

Cheltenham Borough Council
Cabinet – 26 October 2010
Audit Partnership

Accountable member	Cabinet Member Corporate Services, Colin Hay
Accountable officer	Assistant Chief Executive, Jane Griffiths
Accountable scrutiny committee	Economy and business improvement
Ward(s) affected	All
Key Decision	Yes
Executive summary	<p>In 2009 the council agreed to establish an audit partnership with Cotswold District Council which would deliver savings for both councils and more importantly a resilient audit service. At the time of the decision members were alerted to the opportunity to extend the partnership to incorporate West Oxfordshire District Council who currently share a chief executive and other senior management posts with Cotswold District Council.</p> <p>Work has been ongoing over the last few months to develop a business case for extending the partnership. There is a clear rationale for joining the three services together that includes improved resilience and sustainable cost savings (£11,252 on Salaries, NI & Super shared between the partners). There would be minimal change management issues due to established similarities in working practices.</p> <p>The proposal is to initially work with an enhanced version of the Cheltenham & Cotswold Audit Partnership Memorandum of Understanding, with a view that over the next twelve months work would be ongoing to develop a full transfer framework which best meets the aims and objectives of the partnership, which would need to be approved by Council.</p> <p>The audit committee have considered the proposal and their comments are included under consultation section.</p>
Recommendations	<ol style="list-style-type: none"> 1. To approve the inclusion of West Oxfordshire into the current Cotswold and Cheltenham Shared Internal Audit service 2. To delegate authority to the Assistant Chief Executive in consultation with the Leader and Chief Finance Officer, to revise the existing Memorandum of Understanding as approved by the Borough Solicitor to be effective from 1 November 2010. 3. To bring back proposals for the development of a full transfer framework with a view that a s101 agency agreement is in place by November 2011.

<p>Financial implications</p>	<p>This business case indicates that savings of approximately £11,200 per annum are available through expanding the partnership to include West Oxfordshire District Council.</p> <p>The sharing of these savings to each Council will be set out in the Partnership Agreement. Savings to this Council are likely to be in region of £2,000 to £3,000 per annum. Further efficiency savings are likely as a result of sharing the cost of initiatives and audits including National Fraud Initiative (NFI), environmental audits and the sharing of best practice.</p> <p>In future years, if the GO Programme is implemented, further savings are envisaged as a result of auditing a single set or core systems (Finance, procurement, HR and payroll) rather than multiple systems across the GO partnership.</p> <p>There is also the potential to generate income streams from providing internal audit services to new partners.</p> <p>Contact officer: Mark Sheldon, mark.sheldon@cheltenham.gov.uk, 01242 264123</p>
<p>Legal implications</p>	<p>The Council has various powers to facilitate shared services including s101 (delegation of functions) and s113 (secondment of staff) of the Local Government Act 1972.</p> <p>The business case attached to the report sets out a staged approach to the expansion of the existing Internal Audit Shared Service to include West Oxfordshire District Council. For the interim period, October 2010 to October 2011, the existing Memorandum of Understanding and, if necessary, existing secondment agreements, will need to be varied to include West Oxfordshire District Council. If a full transfer is agreed by all the partner Councils, the Memorandum of Understanding would be replaced by a formal, legally binding, s101 agency agreement.</p> <p>Contact officer: Shirin Wotherspoon, 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, julie.mccarthy@cheltenham.gov.uk, 01242 264355</p>
<p>Key risks</p>	<p>The risks are set out in the risk register at appendix 1 and the business case also sets out some of the risks associated with the proposal.</p>
<p>Corporate and community plan Implications</p>	<p>The extension of the partnership will help with delivery of the outcome that the council delivers cashable savings and better performance through the effective commissioning of services</p>

Environmental and climate change implications	Officers will be required to move between sites but travel will be kept to a minimum. The decision to have the s151 officer as the representative on the board will reduce the need for additional travel to meetings as the finance officers are already meeting on a regular basis.
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1. Background

- 1.1 The council has a requirement to deliver an effective internal audit as a statutory function under the Accounts and Audit (Amendment)(England) Regulations 2006, in that a relevant body must: "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control." There is also a requirement for the council to achieve value for money in terms of the quality of internal audit service delivered (CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 compliance / Institute of Internal Auditors professional standards adopted) for the costs incurred.
- 1.2 In June 2009 the cabinet agreed to the establishment of an internal audit partnership with Cotswold District Council which has been operational for nearly twelve months. Feedback has been positive and the larger team has enabled more use of specialist resource and an ability to make efficiency savings and share best practice.
- 1.3 The audit committee need to satisfy themselves that the proposals will continue to provide effective internal audit for the council. The internal audit partnership manager will continue to attend the audit committee meetings and the proposal is that he would continue to be seconded to the council and designated the Head of Internal Audit (currently the Assistant Chief Executive). This will provide the audit partnership manager with the right to bring any matter to the attention of the senior leadership team, CEX or audit committee as appropriate.

