

<b>TITLE</b>	<b>Shared Internal Audit Services</b>
<b>FOR CONSIDERATION BY</b>	The Executive on 26 June 2014
<b>WARD</b>	None Specific
<b>LEAD OFFICER</b>	Andrew Moulton, Head of Governance and Improvement Services
<b>LEAD MEMBER</b>	Pauline Jorgensen, Executive Member for Internal Services

#### **OUTCOME / BENEFITS TO THE COMMUNITY**

Internal Audit services to Wokingham Borough Council would be delivered under a joint agreement between Wokingham Borough Council and The Royal Borough of Windsor and Maidenhead.

#### **RECOMMENDATION**

The Executive is asked to:

- 1) approve the creation of a shared Internal Audit Service as set out in Appendix 1 of the report;
- 2) delegate authority to the Head of Governance and Improvement Services to finalise and enter into the Services Agreement.

#### **SUMMARY OF REPORT**

The agreement allows for

- Shared services arrangement for internal audit services between the two authorities
- The joint service will be hosted and owned by Wokingham Borough Council
- Hosting and ownership of the service will mean that existing internal audit services staff to be TUPE transferred to Wokingham Borough Council.

The advantages of this proposed arrangements are:

- Greater service resilience
- Improved skills development
- Improved career development
- Improved recruitment & retention (especially compared to operating as a single authority service)
- Improved opportunity to generate additional business from other internal audit contracts
- Greater economies of scale

## Background

Wokingham has been exploring alternative models of internal audit service provision given :

- a) the need to develop a more flexible and robust model of service delivery to ensure sustainability given increasing cost pressures and;
- b) the likely future need to bid for business from other organisations.

Retaining the status quo was not considered an option, as the service:

- needs to reduce costs whilst maintaining service quality
- will need to become more competitive and be operated on more cost-transparent lines in order to increase business

At meetings of Leaders and Chief Executives it was concluded that each authority was in a position to establish a shared service and that Wokingham Borough Council would host the shared service on behalf of the Royal Borough.

## Strategic and Operational Benefits

### Strategic

- Financial savings from combining and sharing resource.
- Increased opportunity to bid for a win additional business i.e. contracts
- Opportunity to attract other partners to join the shared service once established i.e. from within and beyond Berkshire.
- Creation of the opportunity to work more closely in other areas of shared responsibility (Corporate Fraud, Risk, Corporate Governance, VfM etc).

### Operational

- Increased resilience – both councils have relatively small teams which can be severely affected by sickness absence/vacancies or increased workload resulting from work in response to suspected fraud or irregularity.
- Potential to increase the level of skill-set available to each organisation – sharing of technical skills and 'bigger picture' thinking.
- Availability of specialist skills across both authorities, leading to increased efficiency through the potential for one auditor to complete the same audit at both authorities
- Sharing of Internal Audit best practice so auditors are better placed to provide advice to clients prior to issues arising.
- Potential for increased availability of time for internal audit consultancy services (including quality assurance on major projects).
- Expansion of knowledgebase of individual auditors ensuring audits can be conducted within short time with little impact on the services being audited i.e. auditors become more experienced.

## Analysis of Issues

### Implications for the Host Authority

The lead authority takes the full responsibilities of employing staff and providing internal audit services to the other authority and a service agreement ensures that both authorities share the risk and the benefits equally from the collective use of resources.

Purchasing mechanisms,

- The "client partner" will be able to access internal audit services from the shared service
- An initially estimated and agreed budget for the anticipated internal audit costs will be paid to the hosting authority annually in advance and reconciled thereafter with the actual costs

Services provided;

The shared service will provide a range of specialist internal audit services normally associated with the requirements of a Local Authority such as assurance on major systems, audits of high risk areas.

#### **Clear definition of levels of service to be provided.**

The attached Service Agreement provides for existing service levels at less cost. It also provides scope to offer services beyond the 2 Councils where capacity is created from sharing expertise and resources.

#### **ICT solution**

The agreement provides for the two Councils to adopt the same audit management system and same quality accreditation systems creating synergies and cost effectiveness.

