

MINUTE EXTRACT

Cabinet Meeting – 6th October 2016

1. Title of Item/Report

Internal Audit Shared Service

2. Record of the Decision

Cabinet considered a report that sought its agreement to accept in principle the delegation of the Internal Audit function from Darlington Borough Council to Stockton Borough Council and to establish an Internal Audit Shared Service. The service would operate under a Shared Service Agreement and Service Level Agreement.

In responding to the current financial challenges faced by both Darlington and Stockton Councils, discussions had taken place with Darlington Council regarding the benefits of a shared service arrangement for internal audit. This would complement the Xentrall shared service partnership established in 2008 for the provision of ICT, Transactional Finance and HR and Print and Design that had proven successful in delivering efficiencies and developments with no diminution in the quality and performance of services.

Stockton's internal audit service had audited the Xentrall partnership since its inception and already reports the annual audit plan covering Xentrall and progress against/outcomes from delivery to the Darlington Audit Committee in the same manner as the Council report to its own Audit Committee.

The proposal would mean the formal sharing of internal audit services between the two authorities and bringing the management of the shared service under one manager.

The internal audit service in both Stockton and Darlington were well regarded and considered to provide an effective service. However, individually they were relatively small with staffing of six and a half and four respectively possessing a mix of skills and experience and budgets for 2016/17 of £274,000 and £176,000.

The opportunity would be taken to review methods of working, explore the greater use of technology and establish a shared internal audit structure to deliver a modern resilient service that satisfied service requirements. In particular, in accordance with the Accounts and Audit Regulations 2015 each Council had a statutory duty to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance. Such standards and guidance are the UK Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note.

It was proposed that Stockton be the host authority for the shared service due to the following reasons:

- The number of staff affected by transferring to the host authority was less;
- Stockton had expressed a willingness to act as the host authority and had experience of delivering shared services; and

- The Audit Manager at Darlington had expressed a willingness to take early retirement/ voluntary redundancy

Subject to approval by both Councils, and to appropriate legal agreements being put in place, the target date for implementation of a shared internal audit service was 1 April 2017.

In summary, it was felt that the shared service proposal represents opportunities across the two authorities that include:

- Economies of scale from the employment of a single Audit Manager;
- Pool expertise to strengthen service delivery to the benefit of the clients;
- Provide critical mass and improved business resilience e.g. enabling the risk of sickness and vacancies to be better managed;
- Enhanced ability to undertake thematic reviews across the two authorities to share best practice across the shared service utilising a combined audit plan;
- Enabling succession planning, career opportunities and development for staff;
- Achieving economies of scale through shared training and procurement;
- Increased capacity, flexibility and specialist knowledge from pooling staff resources; and
- Benefits of adopting common day to day audit reporting and procedural approaches driven by the single Audit Management System operated by the service, along with common audit committee reporting protocols/ methodologies/ formats.

The shared service model proposed would need effective governance in place to work. The precise details would need to be captured through the shared service agreement that would need to be drawn up. They would have to include the ability of the shared service hosted by Stockton to access within Darlington such as:

- Rights of access of the joint Head of Audit or his delegated representative to the Chief Executive and Chair of the Audit Committee.
- Briefings for the Chair and other Members of the Audit Committee and attendance at Audit Committee meetings.
- Meetings as required with the Director of Neighbourhood Services and Resources (Chief Finance Officer), Assistant Director Law and Governance (Monitoring Officer) and the Chief Executive.
- Attendance at Senior Management Teams or other relevant meetings with Directors, for example to address significant audit findings, assist in audit planning and risk identification and to progress confidential matters.
- Liaison with external auditors as appropriate
- Assurances as to the level and quality of service to be provided.
- Procedures to follow to address complaints or other issues of service quality, including ultimately both parties rights to terminate the agreement.

RECOMMENDED to Council that:-

1. The establishment of an Internal Audit Shared Service be supported in principle with Stockton Council acting as host authority, on the basis set out in the report.

2. Delegated powers be accepted from Darlington Borough Council to allow Stockton Council to provide a shared Internal Audit service.
3. Authority be delegated to the Director of Finance and Business Services, in consultation with the Director of HR, Legal and Communications, to finalise the arrangements for a shared service partnership.
4. Authority be delegated to the Director of Finance and Business, in consultation with the Director of HR, Legal and Communications, to agree the commencement of the shared service (the target date being the 1 April 2017).