

## **AGENDA ITEM 8**

### **REPORT TO COUNCIL**

**19 OCTOBER 2016**

### **REPORT OF SENIOR MANAGEMENT TEAM**

## **INTERNAL AUDIT SHARED SERVICE**

### **SUMMARY**

The report seeks Council's 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 will operate under a Shared Service Agreement and Service Level Agreement

### **RECOMMENDATIONS**

1. Agree in principle to support the establishment of an Internal Audit Shared Service with Stockton Council acting as host authority, on the basis set out in this report.
2. The acceptance of delegated powers from Darlington Borough Council to allow Stockton Council to provide a shared Internal Audit service.
3. Delegate authority 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. Delegate authority 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).

### **DETAIL**

#### **Background**

1. In responding to the current financial challenges faced by both Darlington and Stockton Councils, discussions have 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 has proved successful in delivering efficiencies and developments with no diminution in the quality and performance of services.
2. Stockton's internal audit service has 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 we report to our own Audit Committee.
3. 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.

4. The internal audit service in both Stockton and Darlington are well regarded and considered to provide an effective service. However, individually they are 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.
5. 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 has 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.

### **Host Authority and Timescales**

6. It is 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 is less;
  - Stockton has expressed a willingness to act as the host authority and has experience of delivering shared services; and
  - The Audit Manager at Darlington has expressed a willingness to take early retirement/ voluntary redundancy
7. 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 is 1 April 2017.

### **The Key Benefits of the Shared Service Proposal**

8. In summary, it is 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 utilizing 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.

### **Governance and Risk**

9. The shared service model proposed will need effective governance in place to work. The precise details will need to be captured through the shared service agreement that will need to be drawn up. They will 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.
10. Cabinet considered the matter at their meeting held on 6 October 2016 and a copy of the relevant minute extract is attached to this report.

### **FINANCIAL IMPLICATIONS**

11. It is anticipated that the proposal could yield each Council savings between £45,000 to £80,000 per annum commencing in 2017/18 within the context of continuing to deliver a quality, professional service. Thereafter the partnership would be expected to focus on opportunities for further efficiencies.
12. Any costs associated with transition will be shared between the Councils as agreed by the Chief Financial Officers.

### **LEGAL IMPLICATIONS**

13. Section 101 Local Government Act 1972 enables an authority to make arrangements for the discharge of its functions by a committee, sub-committee or officer of the authority or by another authority.
14. Arrangements for the proper administration of the financial affairs of the Council (including audit services) are classified as non-executive functions under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 SI 2000/2853. As a result, the decision regarding delegation of the service is a non-executive decision and a decision for full Council to make.
15. There will need to be a shared service agreement, which will include sections on, governance, service delivery requirements, performance management and cost share provision. Ordinarily any contract for a service with a value over the relevant EU threshold would require an open procurement exercise to be followed. Regulation 12 of the Public Contracts Regulations 2015 excludes from the scope of the Regulations arrangements between public sector bodies where the service is delivered on a shared service model and where control over the delivery (in the sense of strategic objectives and key decisions) is still retained in a similar way to an in house model.
16. The lead employer will be Stockton Council. For technical reasons the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("TUPE") do not apply to administrative transfers of staff in the public sector (these are excluded by Regulation 3(5)). However the public sector as an employer is expected none the less to follow TUPE principles and the Council will do so.

## **RISK ASSESSMENT**

17. The development of an Internal Audit Shared Service is categorised as a low to medium risk. Existing management systems and experience of establishing shared services are sufficient to control and reduce risk.

## **SUSTAINABLE COMMUNITY STRATEGY IMPLICATIONS**

18. Not applicable.

## **EQUALITIES IMPACT ASSESSMENT**

19. Not applicable.

## **CORPORATE PARENTING**

20. Not applicable

## **CONSULTATION INCLUDING WARD/COUNCILLORS**

21. Audit Committee.

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Education related? No

Background Papers None

Ward(s) and Ward Councillors: None

Property: None