#### **Financial case**

Both councils' financial services have co-operated in assessing the cost of the service as existing and as proposed. The business case is attached (Appendix 1).

#### **Governance**

This occurs through the services agreement.

#### **Termination**

The agreement sets out in detail the options for no fault termination of the agreement i.e. 12 months' notice with appropriate indemnities.

In the event of termination staff would be TUPE transferred back to RBWM to fulfill the function.

#### **Business Case**

The Business Case sets out details of the opportunities and the mutual benefits of both Authorities working in collaboration and the investment costs of setting up a Shared Audit Service and the timescale within which each Authority can see a return in savings.

It also recommends a business strategy for the Shared Audit Services that can realise greater financial benefits for each of the Authorities if these steps are adopted.

#### **FINANCIAL IMPLICATIONS OF THE RECOMMENDATION**

***The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.***

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	£0	Yes	Revenue
Next Financial Year (Year 2)	£20k	Yes	
Following Financial Year (Year 3)	£20k	Yes	

<b>Other financial information relevant to the Recommendation/Decision</b>
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Savings will be realised predominantly through staffing efficiencies.
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<b>Cross-Council Implications</b>
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N/A
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<b>List of Background Papers</b>
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Business Case
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THE ROYAL BOROUGH OF  
WINDSOR AND  
MAIDENHEAD



**WOKINGHAM**  
BOROUGH COUNCIL

**SHARED INTERNAL AUDIT SERVICE**  
**BUSINESS CASE**

### **Controlled Start Up: Business Case**

The Business Case is a document that justifies the undertaking of the project based on the estimated cost in time and money to develop and implement the service against the perceived business benefit, business risk and business gain.

In creating an Business Case the total business cost must be weighed against the total project cost, including annual running costs of the new service.

The Business Case is used to justify the need for the project and must confirm that the total business cost in carrying out the work is worth the business gain or expected business saving.

## Review

Reviewed by	Name	Organisation	Date
Head of Finance	Andrew Brooker	Royal Borough Windsor & Maidenhead	12/6/14
Heads of Governance & Improvement Services	Andrew Moulton	Wokingham Borough Council	12/6/14

## Document History

Version	Summary of Changes	Document Status	Date published
0.1	Initial Draft	Draft	20/03/14
0.2	Includes WBC cost info, IT systems info.	Draft	28/03/14
0.3	Incorporates RBWM staffing and IT systems info	Draft	14/4/14
0.4	Updates case for inclusion with respective Executive/Cabinet reports	Draft	30/5/14
0.5	Finalises case for inclusion with respective Executive/Cabinet reports	Final	12/6/14

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# 1 INTRODUCTION AND STRATEGIC REQUIREMENTS

## 1.1 Scope for Shared Service

Wokingham Borough Council (WBC) and the Royal Borough of Windsor & Maidenhead (RBWM) have been exploring the possibility of joint-working in respect of Internal Audit which could deliver savings whilst maintain high quality service standards. Following discussions between key officers at each council, this business case puts forward a recommended option for joint working between the two councils.

## 1.2 Potential stakeholders/partners

Wokingham Borough Council and Royal Borough of Windsor & Maidenhead.

## 1.3 Current working arrangements of each stakeholder/partner

Both WBC and RBWM operate their own, in-house Internal Audit teams. In each authority the team reports to a manager with organisational responsibility for Internal Audit (WBC – Service Manager, Business Improvement and RBWM – Head of Audit & Investigation).

## 1.4 Contribution to key objectives

The Internal Audit teams assist in the achievement of each council's corporate objectives through providing independent and objective assurance of the internal control arrangements in place at each council as a contribution to the proper, economic, efficient and effective use of resources.

## 1.5 Statutory Obligations

The statutory basis for Internal Audit in local government is provided in the Accounts and Audit Regulations 2003 (SI 533/2003) - as amended by the 2006, 2009 and 2011 Regulations – which require every local authority to “*undertake an adequate and effective internal audit of its accounting records and system of internal control.*”

In addition, under S151 of the Local Government Finance Act 1972, the Council's Head of Finance (as S151 Officer) has a statutory duty to maintain an appropriate framework of controls over the Council's financial affairs. Reliance upon Internal Audit and their annual programme of work in reviewing the operation of systems of internal control and financial management is fundamental to the fulfilment of that responsibility.

