harker
Efficiency and Resources Portfolio

Responsible Director -
Paul Wildsmith, Director of Neighbourhood Services and Resources

SUMMARY REPORT

Purpose of the Report

1. To inform Council of a proposal to create a Shared Internal Audit Service with Stockton Borough Council and request approval to proceed.

Summary

2. The Council is seeking to make savings in the provision of its support services in response to the financial pressures that it faces. Officers are responding to this challenge by considering different models of service delivery, seeking to reduce costs whilst mitigating the impact on service delivery.
3. This report sets out a proposal to share internal audit services with Stockton Council. This would enable a saving to be achieved, not least in management costs, whilst future proofing the important functions that the service provides. In particular it would enhance the resilience of the service.

Recommendation

4. It is recommended that Members :-
 - (a) Agree in principle to support the establishment of an Internal Audit Shared Service with Stockton Council acting as host authority, on the basis set out in this report.
 - (b) Delegate authority to the Director of Neighbourhood Services and Resources, in consultation with the Portfolio Holder for Efficiency and Resources, to finalise the arrangements for a shared service partnership, including concluding the agreement for the delivery of Internal Audit Services to the Council by Stockton Council

- (c) Delegate authority to the Director of Neighbourhood Services and Resources, in consultation with the Portfolio Holder for Efficiency and Resources, to agree the commencement of the shared service (the target date being the 1 April 2017)
- (d) Delegate all powers necessary for the discharge of the Internal Audit function to Stockton Council, with the delegation to come into effect at the agreed date of the commencement of the shared service
- (e) Authorise the Assistant Director, Law and Governance to make any consequential changes to the Constitution and Financial Procedure Rules that are necessitated by the above.

Reasons

5. The recommendations are supported by the following reasons :-

- (a) To enhance the resilience of the service.
- (b) To contribute to the achievement of savings identified in the Medium Term Financial Plan.
- (c) To build on the success of the shared delivery model with Stockton Council

Paul Wildsmith
Director of Neighbourhood Services and Resources

Background Papers

No background papers were used in the preparation of this report

Brian James: Extension 5408

S17 Crime and Disorder	The shared service would be required to review the Council's anti-fraud and corruption arrangements to ensure they remained fit for purpose.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	There is no impact to the budget and policy framework
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	The proposal is in line with the SCS condition that 'Every Public Pound Well Spent'. In addition, the proposal will provide greater resilience in the service which is an integral part of the Council's governance arrangements.
Efficiency	The proposal will enable a saving in management costs to be achieved.

Information and Analysis

Background

6. The Council continues to face a significant financial challenge. An MTFP for 2016-20 was recently approved by Council in June 2016 and that includes plans to radically restructure services with over £10 million worth of savings and the need to further utilise reserves to invest in the 'futures fund' which are services the Council does not have to provide but that add great value to Darlington. The MTFP includes savings in support services such as internal audit.
7. In responding to this challenge initial discussions have taken place with Stockton Borough Council regarding the benefits of a shared service arrangement for internal audit. This would complement the Xentrall shared service partnership established in 2008 for the provision of ICT, Transactional Finance and HR and Print and Design that has proved successful in delivering efficiencies and developments with no diminution in the quality and performance of services.
8. Stockton's internal audit service has audited the Xentrall partnership since its inception. They report their annual audit plan covering Xentrall and progress against/outcomes from delivery to the Darlington Audit Committee.
9. The proposal would mean the formal sharing of internal audit services between the two authorities and bringing the management of the shared service under one manager.

10. The internal audit service in both Darlington and Stockton are well regarded and considered to provide an effective service. However, individually they are relatively small with staffing of four and six and a half respectively possessing a mix of skills and experience and budgets for 2016/17 of £175.8k and £274.0k.
11. The opportunity would be taken to review methods of working, explore the greater use of technology and establish a shared internal audit structure to deliver a modern resilient service that satisfied service requirements. In particular, in accordance with the Accounts and Audit Regulations 2015 each Council has a statutory duty to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. Such standards and guidance are the UK Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note.
12. All of the staff would be employed by Stockton Council. There is no statutory requirement for auditors to be employees of the Council nor is there any statutory requirement for an auditor to be an employee of the Council in order to present evidence at a disciplinary or other hearing. As long as the individual is competent and able, there employment status is not an issue.
13. The concept of joint Internal Audit Services is a relatively common model in the public sector with many examples across the country both in local government and the NHS.

Host Authority and Timescales

14. It is proposed that Stockton be the host authority for the shared service due to the following reasons:
 - (a) The number of staff affected by transferring to the host authority is less;
 - (b) Stockton has expressed a willingness to act as the host authority and has experience of delivering shared services; and
 - (c) The Audit Manager at Darlington has expressed a willingness to take early retirement/voluntary redundancy
15. Subject to approval by both Councils, and to appropriate legal agreements being put in place, the target date for implementation of a shared internal audit service is 1 April 2017.

