

## **Report to the Cabinet**

**Report reference:** C-039-2016/17  
**Date of meeting:** 01 December  
2016



**Portfolio:** Governance and Development Management  
**Subject:** Internal Audit Shared Service  
**Responsible Officer:** Colleen O'Boyle (01992 564475).  
**Democratic Services:** Gary Woodhall (01992 564470).

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### **Recommendations/Decisions Required:**

- (1) Approve the creation of a Shared Internal Audit Service with effect from 1 April 2017 ("the Commencement Date") or such other date as agreed between Epping Forest District Council, Harlow District Council and Borough of Broxbourne Council on the basis set out in this report;**
- (2) Approve that the host authority becomes Borough of Broxbourne Council;**
- (3) Approve the Council entering into an Administrative Collaboration Agreement under S101 of the Local Government Act 1972 with the partner authorities;**
- (4) Authority be delegated to the Director of Governance in consultation with the Cabinet Member for Governance and Development Management to agree the terms of the Administrative Collaboration Agreement which will include the provision to allow other councils to join the Shared Service in the future; and**
- (5) Agrees to the transfer of staff to Borough of Broxbourne Council as Host Authority on the terms set put in the Administrative Collaboration Agreement from the Commencement Date.**

### **Executive Summary:**

Due to the success of the current internal audit arrangements with Borough of Broxbourne and Harlow District Councils approval is being sought to form an Internal Audit shared service between the three councils, with Broxbourne being the Host Authority.

The main drivers behind sharing Internal Audit services are to improve business resilience and to produce efficiency savings. The Audit and Governance Committee, who the Chief Internal Auditor is accountable to, is aware of and supports the shared service concept.

### **Reasons for Proposed Decision:**

The purpose of this report is to provide the background and rationale underlying the proposals to form an Internal Audit shared service between the Council, Harlow District Council and Borough of Broxbourne Council, with Broxbourne being the host authority.

## **Other Options for Action:**

Alternative options have been considered within the context of the report and the rationale for their dismissal.

## **Report:**

### Introduction

1. Since 2012 there has been a successful partnering agreement between the Borough of Broxbourne Council and Harlow District Council for sharing equally the post of Head of Internal Audit, with Broxbourne being the employing authority.
2. In August 2015 Epping Forest District Council joined the Head of Internal Audit partnering agreement with a view to their internal auditors working across the three authorities from 2016/17, and vice versa for the Broxbourne and Harlow team (which indeed has happened). In the meantime during 2015/16, joint team meetings of auditors from all three authorities took place and Epping Forest has aligned its internal audit processes and templates with those already in place at Broxbourne and Harlow.
3. The Service Level Agreement in place allows for 'the provision of additional services by the use of the staff of one party to carry out the work of another party where the Chief Internal Auditor considers that in the interests of the partnership working between the parties' This has been the case for Broxbourne and Harlow for several years.
4. At present the existing Internal Audit Team at Epping Forest consists of one senior auditor and two auditors (all 1.0 f.t.e) with a vacancy for a third auditor, and their costs are paid for by this Council. The intention is not to recruit to the vacant post if the Internal Audit Shared Service goes ahead.
5. For Broxbourne and Harlow the existing Internal Audit team consists of two senior auditors (1.8 f.t.e) and one auditor (1.0 f.t.e), all employed by Broxbourne. The costs for all three auditors are shared equally between the two councils as they work across both authorities.
6. Since 01 April 2016 the Internal Team, consisting of auditors employed by both Broxbourne and Epping, are working across all three Councils and this will remain the case, with the Chief Internal Auditor continuing to spend an equal amount of time within each Council.
7. Savings have been made by all three authorities as the cost of the Chief Internal Auditor is shared equally between all three.

### Key Benefits for Change

8. The advantages of a shared service arrangement are:
  - Pooling of expertise to strengthen business delivery to the benefit of the partners;
  - Provision of a critical mass and improved business resilience e.g. enabling the risk of sickness and vacancies to be better managed;
  - Share best practice;

- Enabling succession planning, career opportunities and development for staff;
- Optimising the use of resources and achieving economies of scale through shared training and procurement; and obtaining efficiencies by having a common audit reporting and procedural approach;
- Strengthen the independence and objectivity of the Internal Audit function;
- Longer term potential to generate income by attracting new business by pooling budgets and converting this to a day rate for Internal Audit services.

## Proposed Shared Service Arrangements

### *Governance Arrangements*

9. The recommended option for the delivery of the shared service is via a Delegated Function Model. Under this option, one council (the Host Authority) undertakes the functions of another council under delegated powers set out in an Administrative Collaboration Agreement entered into under S101 Local Government Act 1972 (“S101 Agreement”). The Host Authority employs all staff (i.e. staff who work for the Council which has delegated its function to the Host Authority transfer to the Host Authority).

