

HUNTINGDONSHIRE DISTRICT COUNCIL

Title:	Shared Internal Audit Services
Meeting/Date:	Cabinet – 20 October 2016
Executive Portfolio:	Deputy Executive Leader and Executive Member for Strategic Resources
Report by:	Head of Resources
Ward(s) affected:	All Wards

Executive Summary:

Cambridge City Council (CCC), Huntingdonshire District Council (HDC) and South Cambridgeshire District Council (SCDC) have agreed to work in partnership to deliver shared services and have agreed general principles to underpin the approach.

This report provides the business case to establish a Shared Internal Audit Service between the Councils and details the activity to create it.

The Cabinet is **RECOMMENDED to**

- i. Approve the Business Case and delegate authority to the Head of Resources to make decisions and to take steps which are necessary, conducive or incidental to the establishment of a Shared Audit Service in accordance with the Business Case; and
- ii. A contribution of £10,000 to the initial set-up costs, to be met from the Special Earmarked Reserve.

1. PURPOSE OF THE REPORT

- 1.1 To present to Members the Business Case for the Shared Audit Services (SAS) between the 3 partner Councils; Huntingdonshire District Council (HDC), Cambridge City Council (CCC) and South Cambridgeshire District Council (SCDC)

2. BACKGROUND

- 2.1 The Business Case for the establishment of the SAS can be found at **Appendix A** to this report. The rationale for its establishment is that it will provide the opportunity to deliver a more resilient and responsive service resulting in:
- Improved audit coverage that is of high quality;
 - Increased productivity;
 - Improved career opportunities for staff; and
 - Increased potential for audit services to be offered commercially.
- 2.2 It is proposed that SCDC will act as the employing authority for the SAS; its scope is solely audit services.
- 2.3 Information Governance will not be within the scope of the SAS. This will create some disaggregation issues for participating Councils. These issues are in hand within the respective Councils.
- 2.4 A new Senior Manager post will be created to lead the implementation of the SAS. The SAS will be created by the TUPE transfer of staff from HDC (4), CCC (5) to SCDC; this is proposed to happen in 2017/18 once the Senior Audit Manager is in post. The opening staffing level of the SAS will be 10. A review will then be undertaken of the rest of the staffing structure.
- 2.5 The SAS would have an opening staffing budget of circa £425k combining the 16/17 staffing budgets for each of the 3 current legal service operations. The ratio of the budget contribution at start up is CCC 47%, SCDC 13%, HDC 40%. This ratio forms the basis of saving distribution and additional cost incurred, if any, such as redundancy, pay protection etc.
- 2.6 Savings of £51.9k have been targeted for 17/18; the equivalent of a reduction of 11% of the net revenue budget, the Council's share of the savings is £21k.
- 2.7 Set up costs of £25k have been identified; the Councils contribution will be £10k which will be funded from the Special Earmarked Reserve. The pay-back is within one-year.
- 2.8 The work to develop the attached business case has been undertaken by a project group consisting of audit staff from each of the three Councils.
- 2.9 The work of the SAS will be driven by its Audit Plan (AP) agreed with the three client Councils. The AP will identify what has to be delivered and establish the means for measuring and assuring its performance. HDC will act as a client of its services. The AP will be agreed on an annual basis via the usual process, that being, by approval of the Corporate Governance Committee. The AP will be a key element of the operational plan for the SAS.

3. COMMENTS OF THE CORPORATE GOVERNANCE COMMITTEE – MEETING ON 27 SEPTEMBER 2016

In relation to Appendix 2 of the Business Case, the Committee were informed of an update in the level on savings identified whereby the figures had been amended for Cambridge City to £24,546, Huntingdonshire to £21,337 and South Cambridgeshire to £6,336 to bring them in line with the protocol utilised for the identification of savings in accordance with the previous shared service models.

Having noted the high level of non-productive time recorded, it was confirmed to the Committee that the level had been high across the three authorities and Members were advised how the target to reduce levels by March 2019 would be achieved. It was further highlighted that consideration be given to prioritisation of the Council's risks, together with allowance of a 'break clause' in the contract.

In response to a question it was explained that South Cambridgeshire had been nominated as the employing authority having nominated themselves for the role. Concern was expressed that the high quality audit service that the Council currently supplied could be diluted with the requirement to support the other local authorities.

Comments were made that by HDC not being the lead authority the SAS might not have the advantage of understanding how the Council worked and its functions, comparing such a scenario to External Audit if the service was extended further to include Peterborough City Council.

Reference was made to the previous services that had been implemented as a shared service within the authority and the Committee commented that the Council currently had no evidence to support the success of these services to proceed further with another service, making particular reference to the staffing issues recently experienced in the Building Control Service. There were different performance standards across the three authorities with differing productivity levels and there was concern of the timescale of two years to achieve standard working practices when the Council currently had an Internal Audit Service that met HDC requirements.

Having referred to the reasoning behind the previous shared service agreements being on a financial basis, concerns were outlined that the SAS proposal had not concentrated on the financial justification but rather the resilience. As the Committee had not been made aware of any issues with the current Internal Audit Service it could not support the justification in the Business Case.

The Committee concurred that the savings identified did not warrant the argument for proceeding with the proposal. Concerns were expressed with particular reference to the external independent review and external assessment that the Council had achieved previously but other authorities had not been at the same standard and not been reviewed in the same way.

The Committee resolved to:

RECOMMEND THE CABINET

not proceed with the Business Case for the establishment of a Shared Audit Service.

4. KEY IMPACTS

- 4.1 The SAS will ensure that there is future resilience across the audit service and a good mix of skills and experience among the teams' auditors. The three Councils will not see any negative impacts on the delivery of the Audit Plan.

5. TIMETABLE FOR IMPLEMENTATION

- 5.1 The timetable for implementation is shown within **Appendix A**.

6. LINK TO THE CORPORATE PLAN, STRATEGIC PRIORITIES AND / OR CORPORATE OBJECTIVES

- 6.1 The SAS supports the Corporate Plan objective of "becoming a more efficient and effective council".

7. CONSULTATION

- 7.1 SCDC will become the Lead Authority for the SAS. As such, identified Audit staff in HDC and CCC will transfer under TUPE to SCDC on the go-live date. Formal consultation with staff, Unions (and in addition Staff Council at HDC) will take place during October/November in accordance with each Councils policy on consultation. The consultation will be in respect of the proposed TUPE arrangements and new Senior Audit Manager post. This will be conducted in accordance with the Councils agreed policy.

8. LEGAL IMPLICATIONS

- 8.1 There are no direct legal implications arising from this report.

9. RESOURCE IMPLICATIONS

- 9.1 The SAS has a minimum saving target of 11% of net revenue budget. For the first year, there will be requirement for the Council to contribute £10k to the initial set-up costs. These will be met from the Special Earmarked Reserve.

10. REASONS FOR THE RECOMMENDED DECISIONS

- 10.1 To ensure the successful formation of a SAS between SCDC/CCC and HDC.

11. LIST OF APPENDICES INCLUDED

- 11.1 Appendix A – Business Case and Proposal for a Shared Internal Audit Service

BACKGROUND PAPERS

All included in the report.

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