2. Reasons for recommendations

- 2.1 At the time of developing the partnership we were mindful that the Cotswold District Council were developing closer links with West Oxfordshire District Council through shared senior management arrangements and we recognised that there was an opportunity to extend the internal audit partnership. Cheltenham have also entered into partnership with Cotswold, West Oxfordshire and Forest of Dean district councils in the development of the GO Programme which would see the procurement and implementation of shared finance and HR systems, and sharing audit arrangements will assist in the audit of these key systems. The business case which is available in the members room sets out the rationale for extending the partnership with the ultimate vision of transferring the function to Cotswold DC who would act as our auditors under a s101 agency agreement.
- 2.2 The business case does identify some savings, and there may be scope for further savings with the implementation of a shared ERP system and centres of excellence. The proposals are fairly low risk in terms of business change as Cotswold and West Oxfordshire are already aligned at senior level and there should be limited impact on the work of the team

3. Alternative options considered

- 3.1 The council did consider the concept of a wider Gloucestershire partnership when it considered the original business case for an internal audit partnership. An audit partnership which is too large will lose its local focus and require additional management support thereby reducing the level of savings.
- 3.2 In developing the business case the option of transferring the undertaking to Cotswold from this

year was considered, but West Oxfordshire have requested that the partnership runs under a memorandum of understanding for 12 months. This gives all parties an opportunity to evaluate how the larger partnership is operating and to iron out any difficulties.

4. Consultation and feedback

- 4.1 The section 151 officer, Chief executive and members of the current audit partnership have been consulted as well as officers in West Oxfordshire. To date no contrary views have been expressed. KPMG have also been sent a copy of this report and the business case. They have indicated that their main interest is that the council maintains an effective internal audit function delivering good quality work and coverage but how we choose to do this is not their concern.
- 4.2 The audit committee considered the proposal at their meeting on 29 September and approved the recommendations with a request to review the impact on the delivery of the work plan given the GO partnership and requested further assurance on the issue of conflict of interest covering the Section 151 role. These points have been addressed in this report.

5. Performance management – monitoring and review

- 5.1 The audit committee will continue to receive quarterly performance reports from the partnership, which will set out progress against the audit plan as well as key audit issues. The audit partnership manager will attend the committee who will be able to ask him questions about performance.
- 5.2 A partnership board will be established with the lead finance officers from each of the councils. Currently the assistant chief executive sits on the current internal audit partnership board but as the finance officers are meeting on a regular basis to progress the GO programme there will be efficiency savings in this approach. The draft proposals for commissioning also suggest that internal audit responsibility would transfer to the S151 officer and it makes sense therefore to set the partnership board up with these new arrangements in mind. Given the need to ensure that a conflict of interest is not created as a result of audit work in the areas under the remit of the Section 151 Officer, the Audit Partnership Manager will have a direct access to the Chief Executive, if necessary, which will ensure and independent scrutiny of this area of activity is maintained.

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Appendices	1. Risk Assessment
Background information	Business case – available in members room (please note some sections are exempt)

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.	Costs of implementation are higher than expected	Jane Griffiths ACE	August 2010	2	3	6	R	<p>Costs already identified by CCAP are excluded from this business case.</p> <p>Costs for the new partnership are expected to come from existing budgets and resources.</p> <p>The option of a twelve month expansion of the MoU leading to a full transfer enables full costings to be considered and agreed, and costs monitored during the 12 month period.</p> <p>Increases to implementation costs are more likely to occur if the process becomes too complex or takes too long. Simplicity would reduce the risk of increased costs, hence a new partnership rather than amending the old. Also the clear deadline within the initial MoU would limit the risk of over-running the implementation of the full transfer</p>	Oct 2011	Jane Griffiths ACE	P&P risk register

2	Partnership fails to deliver the required standard of Internal Audit	Jane Griffiths ACE	August 2010	3	2	6	R	<p>As mentioned above all sites are working to a professional standard and providing training where necessary to achieve this. Provided adequate monitoring is implemented by the partnership (most likely through the required annual effectiveness review) this risk will be mitigated.</p> <p>SLT and service managers to provide feedback on quality and the audit committee will also be able to assess whether the new arrangements are meeting their needs prior to entering into a more formalised agreement.</p>	Oct 2011	Jane Griffiths ACE	P&P risk register
3	Staff turnover resulting in insufficient resources	Jane Griffiths ACE	August 2010	3	3	9	R	<p>By offering the chance for progression of current staff and providing avenues to develop in-house trainees, the likelihood of staff leaving in the initial stage of implementation is reduced.</p> <p>By continuing to offer training to a high standard, recruitment of new auditors/trainees should be easier to facilitate.</p> <p>Retention of a budget for</p>	Oct 2011	Jane Griffiths ACE	P&P risk register

								contractors allows for some flexibility to cover absence. Filling of vacancies until Oct 2011 will need to comply with CBC arrangements with sound business case as to why vacancy should be filled			
4	Failure to deliver the Annual Audit Plan particularly if GO programme work is more than anticipated	Jane Griffiths ACE	August 2010	3	4	12	R	Commitment at all levels to the partnership would be fundamental to the successful delivery of the Annual Audit Plan, as expectancy gaps occur through poor communication and failure to monitor progress. The Partnership Board would have oversight of the partnership and monitor the progress against the plan as part of their remit. Communication with SLT and service managers so that they understand that ad-hoc requests for audit work will need to be managed in the context of the partnership audit plan	Oct 2011	Jane Griffiths ACE	P&P risk register

5	Exit of a partner from the partnership	Jane Griffiths ACE	August 2010	4	2	8	R	This is a significant issue for a small three-way partnership. The loss of a single partner would result in significant pressures arising for the remaining partners. As a result of this risk the s101 legal agreement to be drafted for the full transfer of the service will include an exit strategy. It is likely that this will commit each partner to a 12 month notice period and compensatory payments.	Oct 2011	Jane Griffiths ACE	P&P risk register
6	Current arrangements do not deliver organisations saving requirements.	Jane Griffiths ACE	August 2010	2	2	4	R	By entering into a larger partnership with the proposed structure there is an opportunity to develop some revenue savings. This can be distributed between each partner therefore providing further revenue savings. This is an opportunity risk being exploited.	Oct 2011	Jane Griffiths ACE	P&P risk register