## 2. STRATEGIC AND OPERATIONAL BENEFITS

### 2.1 Strategic Benefits

Benefit	Measure
Financial savings from combining and sharing resource.	<ul style="list-style-type: none"> <li>Budget monitoring</li> </ul>
Increased opportunity to bid for a win additional business i.e. contracts	<ul style="list-style-type: none"> <li>Budget monitoring</li> </ul>
Opportunity to attract other partners to join the shared service once established i.e. from within and beyond Berkshire.	<ul style="list-style-type: none"> <li>Budget monitoring</li> </ul>
Creation of the opportunity to work more closely in other areas of shared responsibility (Corporate Fraud, Risk, Corporate Governance, VfM etc).	<ul style="list-style-type: none"> <li>Shared practice</li> </ul>

### 2.2 Operational Benefits

Benefit	Measure
Increased resilience – both councils have relatively small teams which can be severely affected by sickness absence/vacancies or increased workload resulting from work in response to suspected fraud or irregularity.	<ul style="list-style-type: none"> <li>Audit plan completion</li> <li>Less requirement to amend the audit plan in year</li> </ul>
Potential to increase the level of skill-set available to each organisation – sharing of technical skills and 'bigger picture' thinking.	Scope of audit work completed.
Availability of specialist skills across both authorities, leading to increased efficiency through the potential for one auditor to complete the same audit at both authorities	Scope of audit work completed. Sharing of
Sharing of Internal Audit best practice so auditors are better placed to provide advice to clients prior to issues arising.	Appraisals – monitoring of officer skills. Client Satisfaction with level /type of service.
Potential for increased availability of time for internal audit consultancy services (including quality assurance on major projects).	Scope of Audit Plan Client Satisfaction with level /type of service
Improved quality of service to audit clients – more value added to the audits undertaken through sharing of best practice in service areas identified through Internal Audit teams at either council.	Client Satisfaction with level /type of service

Expansion of knowledgebase of individual auditors ensuring audits can be conducted within short time with little impact on the services being audited i.e. auditors become more experienced.	Greater proportion of audit plan being completed. Client Satisfaction with level /type of service
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### 3. CONSTRAINTS AND DEPENDENCIES

#### 3.1 Potential Constraints to the project progressing

##### Organisational Constraints

- There will need to be agreement between the two councils on the viability of a shared service arrangement.
- There will need to be agreement between the two councils on the scope/type of shared service arrangement.
- There will need to be agreement by the Members at the two councils for the progression of a shared service arrangement.
- Legal requirements/obligations may need to be met in progressing any option.

##### Resource Constraints

- Resistance from team members to change.
- Issues regarding the equipment or systems utilised at each site and the compatibility with each authority's own systems.
- Availability of skill sets across the two authorities and their suitability to meet the needs of each authority.
- Issues relating to service provision at each authority that could lead to a contracting audit need
- Issues regarding the role(s) of management at either authority.

##### Time Constraints

- Conflicting timescales/deadlines required by either authority.

#### 3.2 Dependencies for the project progressing

- Development of a sound business case with the needs of both authorities being met
- Continued viability of the project over time.
- Good communication of project milestones, targets and issues that may affect viability/timing of the achievement of this project to all key project officers and senior managers involved.
- Good communication of project milestones to internal audit team members at each council.

## 4. RISKS

### 4.1 “Do Nothing” risks – if there is no change to existing arrangements

Risk identified	Action
Team resilience – both WBC and RBWM have relatively small internal audit teams and should one member of either team be lost through long-term sick, vacancy, being drafted to other projects etc. this could have an adverse effect on the quality and quantity of outputs of the team.	Build resilience with other authorities to help ensure that the quality and quantity of outputs can be maintained should this occur.
WBC and RBWM could be left out of the wider working arrangements across the county, which in turn could lead to arrangements being ‘forced’ onto each authority	Explore options for joined-up working between the two authorities that meet the need of both authorities.
Both authorities face significant financial challenges – traditional “salami” slicing approach to savings not sustainable.	Explore options for joined-up working between the two authorities that meet the need of both authorities.