10. This option is recommended for the following reasons:

- It has a proven track record through benchmarking for delivering services between councils. Recent examples include an audit partnership between Gloucester City Council and Stroud District Council (which has been extended to include Gloucestershire County Council), AuditCotswold a partnership between Cheltenham Borough Council, Cotswold District Council and West Oxfordshire District Council and the Hertfordshire Shared Internal Audit Service consisting of Hertfordshire County Council and six district/borough councils.
- It is relatively straightforward to set up, in that it only requires a S101 Agreement to be prepared and implemented and staff to TUPE to the Host Authority.

11. The main risk to this council is the loss of control by delegating its functions to a host authority. In order to address this, a Shared Services Board would need to be created comprising of the Monitoring Officer for Epping Forest and the S151 Officers from Broxbourne and Harlow (as Internal Audit falls under their remit) to oversee the implementation and delivery of the function under the S101 Agreement. The Board will review the quality, performance, risks and consider major changes to the service.

12. In addition, to mitigate the risk of pension liabilities to the host authority, the S101 Agreement would specify that up to the date of transfer, all pension liabilities remain with the originating authority and that they would not get transferred to the host authority.

### *Recommended Shared Service Framework*

13. It is proposed that Broxbourne becomes the host authority under a Section 101 Agreement with effect from 1 April 2017. The agreement will initially be for a three year period (from the Commencement Date) and shall continue in force thereafter, unless and until one year’s notice in writing is given by any of the councils to withdraw from the agreement.

14. Epping Forest District Council staff will be transferred, under TUPE arrangements, to Broxbourne from the Commencement Date of the Agreement. In the first year of operation a

review of the structure, roles and responsibilities and working practices will be undertaken to ensure the most effective and efficient outcome for each authority.

### Other Options

15. The alternative options were identified and considered for the provision of Internal Audit services, these are as follows:

#### *No Change*

16. This option was considered. However, the Internal Audit services at all three councils have limited capacity and resilience to respond to peaks in demand, increases in irregularity work and absence of staff. There are limited opportunities for progression and training within the current Internal Audit teams which is not beneficial to staff morale and/or quality service being sustained.

#### *Outsourcing*

17. This option has been considered in the past and dismissed. Research has identified that the larger accountancy firms do not have the appetite for taking on Local Authority Internal Audit services due to the pension liabilities that come with TUPE transfers. This would inflate their bid price and the cost per audit day.

18. An in-house team tends to add value by attending project and business groups, offering advice and acting as a sounding board which would incur an additional cost if the function was outsourced.

#### *Other Partnerships*

19. There are a growing number of Internal Audit partnerships being set up around the country as the benefits of doing so are realised. These vary in scale and membership. There is an option to join other partnerships and Broxbourne has considered in the past joining the Hertfordshire Shared Internal Audit Service. This option has been ruled out as it would result in losing the excellent working relationships developed with Harlow and Epping Forest and a loss in control of Internal Audit provision.

#### *Trading Company*

20. Many councils are setting up arms-length local authority trading companies (including Broxbourne and Harlow). These operate as separate entities to the council but are wholly owned by the councils. Such a service delivery option allows the company's main activity to work for the council itself (or group of councils) but allows it to trade more widely with external organisations. If the partnership were to expand and take on non-local authority organisations then this option should be considered, however, set up and on-going costs would be prohibitive in the short term.

### **Resource Implications:**

The new service will be provided within existing budgets and any costs associated with transition will be shared between the three councils. By sharing the cost of the Chief Internal Auditor with Broxbourne and Harlow and not recruiting to the vacant Auditor post Epping has made a saving of £58,230 for 2016/17, and this will continue into 2017/18.

The costs of the Shared Service will need to be set out and an agreed cost-sharing basis with Broxbourne and Harlow put in place. Realistically this is likely to be a charge per audit day. However, arrangements will need to be put in place to consider how any surpluses or deficits will be dealt with and how work can be prioritised should there be a conflict between the demands of different partners.

**Legal and Governance Implications:**

It is proposed that Epping Forest and Harlow District Councils (subject to their agreement) hand over day to day operational responsibility for the carrying out of the internal audit function to Broxbourne Council.

**Safer, Cleaner and Greener Implications:**

None

**Consultation Undertaken:**

Broxbourne and Harlow District Councils

Epping Forest District Council Management Board

The Council's Internal Audit staff are affected by this proposal, and if approved will be TUPE'd to the Host Authority under their current terms and conditions. They have been made aware of the proposed shared service and have been kept regularly informed of progress to date. Human Resources and the Unions will be formally consulted as part the TUPE process.

**Background Papers:**

None

**Risk Management:**

The risk to Epping Forest and Harlow District Councils is the loss of control by delegating its function to a host authority. In order to address this, a Shared Services Partnership Board would be created to oversee the service.

The main risk to Broxbourne Council is the risk of the pension liabilities as host authority. To mitigate this risk the Section 101 Agreement would specify that up to the date of transfer, all pension liabilities remain with the originating authority and would not transferred to the host authority.

**Equality Analysis**

The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. This means that the equality information provided to accompany this report is essential reading for all members involved in the consideration of this report. The equality information is provided at Appendix A to the report.