

Cheltenham Borough Council
Cabinet – 15th November 2011
Enhancement of Audit Partnership Governance

Accountable member	Cabinet member corporate services - Councillor Colin Hay
Accountable officer	Director of Resources – Mark Sheldon
Accountable scrutiny committee	Economy and business improvement
Ward(s) affected	All
Key Decision	No
Executive summary	<p>The Audit Partnership (AuditCotswolds) has been reviewed by the Audit Partnership Board to ascertain if the partnership and the service has been successful and should move to a more robust governance arrangement.</p> <p>This report provides the Cabinet with an assessment of the internal audit and partnership effectiveness and identifies that it has met the original business case objectives.</p> <p>Therefore Cabinet can support the original business case recommendation that the partnership moves to a more robust governance arrangement. The governance arrangement agreed in the original business case was that of a Section 101 (delegation of functions) of the Local Government Act 1972</p>
Recommendations	<p>(a) That Cabinet delegates Cheltenham Borough Council’s Internal Audit services to Cotswold District Council (including the transfer of staff under TUPE) as set out in this report in accordance with S101 Local Government Act 1972 and s19 and s20 Local Government Act 2000 from 1st April 2012</p> <p>(b) That Cabinet delegates authority to the Director of Resources (s151 Officer) in consultation with the Chief Executive and Cabinet Member for Corporate Services to enter into the agreement under s101 Local Government Act 1972 and s19 and s20 Local Government Act 2000 with Cotswold District Council and West Oxfordshire District Council in respect of Internal Audit services as set out in this report. on terms approved by the Borough Solicitor , subject to all Internal Audit partner councils entering into similar relevant agreements at the same juncture:</p> <p>(c) That Cabinet agree that the Audit Committee, through its existing role in terms of monitoring the effectiveness of Internal Audit, will suffice as the elected member input to the partnership governance.</p>

<p>Financial implications</p>	<p>The original business case delivered savings for Cheltenham Borough Council as well as providing a more resilient and effective service for the future. There are no further financial implications arising from the widening of the partnership for the service, although, over time, there may be opportunities to generate more fee income from external work.</p> <p>By entering into a partnership with Cotswold District Council savings of £24,000 per annum are being generated. Expanding the partnership to include West Oxfordshire District Council is generating additional savings of around £2,000-£3,000 per annum.</p> <p>Contact officer: Mark Sheldon, Director of Resources</p> <p>mark.sheldon@cheltenham.gov.uk,</p> <p>01242 264123</p>
<p>Legal implications</p>	<p>By entering into the s101 (s19/s20 Local Government Act 2000) agreement, the partner Councils will delegate the Internal Audit services to Cotswold District Council. The proposed s101 agreement will feature the following:</p> <ul style="list-style-type: none"> • The term will be 10 years with a break clause in year 5. • The governance arrangements • Service delivery performance indicators • The financial arrangements • Exit and termination provisions • Dispute resolution clauses <p>Contact officer: Shirin Wotherspoon,</p> <p>shirin.wotherspoon@teWKesbury.gov.uk, 01684 272017</p>
<p>HR implications (including learning and organisational development)</p>	<p>The Audit team and the recognised Trade Unions have been kept advised about the development of the project on an informal basis but full formal consultation will be required to be undertaken as soon as full details about the potential transfer are available. Any Transfer Undertakings (Protection of Employment) Regulations 2006 (TUPE) issues will be dealt with in accordance with appropriate employment legislation</p> <p>Contact officer: Julie McCarthy, HR Operations Manager,</p> <p>julie.mccarthy@cheltenham.gov.uk, 01242 2643551</p>

<p>Key risks</p>	<p>If the system of internal audit is found to be ineffective and not meeting the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006, then only a limited reliance on the work conducted by internal audit could be taken by Audit Committee in support of the Annual Governance Statement. This would require the Audit Committee to seek assurances from other sources as to the effectiveness of the system of internal control.</p> <p>Furthermore, the Memorandum of Understanding is only designed to provide a short term governance solution for a shared service due to its reliance on secondment agreements. The move to a S101 agency agreement would provide a longer term solution.</p> <p>Failure to deliver the Annual Audit Plan on behalf of three authorities – arrangements will be in place to monitor performance by the Audit Partnership Board and Audit Committees at each partner authority Exit of a partner from the partnership – legal agreements drafted for the partnership will include exit strategies.</p> <p>The risk assessment contained within the business case also explored the opportunities associated with entering into the partnership i.e. the opportunity to make further efficiency savings and opportunities to generate revenue income and the ability to address existing resource shortages at one of the partner authorities.</p>
<p>Corporate and community plan Implications</p>	<p>The audit shared service helps the Council to deliver cashable savings and also through the work of the service helps the Council achieve its objectives.</p>
<p>Environmental and climate change implications</p>	<p>Officers will be required to move between sites but work schedules minimise the travel.</p>

