

Cheltenham Borough Council
Audit Committee – 9 January 2013
Governance & Internal Audit Role

Accountable member	Cabinet member corporate services
Accountable officer	Head of Audit Cotswolds – Robert Milford
Accountable scrutiny committee	Economy and business improvement
Ward(s) affected	All
Key Decision	No
Executive summary	<p>The council must ensure that it has sound systems of internal control that facilitate the effective management of all the council's functions. The work delivered by AuditCotswolds, the council's internal audit service, is one of the control assurance sources available to the Audit Committee, the Senior Leadership Team and supports the work of the external auditor.</p> <p>The Annual Internal Audit Opinion presented to Audit Committee provides an overall assurance opinion at the end of the financial year. This report provides the Audit Committee with an overview of how Internal Audit operates to provide the assurances in services operating with other organisations.</p>
Recommendations	The Audit Committee considers the report and makes comment on its content as necessary

Financial implications	<p><i>There are no direct financial implications arising from this report.</i></p> <p>Contact officer: Mark Sheldon, Chief Finance Officer mark.sheldon@cheltenham.gov.uk, 01242 264123</p>
Legal implications	<p><i>None specific arising from the report recommendation.</i></p> <p>Contact officer: Peter Lewis, peter.lewis@tewkesbury.gov.uk, 01684 272012</p>
HR implications (including learning and organisational development)	<p><i>No additional HR implications arising from this report.</i></p> <p>Contact officer: Julie McCarthy, HR Operations Manager julie.mccarthy@cheltenham.gov.uk, 01242 26 4355</p>

Key risks	That due to the governance arrangements any weaknesses in the control framework, identified by the audit activity, continue to threaten organisational objectives.
Corporate and community plan Implications	<p><i>“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”</i> (Chartered Institute of Internal Auditing UK & Ireland).</p> <p>Therefore the internal audit activity impacts on corporate and community plans.</p>
Environmental and climate change implications	Environmental and climate change issues are considered when reviewing elements of a shared service.

1. Background

- 1.1 Cheltenham Borough Council operates a commissioning approach to service delivery. This has resulted, in part, to the delivery of services through a shared service model. The shared service model is where Cheltenham Borough Council partners with one or more organisations to deliver the service. The benefits of this form of service delivery include, but not exclusively, cost savings.
- 1.2 When a service is delivered through a shared service model the role of internal audit varies to ensure an assurance opinion can be delivered at the end of the financial year. This is due to the changes in the governance models. The report below sets out the key considerations and phases of internal audit assurance.
- 1.3 This reports uses examples that include the GO Shared Service, ICT Shared Service and Leisure and Culture Trust projects as identified in the Audit Committee forward plan.

2. Reasons for recommendations

- 2.1 The environment in which Cheltenham BC and other Local Authorities now operates has presented significant drivers for change. The continual effort to meet the organisational objectives within a constrained budget has resulted in core systems coming under review for change e.g. the GO Programme impacting on core financial systems, Shared Services impacting on core governance arrangements, etc.
- 2.2 Therefore Internal Audit needs to be responding to the changing environment and the areas where the organisation now requires assurances. This prompts the requirement to move to a more flexible and risk based approach using both consultancy and assurance styles.

3. Internal Audit Role

- 3.1 The internal audit service operates differing methodologies depending on the phase at which the shared service operates. It should be noted that the phases are not necessarily clearly distinguished and a shared service may exist in multiple phases.
- 3.2 Internal Audit assessment of the phases, indicators of the phases, governance arrangements and examples:

Phase	Possible boundary objects / artifacts	Governance	Assessment of current shared service (examples)
1	Concept (Change Programme) to Business Case	Existing hierarchy decisions within existing organisations. No formal governance 'binding' the partners. Roles established in existing	ICT Shared Service Leisure & Culture

		organisations	
2	Business case to implementation – the ‘go live’ point	Existing hierarchy – project management – example Prince 2 methodology – representatives from each partner + specialists – establishment of roles linked to the project – new decision network.	GO Shared Services
3	Implementation to stability / structure (new roles in place but with new or possibly TUPE transferred personnel)	New network – change and benefit realisation actions (actions that start to deliver the benefits) and formal agreements e.g. S101 agreements. Establishment of roles linked to the new service – new hierarchy in the network emerging. Often inward looking i.e. getting fit for purpose.	GO Shared Services Ubico Ltd
4	Stability / Structure to cultural identity (new roles understood)	New network hierarchy – Delivering the service to the standard set by the new stable network in order to deliver agreed service. No longer inward looking and now fit for purpose. Network now fully crystallised and able to support growth. Own identity.	One Legal Audit Cotswolds
5	Exit / change	Collapse of governance, change of agreements, new partners, etc.	