The Key Benefits of the Shared Service Proposal

16. In summary, it is felt that the shared service proposal represents opportunities across the two authorities that include:
 - (a) Economies of scale from the employment of a single Audit Manager;
 - (b) Pool expertise to strengthen service delivery to the benefit of the clients;
 - (c) Provide critical mass and improved business resilience e.g. enabling the risk of sickness and vacancies to be better managed;

- (d) Enhanced ability to undertake thematic reviews across the two authorities to share best practice across the shared service utilising a combined audit plan;
- (e) Enabling succession planning, career opportunities and development for staff;
- (f) Achieving economies of scale through shared training and procurement;
- (g) Increased capacity, flexibility and specialist knowledge from pooling staff resources; and
- (h) Benefits of adopting common day to day audit reporting and procedural approaches driven by the single Audit Management System operated by the service, along with common audit committee reporting protocols/ methodologies/ formats.

Other Options

17. Alternative business models are available for the delivery of the internal audit service such as outsourcing and joining established shared service arrangements. These alternatives have not been explored in great detail given the established synergies between Darlington and Stockton on the Xentrall Partnership; the existing close working relationship between the two internal audit sections to ensure the effective auditing of Xentrall; the key benefits previously out lined; and the relatively significant level of anticipated savings on existing budgets.

Governance and Risk

18. The shared service model proposed will need effective governance in place to work. The precise details will need to be resolved through the legal agreement that will need to be drawn up. They will have to include (and are not in any way contentious with Stockton):
- (a) Rights of access of the joint Head of Audit or his delegated representative to the Chief Executive and Chair of the Audit Committee
 - (b) Briefings for the Chair and other Members of the Audit Committee and attendance at Audit Committee meetings
 - (c) Meetings as required with the Director of Neighbourhood Services and Resources (Chief Finance Officer), Assistant Director Law and Governance (Monitoring Officer) and the Chief Executive
 - (d) Attendance at SMTs or other relevant meetings with Directors, for example to address significant audit findings, assist in audit planning and risk identification and to progress confidential matters
 - (e) Liaison with external auditors as appropriate
 - (f) Assurances as to the level and quality of service to be provided
 - (g) Procedures to follow to address complaints or other issues of service quality, including ultimately Darlington's rights to terminate the agreement
19. Ad hoc meetings on urgent issues as they arise will of course be required, and the nature of the shared service model proposed, with its reduction in management costs, inevitably poses some risks in the situation where urgent issues arise in the two authorities at once. However, there is no reason to doubt that these instances would not be managed successfully.

20. Although formal line management will be via Stockton, there will also need to be de facto line management at the appropriate level in our structure to enable regular oversight of the shared service to ensure the service continues to meet objectives and agreed levels of performance and to provide a link for reporting purposes. Details will be included in the shared services agreement.
21. In conclusion, the shared service option with Stockton offers a robust opportunity to reduce costs without introducing significantly greater risks. The shared service could enhance efficiencies and the quality of service offered, for example by allowing economies of scale and sharing of best practice.
22. The disruption to staff through the transfer would of course need to be carefully handled. However, we will be following the principles of the Transfer of Undertakings Regulations with all the protections that implies.

Financial Implications

23. It is anticipated that the proposal could yield Darlington savings of some £45,000 per annum commencing in 2017/18 within the context of continuing to deliver a quality, professional service. Thereafter the partnership would be expected to focus on opportunities for further efficiencies.
24. Any costs associated with transition will be shared between the Councils as agreed by the Chief Financial Officers.

Legal Implications

25. Section 101 Local Government Act 1972 enables an authority to make arrangements for the discharge of its functions by a committee, sub-committee or officer of the authority or by another authority.
26. Arrangements for the proper administration of the financial affairs of the Council (including audit services) are classified as non-executive functions under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 SI 2000/2853. As a result, the decision regarding delegation of the service is a non-executive decision and a decision for full Council to make.
27. There will need to be a shared service agreement, which will include sections on, governance, service delivery requirements, performance management and cost share provision. Ordinarily any contract for a service with a value over the relevant EU threshold would require an open procurement exercise to be followed. Regulation 12 of the Public Contracts Regulations 2015 excludes from the scope of the Regulations arrangements between public sector bodies where the service is delivered on a shared service model and where control over the delivery (in the sense of strategic objectives and key decisions) is still retained in a similar way to an in house model.
28. The lead employer will be Stockton Council. For technical reasons the Transfer of Undertakings Regulations do not apply to administrative transfers of staff in the public sector (these are excluded by Regulation 3.5). However the public sector as

an employer is expected none the less to follow TUPE principles and the Council will do so.

29. While the role of the Audit Committee and of all other democratic decision making bodies in the Council will remain unchanged, some consequential changes will be needed to Darlington's Constitution (for instance to the Financial Procedure Rules) to reflect the changed arrangements.

Staffing Implications and Consultation

30. Employees directly affected by the proposal have been informed and that we intend to follow the principles of TUPE. As a structure for an internal audit shared service is developed further to ensure efficiencies are driven out and resilience built in, consultation will take place in line with statutory and the Council's agreed procedures. The only identified potential redundancy at this stage would be the Audit Manager at Darlington who has expressed a willingness to take early retirement/voluntary redundancy on the grounds of efficiency.
31. Informal consultation has taken place with the Audit Committee and they are supportive of the principle of the proposal.