1. Background

- 1.1 In September 2009 the Audit & Assurance Services for Cheltenham Borough Council entered into a partnership with the Internal Audit Services at Cotswold District Council. Due to the success of this partnership, and also in light of developing partnerships, the partnership was expanded to include West Oxfordshire District Council.
- 1.2 As part of this expansion to include West Oxfordshire District Council, it was recognised in the business case that the partnership governance, consisting of a Memorandum of Understanding (MoU) and supporting secondments, would only be a short term arrangement. This would enable the partners to assess if the arrangement across the three authorities could be successfully implemented and ascertain if it should then move to a more robust governance framework. Therefore to ensure there was an opportunity to assess the partnership the MoU was limited to one year.
- 1.3 This report provides the Cabinet with an assessment of the internal audit and partnership effectiveness and if it has met the original business case objectives. It also identifies that it is appropriate to move to the originally recommended Section 101/s19 agency agreement arrangements.

2. Reasons for recommendations

- 2.1 The Audit Partnership Board which includes the Director of Resources as Cheltenham Borough Council's representative has assessed the effectiveness of the partnership. This is shown at **Appendix 1**. The review identifies that AuditCotswolds has fulfilled the original business case criteria (including revenue savings) and has also delivered a quality service that meets the CIPFA standards for internal audit in local government.
- 2.2 Some of the non-financial benefits identified by the Audit Partnership Board include:
 - 2.2.1 Audit transfer of skills and knowledge – Auditors have undertaken reviews of a service at one site and reviewed the same service at other sites. This has enabled the auditor to bring real best practice to the review and ensured the auditor was more efficient each time as he only needed to build the knowledge of the service once.
 - 2.2.2 The auditors have gained in personal experience due to operating in multiple organisational environments, which include Cheltenham Borough Homes Ltd.
 - 2.2.3 The risk identified in the Cheltenham Borough Council Audit & Assurance Service in 2009 relating to the age profile of the service has been fully mitigated through the partnership working. There was also a recognised enhancement to progression opportunities for the individual.
 - 2.2.4 The service has now recruited and ICT Auditor and trained other members of the team in specialist areas, such as, environmental auditing. None of the specialist roles would have been enabled in a single site service.
- 2.3 As part of the effectiveness assessment process the KPMG Interim Audit Report that was presented to Audit Committee in June 2011 was reviewed. This report which included an assessment of AuditCotswolds and identified that the internal audit service had met the required standard for KPMG to place full reliance on their work.
- 2.4 This has therefore confirmed that AuditCotswolds has met the required milestones to move the development of a new and enhanced governance framework. The move to a Section 101/s19 agency agreement would enhance the governance of the partnership and is scheduled to be in place by 1st April 2012 subject to Cabinet approval . This time line has been extended from the original November 2011 suggested transfer date to enable the service to move within the transfer

timelines of the GO Programme. This will assist with the allocation of staff posts within the GO ERP. This would also enable AuditCotswolds to be 'stable' during the implementation of the GO ERP and therefore enable the service to provide audit support when needed.

3. Alternative options considered

- 3.1 The alternatives to moving the service into the Section 101 governance framework model would be; to extend the current MoU arrangement which is only designed for short term use; or to cease the partnership arrangement and return to single site services.
- 3.2 The Audit Partnership Board has recognised the benefits that the new partnership has brought and that this service delivery model best suits the organisation due to the commissioning agenda and the increased use of shared services.

4. Consultation and feedback

- 4.1 This report has been produced in consultation with the Audit Partnership Board.

5. Performance management –monitoring and review

- 5.1 This has been largely covered in section 3 above. However, the Audit Committee has made a formal comment for Cabinet to consider in terms of the service provision to date under the partnership arrangement.
- 5.2 Under the Section 101/s19 agency agreement the Audit Committee would be designated as the Member level group for monitoring the performance of the partnership. This is enabled by the fact that the Audit Committee is responsible for ensuring an effective Internal Audit service is provided under their current Terms of Reference in the Council's Constitution.
- 5.3 Based on the results of the effectiveness review and that the Audit Committee can place a reliance on the Internal Audit Service, it is recommended that Cabinet approve the move to the enhanced governance arrangements for the Internal Audit Partnership. This is supported by the Audit Partnership Board's assessment that service has met the original business case success criteria and can therefore consider the move to a Section 101/s19 agency agreement form of governance.

6. Delegated Responsibility

- 6.1 Each Partner council is being requested to delegate authority to enter into the s101/s19 agency agreement to the appropriate Members and Officers.
- 6.2 The functions to be delegated to AuditCotswolds are all the elements set out in the Audit Charter in Appendix 2.
- 6.3 The Audit Committee and Audit Partnership Board will monitor the performance of the partnership using key performance indicators (KPIs) included within the finalised s101/s19 agency agreement. The aim is to minimise the number of KPIs but ensure that they remain at a level that establishes the performance of the partnership (highlighting under or over delivery against performance standards) and delivery of benefits as per the business case. An illustrative example of KPIs include delivery of annual audit plan

7. Delegating Authority Risks

- 7.1 Following the political approval of the Audit Business Case in the autumn of 2010, each partner council entered into a Memorandum of Understanding (MoU). The initial business case set out the

risks of the use of a MoU. It was only ever intended to be a short term solution to enable the partnership to be trialled before entering into a more robust governance arrangement that had a longer term commitment i.e. 10 years.