		Change of roles, loss of identity, disbanding of network, network collapse.	
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3.5 Phase 1: Concept to business case

- 3.5.1 Internal audit in this phase will monitor the activity of the commissioning scheme, the Senior Leadership Team and other groups, for the emerging change projects and programmes. This can also be derived from such documents as, the corporate strategy, medium term financial strategy, Cabinet forward plan and the risk register. This can also be identified through enquiry with management during the course of planned audits.
- 3.5.2 Once the project has been identified a watching brief will be undertaken by one of the Audit Cotswolds team (often a Principal Auditor). Key indicators of risk will be assessed at this stage e.g. financial, operational, strategic, legal or other significant change markers. An initial assessment of 'audit days' will also be undertaken i.e. an approximation of how many days will be required at this phase and therefore what impact does it have on planned work. In the event that there is a significant change required to the plan, this is reported to the Audit Committee.
- 3.5.3 As the concept develops into a business case (or similar decision document), internal audit will be looking for sound controls over the development of the business case. This will include such things as; clear objective, assessment of risks, robust costings, clear ownership, etc.
- 3.5.4 In this phase the internal audit normally provides a consultancy approach, offering advice to support the development of a robust business case. This can included independent review of the business case, gate review assistance and assurance. However, no assurance opinion or report is produced.
- 3.5.5 Examples: 1) Recently the Leisure and Culture business case document was reviewed through a gateway meeting. Audit Cotswolds provided an assurance assessment of that process and also provided an independent chair for the meeting. 2) For the ICT Shared Service with the Forest of Dean DC a Principal Auditor has been part of the project team and also another member of the team coordinated some Due Diligence work with Forest of Dean DC.

3.6 Phase 2: Business case to final implementation

- 3.6.1 Once the business case has been approved, and all the necessary Council decisions for approval have been given, the business case is developed into an implementation plan. This can be done by the same team, but depends on the previous phase contributors. More often than not the team will be different. This phase is governed by project management methodology, but takes its direction from the business case i.e. phase 1 builds the business case, phase 2 sets out how to deliver it.
- 3.6.2 The implementation of the business case may run several projects at any one time. There will be an overarching decision group that makes decisions from the perspective of the overall programme. For example, in the development of Ubico Ltd in 2012, there was a project board that met on a regular basis to make decisions over the project as a whole. This board contained representatives from both Cheltenham BC and Cotswold DC (the two partner organisations), along with Legal, Finance, HR and Audit representatives.
- 3.6.3 Audit Cotswolds can operate multiple roles in this phase, largely driven by the 'get it right first time' principle – as once the project is complete, further changes will be harder to implement. In

the case of Ubico Ltd, Audit Cotswolds provided a representative to the project board and a representative on the governance project work stream. The role of the project board member was to ensure the project board operated with its own robust governance e.g. risk management in place, decision making framework agreed, etc. The role of the auditor on the governance project work stream was to provide specialist governance advice to ensure the final organisation (Ubico Ltd) had the necessary governance to function.

- 3.6.4 In this phase Audit Cotswolds is operating with a consulting methodology. There may be reports developed, but they reside with the project board and assurance is provided to the Audit Committee as an update and not a formal assurance report.
- 3.7 Phase 3: Implementation to stability / structure
- 3.7.1 Once the new shared service is 'live' there is a period where the new entity attempts to stabilise in the structure determined by the previous phase. This can sometimes be regarded as the time when the new management of the service works to operate the service as initially intended in the business case. In the case of GO Shared Services this phase commenced with Forest of Dean DC going live last year and continues at the present – management and governance structures are in place and staff have TUPE transferred but there remains completion of the structure and ERP system implementation.
- 3.7.2 There remain various projects and processes being delivered by management in this phase, but it is now the responsibility of the new entities management. There will be Cheltenham BC representation but the operational decisions are now largely taken by the new entity's management. In the Case of GO Shared Services Cheltenham BC has representation on the Client Officer Group (COG) and the Joint Member Liaison Group (JMLG), but the GO Shared Service is managed by the Head of GO Shared Services.
- 3.7.3 Audit Cotswolds role in this phase moves more towards the assurance role although a significant amount of consultancy is still provided. In the case of Ubico Ltd, Audit Cotswolds now operates an audit plan for the organisation and focuses on the organisation's own risks. Audit reports will start to be issued to the Audit Committee at Cheltenham BC, but the report is different to the reports on the system prior to the shared service. It provides assurance to Audit Committee that the control framework at Cheltenham BC operates effectively and that the delivery of the service is as set out in the agreements with the shared service; it may not necessarily now provide operational level assurances as those may be within the shared service. Reports may come via the COG's or commissioning officers rather than directly from Audit Cotswolds. This is due to the fact that the audit report will be service more than one interested party.
- 3.8 Phase 4: Stability / Structure to cultural identity
- 3.8.1 In this phase the new structure or system has been fully implemented and the controls framework is stable. This means that the shared service is now 'fit for purpose' and delivering the agreed services. The service is now able to refine the control framework and therefore the audit role can move to full assurance base activity.
- 3.8.2 This phase is where the service staff understand and develop their roles and responsibilities. This is crucial for audit assurance work as there is a reliance on the accountability of individual officers in this phase rather than management or project boards. For example in One Legal the roles and responsibilities of each staff member is now known and audit work can review clearly defined systems of control. The audit may look to benefit realisation as part of the audit objective as well as an assessment of the control framework.
- 3.8.3 In previous phases internal audit assurance work is hampered by the instability of the system as it morphs through the various changes until stable. This is due to the requirement for audit work to assess the control framework, at a moment in time, based on evidence and testing. The system needs to be stable for long enough that testing and evidence gathering can be undertaken. A new basic system of controls can take over a month to document and test

