

AUDIT COMMITTEE	AGENDA ITEM No. 5
7 FEBRUARY 2011	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Resources	
Committee Member(s) responsible:	Councillor Collins, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557

INTERNAL AUDIT: SHARED AUDIT ARRANGEMENTS

R E C O M M E N D A T I O N S	
FROM : John Harrison, Executive Director: Strategic Resources	Deadline date : N/A
The Committee is asked to note the arrangements put in place for the delivery of shared audit services between Peterborough City Council and Cambridge City Council.	

1. ORIGIN OF REPORT

This report is submitted to the Audit Committee in line with its agreed Work Programme for 2010 / 2011.

2. PURPOSE AND REASON FOR REPORT

2.1 This report sets out the case for establishing a shared Internal Audit service between Peterborough City Council (PCC) and Cambridge City Council (CCC). The report includes:

- A brief explanation of the national policy context for shared services;
- The vision for the service and how it will operate; and
- The challenges and benefits associated with the shared service.

2.2 This report is for Committee to consider under its Terms of Reference No. 2.2,4 *To consider reports dealing with the management of the providers of internal audit services.*

3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	N/A
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4. SHARED SERVICE ARRANGEMENTS

- 4.1 The environment within which local authorities (and internal audit) operates is changing rapidly. Comprehensive Spending Reviews have put a greater emphasis on “value for money” which is a product of both cost and service quality / quantity. The deterioration of the public finances place a greater focus on efficiencies.
- 4.2 A number of authorities are considering or have established shared services. Those relating to internal audit are mentioned below.
- South West Audit Partnership. Partnership between Somerset County Council and five District Councils. This has been in operation for a number of years and has already generated increased productivity (25%) and reduced costs (10%);
 - North Yorkshire and the City of York joint service;
 - Cambridgeshire County Council and Northamptonshire County Council.
- 4.3 Internal Audit services are essentially a people-based business. Whilst there may be opportunities for sharing information, knowledge and systems between the organisations, the success (or otherwise) of any shared service will be dependent on the audit staff.
- 4.4 The vision is for a high quality, vibrant, growing and efficient service that will act as a regional leader with a number of public sector clients. By establishing the shared service now, it will provide real opportunities to expand. The service will continually evolve and improve, making best use of new technology and working practices.
- 4.5 Initial discussions between the two authorities commenced in June 2010, with the onus on looking at the skills and expertise within the teams, any synergies in the working practices and processes employed, and the services provided (to who and how). With the departure of the CCC Head of Internal Audit in October 2010 together with the on-going need to secure efficiencies and better economies of scale provided an opportunity for both Councils to consider seriously a shared service approach.
- 4.6 In order to take forward, the authorities have entered into a Memorandum of Understanding with effect from 1st January 2011. This agreement has been sanctioned by both Legal and Human Resources (in both authorities) and is in accordance with s113 of the Local Government Act 1972. The key points from the agreement are:
- The current Chief Internal Auditor at PCC to become the Shared Head of Internal Audit for the two authorities;
 - There will be a 50:50 split of his time and cost between the two authorities. Similarly, savings identified will be split on the same basis;
 - While remaining an employee of PCC, the Shared Head of Internal Audit will be expected to follow CCC policies and procedures while undertaking their works;
 - Savings generated will look to be used to “pump prime” additional improvements in the service as identified through service/business plans as well as going back to the corporate pot to assist in meeting future budget pressures.

4.7 The benefits and challenges associated with the shared service:

Benefits	
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. 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.
Economies of scale in terms of management structure, working practices and systems.	Reduced management overheads.
Enhanced career development and career opportunities for staff.	With an expanded section, there is a potential greater opportunity for career progression. Additionally, the potential to gain experience in different areas of audit work provides the opportunity for broader personal development.
The new organisation could become more entrepreneurial in outlook.	This could include bidding for other contracts. This could drive costs down. Effectively, the Shared Service would become a Trading Organisation, able to increase its establishment of auditors to meet demands.
Challenges	
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 a knowledge based function. Both authorities have staff with high levels of technical / local service knowledge that would be difficult to adequately replace.
S.151 Officers will need to be satisfied the model will meet their requirements	Both Directors have been involved in the coordination of the shared service from the onset.
Timing. The change is happening while internal audit is undertaking an important role in relation to extensive changes taking place within each authority. Parallel changes 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.
There may be conflicting demands from clients.	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 staff's time is involved.

5. CONSULTATION

Discussions and agreement at both authorities has been held with:

- External Audit: Audit Commission (CCC) and PricewaterhouseCoopers (PCC);
- S.151 Officer: Directors of Resources (CCC) and Strategic Resources (PCC);
- Chief Executive, Leader of the Council, Cabinet Portfolio Holders.

6. ANTICIPATED OUTCOMES

Inform Audit Committee of collaborative arrangements put in place with Cambridge City Council to deliver and develop audit services.

7. REASONS FOR RECOMMENDATIONS

To notify Audit Committee of changes made to the provision of internal audit.

8. ALTERNATIVE OPTIONS CONSIDERED

None

9. IMPLICATIONS

9.1 Financial

There will be a salary saving generated as a result of the report.

BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

None