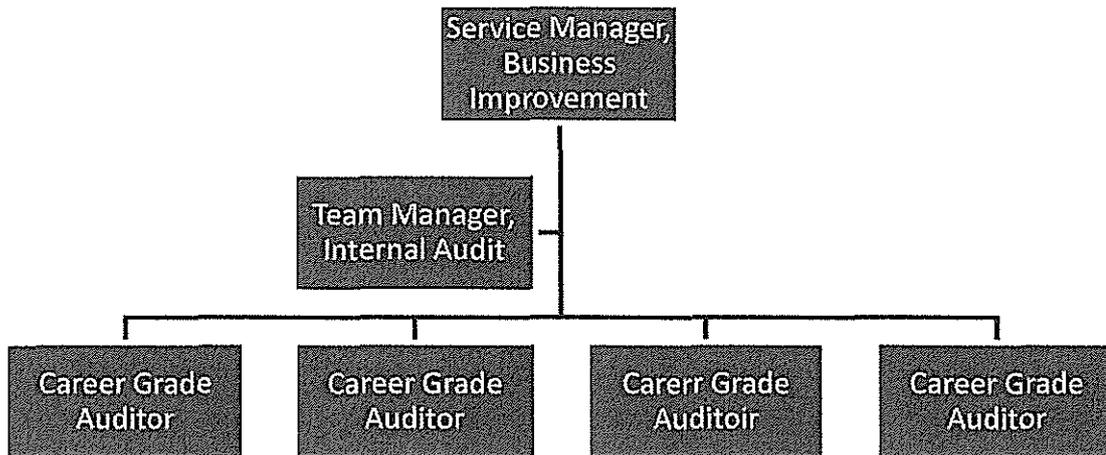
## 5. EVALUATION OF OPTIONS AND RECOMMENDATION

5.1 Whilst there were a number of options available when considering possible shared service/joint working models, initial evaluations and discussions between the two authorities indicated that one option was preferred.

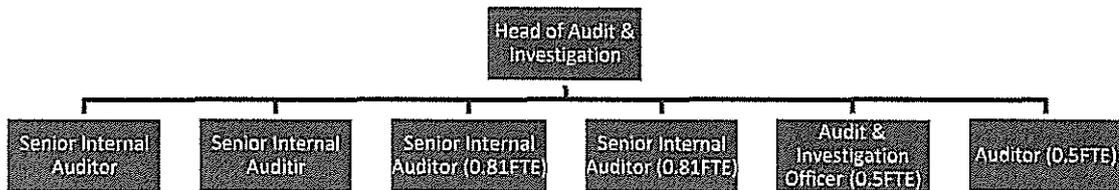
5.2 It was clear that a shared service arrangement with one Council being the employer of a shared team lead by an Internal Audit manager across both authorities was the option most likely to meet the requirements of both authorities. As such, available resource has been utilised to further develop and progress this option, rather than wasting resource in exploring other, less favourable options.

## 6. EXISTING WORKING ARRANGEMENTS

### 6.1 Departmental Structures Internal Audit at Wokingham BC



### Internal Audit at RBWM



## 6.2 Summary of existing arrangements – Internal Audit

### 6.2.1 Team Structures

**Wokingham BC** – the Internal Audit Team at WBC consists of a Team Manager, Internal Audit and four career graded auditor posts. All positions are full-time. One of the posts is currently vacant and it is proposed that this post would be taken as a shared service efficiency. A second vacant post that existed in the 2013/14 structure was taken as a 2014/15 budget saving by WBC.

The Team Manager is a fully qualified member of the Institute of Internal Auditors (MIIA). One of his direct reports is also fully qualified MIIA and staff in the other posts are studying towards the MIIA qualification.