sufficiently to form an opinion. This is extremely difficult in a changing environment. Where the system is not yet stable enough for a full opinion to be given and interim report may be issued. This ensures management are aware of any issues in a timely manner and do not have to wait for a full opinion report; the audit report can become obsolete very quickly.

3.9 Phase 5: Exit / Change

3.9.1 At any point in the process the project may cease or change significantly enough to trigger the phases 1-4 to start again. For example, entry of a new partner, change of service delivery model, change of host employer, collapse of shared service.

3.9.2 The role of Audit Cotswolds in this phase can be varied, both consulting and assurance methodologies. In the event of a change of model; it may follow the phase 1-4, in the event of a shared service failure; it may be required to do a post collapse review to ascertain why it happened, or a lesson learnt exercise.

3.10 Other factors considered by Audit Cotswolds

3.10.1 Independence: this is a key feature of the internal auditor and is safeguarded as far as possible through this process. Any opinion expressed by the internal auditor needs to be both objective and independent. Audit Cotswolds has sufficient size to manage the independence and objectivity by using different officers for the different role discussed above. For example, the Head of Audit Cotswolds was providing the advisory role in the establishment of GO Shared Services (regularly attending programme board, etc). Now that assurance work has commenced a Principal Auditor has been given responsibility for running the assurance work and reporting to the GO Shared Service Management, bypassing the Head of Audit Cotswolds. This type of process is used for various projects that develop to systems, with the key requirement for the project advisors not to undertake assurance work for a minimum of 12 months.

3.10.2 Coordination and cooperation: with shared services there is a real possibility of more than one internal audit service to be involved. In the case of One Legal or Building Control there is the Cheltenham BC service (Audit Cotswolds) and the Tewkesbury BC internal audit service. Therefore it is a requirement of the Head of Internal Audit to ensure that assurance provider activity is coordinate and there is avoidance of duplication. This requires the cooperation of each internal audit service involved. To date Audit Cotswolds has relied on Tewkesbury BC internal audit for an opinion on the One Legal shared service as Tewkesbury BC is the host. Audit Cotswolds has only reviewed the service delivery in line with the agreements and not the control framework. Where this reliance on other internal audit service is identified Cheltenham BC Audit Committee will be notified.

3.10.3 External Audit: The external auditor has a responsibility to form an opinion on the final accounts inter alia, and to some extent relies on the work of internal audit. This is no different for a shared service, but may vary depending on the model used. For example Ubico Ltd has its own external auditor for its own accounts, whereas GO Shared Services produces the accounts for Cheltenham BC and therefore will be audited by Cheltenham BC's external auditor. This process could lead to duplication of effort (particularly for GO Shared Services as there are four Councils and two other organisations to which it provides financial services). Therefore one of the roles for Internal Audit is to help coordinate the work of internal and external audit. This may be easier now that Grant Thornton is the external auditor for all GO Shared Service partners/clients.

3.10.4 Internal Audit Standards: As from the 1st April 2013 there are new standards for internal audit to follow in local government (Public Sector Internal Audit Standards (PSIAS)). However, some of the shared services operate under different core governance e.g. Companies Act for Ubico, possibly Charities Commission for the Leisure & Culture Trust. This therefore requires Audit Cotswolds to be versatile enough in operational standards and expertise to deliver internal audit services to these organisations. Hence Audit Cotswolds has opted to adopt the Chartered Institute of Internal Auditors (UK & Ireland) standards as their preferred standard. This standard meets all the requirements of the Local Government standards plus gives flexibility for other

environments. The Head of Audit Cotswolds is a Chartered Member of this institute.

3.10.5 Residual service: Once a shared service has been established there will inevitably be some residual service left within Cheltenham BC even if it is only service delivery monitoring. These elements are reviewed by Audit Cotswolds as necessary and in relation to the residual risks. For example, within the plan for 2012-13 there is a review of the residual services following the formation of Ubico Ltd.

4 Conclusion

4.1 This report has set out the various roles and responsibilities that Audit Cotswolds considers in the governance assurance work in the shared service environment. The issues described above are not exhaustive but cover the key elements.

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Appendices	none
Background information	none