



Leicester
City Council

**CABINET
AUDIT COMMITTEE**

**6TH SEPTEMBER 2010
15TH SEPTEMBER 2010**

SHARED INTERNAL AUDIT SERVICE

Report of the Chief Finance Officer

1. PURPOSE OF THE REPORT

- 1.1 The purpose of this report is to inform members of the potential for the development of a shared Internal Audit Service between Leicestershire County Council and Leicester City Council, together with a number of Leicestershire District Councils.

2. BACKGROUND

- 2.1 The economic situation dictates that the environment in which local and public authorities are operating is changing rapidly and in particular there is now a paramount need to generate savings. These savings are being identified not only within individual authorities but in conjunction with other organisations to obtain better economies of scale.
- 2.2 The Leicestershire Public Services Board, which includes representatives of all major public services in the city and county, is evaluating a number of services for potential sharing. Internal Audit is one of them.
- 2.3 The retirement of the Chief Internal Auditor at Leicestershire County Council together with the on-going need to secure efficiencies at the City Council via the Organisational Development and Improvement Programme provides an opportunity for both Councils to consider seriously a shared service approach. The two sections are broadly the same size in terms of budget (£900k) – Leicester City is slightly larger in terms of staff numbers (24 v. 22).
- 2.4 In the short term this may involve bringing the two sections under a single organisation to provide internal audit services to these organisations, with the longer term aim being to provide a high quality service to a larger number of participating organisations. At least two district councils have expressed an interest.
- 2.5 The most developed Shared Internal Audit Service that involves a County and District Councils is the South West Audit Partnership (SWAP). This is a partnership of Somerset County Council and five district councils. SWAP stated the key benefits were:

- Productivity increased by 25%
- Specialists more affordable on costs shared
- Costs reduced by 10%
- Quicker decision making
- Fewer changes to audit plans as client has to specify what not to do

2.6 Other Local Authorities have established consortia, including the Welland Partnership (Melton, Harborough, East Northants and Rutland) and Consortium Audit (Corby, Kettering, Northampton and Wellingborough). North Yorkshire CC and York City have recently established a company that provides audit to both organisations.

3. RATIONALE

3.1 A shared service would involve changes to the way in which the internal audit service is provided.

The key benefits are:-

- a) More effective use of the total audit resource available to all participating authorities. As a result of knowledge sharing, the quality of audit can improve both in relation to individual topics and more generally. This is because research and development work is undertaken once only and as a result can be done in more depth. Audit programmes and other audit resources will also only be developed once. In addition, best practice in terms of service delivery of front line services could be shared. Capacity can also be developed in specialist areas such as ICT, environmental auditing, partnerships etc.
- b) Economies of scale in terms of management structure, working practices and systems. As an example, an Audit Section of four staff still has to maintain an Audit Manual, ensure compliance with the CIPFA Code of Practice, and compile Audit Plans, Outturn reports and keep up to date with current audit practice.
- c) Enhanced career development and career opportunities for staff.
- d) The new organisation could become more entrepreneurial in outlook in terms of bidding for other contracts and reviewing how the service is delivered. This could drive costs down. Effectively, the Shared Service would become a Trading Organisation, able to increase its establishment of auditors to meet demands.
- e) The relationship between the Chief Finance Officer and the Audit Service is governed by commercial style contracts. Experience elsewhere suggests the service would then be focused more on delivery of the service (audit plan) and costs.

Some of the key challenges are:-

f) The major change could (if managed badly) result in a fall in morale and the loss of staff and/or increased turnover. Internal audit is essentially a knowledge based function and both Authorities currently have staff with high levels of technical and local service knowledge who would be difficult to adequately replace.

g) The change will occur at a period when internal audit is undertaking an important role in relation to extensive changes taking place within each authority. Undertaking its own change may undermine its effectiveness in this role, at least for a period of time. Nonetheless, the scale of change facing local government means that it would be unrealistic to exempt any service and internal audit would in any event be subject to review as part of the Support Services Transformation Programme.

h) A method of prioritising clients' work that is time or resource constrained will have to be accepted by all parties, especially where key managers' and specialised staffs' time is involved. This may be particularly relevant where outside agencies such as external audit or government departments are actually making the demands and setting the timetables.

i) For efficiencies to occur, the service will change from being 'tailored' to a 'standard service'. Time and training costs will be incurred as old practices and systems are given up and the standard ones are adopted across both sites. Some differences can be accommodated. However, core elements of the service will need to be standardised, for example reporting style. Both parties will need to acknowledge the need for better planning and a reduction in separately commissioned work.

j) At present many authorities do not have a client/contractor split for internal audit. Under the new model a more formal split will be necessary. This will mean that some of the tasks undertaken by the internal audit manager such as reallocating audit resource will need to be undertaken by the "client". This may require the reallocation of resources. Alternatively such work will need to be clearly stipulated in a service agreement and paid for.

4. NEXT STEPS

- 4.1 The first step will be to appoint a shared Head of Audit whose initial responsibility will be to carry out a detailed review of both sections to recommend the best model to take this forward. This will include determining which authority "hosts" the arrangement, or whether it is self-standing.
- 4.2 Review of staffing within the City Council will be carried out by the shared head of Audit, and consultation will take place under normal staffing protocols.
- 4.3 A shared service model has implications for the current support services review work, which would no longer be carried out under the auspices of ODI. Instead, it is anticipated that the shared head would be given a savings target to achieve through re-modelling of the two sections.

5. RECOMMENDATION

5.1 Cabinet is asked to agree the appointment of a joint Head of Audit.

6. FINANCIAL IMPLICATIONS

6.1 The estimated total cost of the shared Head of Audit is between £70,000 and £80,000 for a full year. The split between Leicester City and Leicestershire County Councils will be a matter for negotiation between the two authorities.

7. LEGAL IMPLICATIONS

7.1 Legal Powers are available to establish shared service arrangements as proposed. There will be a need to consider the impact on staff affected including TUPE implications. There will be a need for one employing authority.

8. CONSULTATION

8.1 The Trades Unions have been consulted.

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21 July 2010

Key Decision	No
Reason	N/A
Appeared in Forward Plan	N/A
Executive or Council Decision	Executive (Cabinet)