The designated “Head of Audit” is the Service Manager, Business Improvement whose role also encompasses responsibility for Council wide corporate and service planning, performance management, project management and organisational development. It is envisaged that WBC would retain this post of the “client” officer for Internal Audit.

**RBWM – Royal Borough of Windsor and Maidenhead** – the Internal Audit Team at RBWM consists of a Team of 4.66 FTE audit posts (7 staff).

The Team is headed by the Head of Audit and Investigation who, for over 12 years, has been responsible for Internal Audit, Corporate and Benefit Fraud Investigations, Risk Management and Insurance. She is a fully qualified member of Chartered Institute of Public Finance and Accountancy (CIPFA), Chartered Institute of Internal Auditors, Member of the Association of Accounting Technicians, CIPFA / Bond Solon Advanced Certificate in Investigative Practice and has a BSc (Honours) Degree.

She has worked in Local Government for 28 years and has spent 26 years in a variety of audit positions within three London Boroughs, a County Council, a Unitary Council, a District Council and a Police Authority. She has successfully bid for, won and managed audit contracts at a District Council and a Police Authority, whilst also delivering internal audit services for a County Council.

There is no Principal Auditor position at RBWM.

The remainder of the Team comprises 4 Senior Auditors (3.62 FTE), 1 Audit and Investigation Officer (0.50 FTE) and an Auditor (0.54 FTE) with the following qualifications and experience:-

Senior Auditor	CIIA Chartered Institute of Internal Auditors (Member); BSc (Honours) Degree; 15 years Local Government Internal Audit experience.
Senior Auditor	CIIA Chartered Institute of Internal Auditors (Practitioner); and AAT Association of Accounting Technicians; 17 years Local Government Internal Audit experience
Senior Auditor	CIIA Chartered Institute of Internal Auditors (Practitioner); and AAT Association of Accounting Technicians (Member); 19 years audit experience (Local Government and Private Sector)
Senior Auditor	CIB Chartered Institute of Banking (Member); 16 years Local Government Internal Audit experience
Audit and Investigation Officer	CIIA Chartered Institute of Internal Auditors (Practitioner); BSc (Honours) Degree; 5 years Local Government experience; 3 years audit experience (public and private sector)
Auditor	AAT Association of Accounting Technicians (Member); 35 years Local Government experience; 33 years Internal Audit experience

## 6.2.2 Scope of Audit Work

WBC	RBWM
Programmed audit reviews of key Service areas based on a risk analysis	Programmed audit reviews of key Service areas based on a risk analysis
Consultancy, including contribution to Value for Money and corporate Projects	Consultancy, including contribution to Value for Money and corporate Projects
Advice and Information	Advice and Information
Responsive projects requested by Management	Responsive projects requested by Management
Servicing Audit Committee	Servicing Audit Committee

As should be expected, there are differences in the key service areas considered as high risk for each council and therefore are more regularly audited. However, there are number of areas relating to main accounting systems where there are similar audit needs.

## 6.2.3 Computer systems in use

For both authorities there is a need to audit the main accounting systems in order to meet the requirements of the Code of Practice for Internal Audit and the External Auditor. This is the area where there is the most overlap of work and where there is the greatest potential for an audit to be carried out at both authorities by the same auditor. It should be recognised that unless the same computer systems are used, there will be a learning curve to establish how the systems interface with each other and with the main accounting system.

System	WBC	RBWM
Main accounting systems	Oracle E Business Suite (to be replaced by Unit 4 (Agresso) in 2014)	Unit 4 (Agresso)
Cash collections	ICON (Civica)	Academy (Capita)
E-payments	ICON (Civica)	Academy (Capita)
Payroll	Oracle E Business Suite	iTrent (Midland)
Bank reconciliation	Oracle E Business Suite	Local spreadsheets
Social Care	Frameworki (CoreLogic)	Paris (Civica)
Education Management	One EMS (Capita)	One EMS (Capita)
Revenues & Benefits	iWorld (Northgate)	Academy (Capita)
Customer Contact	Front Office (Northgate)	Lagan (Lagan)