- 7.2** There is the risk of loss of control over the audit partnership. However, the service has been trialled over 18 months and has delivered an effective service. There is scrutiny of the service provided by the External Auditor as there is still the requirement to deliver the service to CIPFA standards. Furthermore there is the regular review by the Audit Committee and the Audit Partnership Board.

8. Risks to the Audit Partnership

- 8.1** Risks are reviewed with the Audit Partnership Board and Audit Committee, and significant risks are included on the service risk registers at each partner council.

9. Accommodation

- 9.1** The Audit Partnership uses its collective accommodation across the partnership, locating services to best meet service needs and that is most cost-effective and efficient. There is no anticipated change to the accommodation requirements.

10. Financial Implications

- 10.1** There were no implementation costs above that of current budgets used to create this partnership. However, there was a contribution from Cotswold District Council to the cost of the flexible retirement of one of the Cheltenham staff. This contribution will be completed by the end of 2011/12 financial year and therefore no costs will remain for the go 'live' date of the partnership on the 1st April 2012.
- 10.2** The general charging principle is that the Host Authority will recharge all costs on a cost recovery basis.
- 10.3** Any additional savings arising from any future restructures will be shared in proportion to the original baseline staffing position. Any new income generated by the AuditCotswolds will be shared equally by the partner councils

11. Pension Liabilities

- 11.1** Advice to date from Gloucestershire's LGPS Actuary indicates that staff transferring to the Host authority will transfer with fully funded pensions as any deficit on those staff will remain with their original employing body. This means that the councils who are not the host authority will have less employees to spread the recovery of that deficit over. However, this is not likely to have a significant impact on recovery rates given the relatively small number of staff transferred and the change by the Actuary to recover deficits as a fixed sum rather than as a percentage of total pensionable pay.

12. VAT

- 12.1** The supply of Internal Audit Services to the Partner Councils will be via a s101/s19 agency agreement under the Local Government Act 1972. This enables the service to be provided as a non-business supply, which means that VAT is not chargeable from the lead authority to its partners.
- 12.2** Each local authority is required to prepare a partial exemption calculation for VAT accounting purposes. The partial exemption calculation substantiates each local authority's right to reclaim all

VAT input tax back from HMRC. Although, there will be a small impact upon this calculation, it is not anticipated that any authority will be unable to fully recover VAT input tax as a direct result of the use of the delegated authority.

13. Other Changes Required

13.1 The original business case outlined the requirement to standardise documentation throughout the partnership up to and including the reports presented to Audit Committee and management. On the 14th September 2011 a complete new audit manual was issued to all staff and changes in working practices introduced. It is anticipated by the end of 2011/12 the reporting to Audit Committees will be standardised. However, the partnership continues to commit to an in-house approach to delivery and as such the structure of the service is designed to ensure this is delivered. The Head of the Audit Partnership also fulfils the role of Head of Internal Audit as defined by the 2010 CIPFA paper.

14. ICT Implications

14.1 AuditCotswolds will be supported by the ICT services at each partner site. However, the partnership will be reviewing the use of ICT to ascertain if any further efficiencies can be gained. For example, staff will need access to one system for accessing emails, electronic calendars etc. and will also need to access shared drives and intranets at all client sites.

14.2 More work will need to be done to resolve these ICT implications

15. Conclusion

15.1 The Audit Partnership Board proposes that Cotswold District Council is designated the Host authority for the AuditCotswolds partnership.

15.2 It is proposed that staff from Cheltenham Borough Council and West Oxfordshire District Council will transfer under TUPE regulations to Cotswold District Council with effect from 1 April 2012. Consultation on the transfer will be carried out later this year and will be completed by the end of March 2012.

15.3 Further work needs to be carried out on the ICT infrastructure to enable staff to access systems which are essential for them to be able to deliver services as efficiently and effectively as possible. It is envisioned that staff in the wider organisation will communicate with AuditCotswolds by email and telephone.

15.4 Performance of AuditCotswolds will be monitored by the Audit Partnership Board and the Audit Committees against the performance standards contained within the s101 agreement.

15.5 AuditCotswolds will commence on 1 April 2012 under the new governance arrangements.

15.6 A timetable for TUPE consultation is being developed and will be used during staff information sessions.

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Appendices	<ol style="list-style-type: none">1. Effectiveness review of AuditCotswolds2. Audit Charter
Background information	<ol style="list-style-type: none">1. Cabinet 26th October 2010 Audit Partnership report

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	I	L	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
1	<i>The Memorandum of Understanding is only designed to provide a short term governance solution for a shared service due to its reliance on secondment agreements. The move to a S101/s19 agency agreement would provide a longer term solution.</i>	Mark Sheldon	26/10/2010	2	4	8	Reduce	Move to the S101/s19 agency agreement	1/04/2012	Mark Sheldon	Audit service register