Council Housing	Saffron (Civica)	Housing Needs (Anite)
Electoral Services	Strand (IDOX)	Eros (Halarose)
Highways	Mayrise	Confirm (Pitney Bowes)
Libraries	Spydus	Spydus
Planning & Building Control	iLAP (Northgate)	Uniform (IDOX)
Property/Asset Management	Technology Forge	Rechnolgy Forge and Uniform
Mapping	Plan Web/Access	QGIS
Committee System	None	Lotus Notes
Environmental Health (including Licensing)	Flare (Civica)	Flare (Civica)
Document Storage (EDRMS)	R/KYV (Open Text)	Serengeti Hyperwave
HR	Oracle E Business Suite	iTrent (Midland)
Audit software	CCH (Teammate)	Local spreadsheets

#### 6.2.4 Summary of other key information

	<b>WBC</b>	<b>RBWM</b>
Salary costs (2013/14 projected outturn)	£243k (exc. Service Manager, Business Improvement)	£281k (inc Head of Audit)
Staff numbers (FTE) (includes RBWM Head of Audit but excludes WBC Service Manager Business Improvement)	5	5.66
Staff numbers (actual)	4	7
External Audit fee – 2013-14	£139,750 (EY)	£108,000 (KPMG)

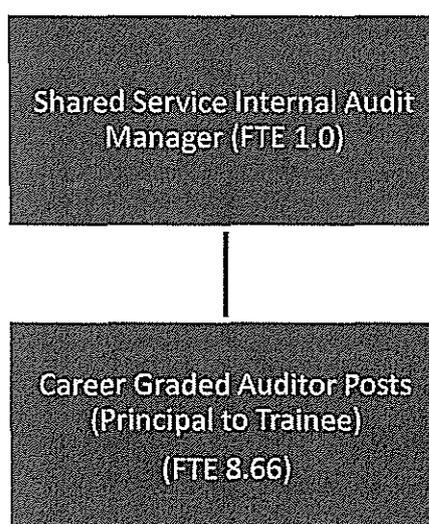
## 7. RECOMMENDED OPTION

### 7.1 Service delivery project – Shared Service Partnership

Project	Responsible Lead	Other Stakeholders	Implementation Option
Internal Audit Shared Service Partnership  <b>PROPOSED COMMENCEMENT DATE: 1 October 2014</b>	<b>Shared – Service Manager, Business Improvement (WBC) and Head of Audit &amp; Investigations (RBWM)</b>	<ul style="list-style-type: none"> <li>• All internal audit team members</li> <li>• Senior Management at each council</li> <li>• Respective Audit Committee Members at each council</li> </ul>	One team co-located and employed by Wokingham BC

### 7.2 Proposed Structure

The following should be seen as indicative. The objective is to create as flat and efficient structure as possible but it is acknowledged that further development of the structure may be required as other functions (e.g. Investigations) join the shared service in the future and the shared service expands as other organisations select it for the provision of their requirements.



### 7.3 Key Benefits/Disadvantages of Proposal

Key benefits of proposal	Key disadvantages
Identified annual saving of £40k to across the two councils against the current cost of the Internal Audit Service.	-

Increased resilience across the two Internal Audit teams.	-
Increase efficiency of audits - benefit accrued from adopting best practice from both teams, the same audit framework for equivalent reviews at each council, and through the use of the same, most appropriate auditor to conduct the same audit at each council.	These benefits may not accrue where different systems are used or significantly different audit needs are identified.

## 7.4 Financial Analysis

### Savings:

- Staffing = c10% efficiency through combination of post rationalisation and productivity gain. This equates to an initial £40k total saving.
- Audit Software – savings on licensing
- External audit fee

### Potential for new business:

A key strategic aim of the new Shared Service will be to actively bid for and win new business as well as building on existing arrangements where work is undertaken for other local authorities.

An initial analysis of opportunities has been undertaken as part of the business case development. A key target in the short term will be to bid for the internal audit contract for another Berkshire authority currently estimated in autumn/late 2014.