

## **TAUNTON DEANE BOROUGH COUNCIL**

**EXECUTIVE 9TH MARCH 2005**

### **REPORT OF THE HEAD OF RESOURCES**

This matter is the responsibility of Councillor Williams (Leader of the Council)

### **INTERNAL AUDIT PARTNERSHIP**

#### **EXECUTIVE SUMMARY**

Three authorities (Taunton Deane Borough Council, South Somerset District Council, and Mendip District Council) are proposing to create a Partnership to operate their Internal Audit Services. This brings significant benefits to all Partners, in terms of quality, sustainability and resources. The Partnership will be formed using the Joint Committee model (outlined in s101 LGA 1972). Provided that all necessary steps can be concluded on time it is proposed that Taunton Deane and South Somerset establish an internal audit partnership effective from 1<sup>st</sup> April, 2005. It is further proposed that Mendip join the partnership, on the expiration of their current contract with Capita, on 1<sup>st</sup> July, 2005.

This report sets out the principles of how the Partnership will operate. The Corporate Governance Committee have considered this report and present it to the Executive for approval.

#### **1. Purpose of Report**

**1.1** To inform Members, and seek approval for, a proposed Internal Audit Partnership between Taunton Deane Borough Council (TDBC), South Somerset District Council (SSDC), and Mendip District Council (MDC).

#### **2. Background**

**2.1** All local authorities are required, by the Local Government Act 1972 and the Accounts and Audit Regulations 2003, to provide an internal audit function. This can be achieved in a number of ways including by in-house provision, outsourcing or partnership.

**2.2** Officers from all three Councils have been in discussion for some time regarding the potential for partnership working. Since July 2004 a number of "joint audits" have been undertaken by TDBC and SSDC. This has helped build relationships between the two audit teams, and more importantly, helped staff recognise that there are opportunities to learn from each other.

**2.3** In addition to joint working, a significant amount of research has been carried out – looking at other successful local government internal audit partnership arrangements. TDBC and SSDC visited the North Yorkshire Partnership in November 2004 and discussed the benefits of partnership with one Chief Finance Officer and the Partnership's Audit

Manager. This visit proved useful – not only in confirming the positives of partnership working, but also in highlighting areas where their set-up could be improved even further.

- 2.4 The conclusion of both the joint audit working, and the research is that the three authorities should proceed towards a formal internal audit partnership.
- 2.5 Provided that all necessary steps can be concluded on time it is proposed that TDBC and SSDC establish an internal audit partnership (South West Audit Partnership (SWAP)) effective from 1<sup>st</sup> April, 2005. It is further proposed that Mendip join the partnership, on the expiration of their current contract with Capita, on 1<sup>st</sup> July, 2005.

### **3. Motivation for Change**

- 3.1 A number of factors have recently come together that make the setting up of a partnership possible. These include:
  - A wider recognition that partnerships, for particular services, can provide the most cost effective and viable solution.
  - The difficulty, nationally, in recruiting experienced internal auditors.
  - The difficulty in small Councils affording specialist audit skills, such as IT and Contract Auditors.
  - The decision by Mendip District Council to bring their internal audit service in-house, and to seek a partner to help in the delivery of the service. Capita currently provides the service under a contract that runs out at the end of June 2005.
- 3.2 The Efficiencies Agenda clearly sets out the Government's vision for local authorities to be working together to provide more efficient and effective services. Currently all authorities in Somerset are individually providing an internal audit service – this cannot be efficient use of limited taxpayers resources. The current structure across Somerset also has inherent problems with communication, speed of service delivery, capacity, coverage, and motivation of staff who are stuck in small teams with little room for personal development.
- 3.3 The creation of South West Audit Partnership will provide the three founder authorities with a better quality service for the same resources. Financial benefits will materialise as new partners join the organisation over the next five years. Indeed, the longer-term benefits could be shared between all public sector organisations in the area, not just local authorities.
- 3.4 It is recognised that some of the staff transferring to SWAP may be resistant to change, and therefore a strategy has been put in place to motivate commitment to change over the coming months. During the transition phase some staff may continue to feel unsettled and will be kept fully informed of events. Staff will be in a position to add real

value to the planning process and will be able to help identify risk, pitfalls and barriers to implementation.

#### **4. The Vision**

**4.1** The aim of the Partnership will be to provide high quality, cost effective internal audit services to its customers. By forming the Partnership, the following benefits will accrue:-

- The ability to share resources.
- The ability to recruit specialist skills.
- The capacity to improve the quality of internal auditing.
- Potential cost benefits in the future as the Partnership grows.

#### **5. The Legal Framework**

**5.1** A number of alternative Partnership models exist, the most common being:-

##### Partnership Board

- Designed to fulfil a specific contractual need.

##### Joint Committee

- A formal local authority committee constructed under s101 of the Local Government Act 1972 (or may, where appropriate, be joint executive arrangements under the Local Government Act 2000).
- Policy determined by local authority Members/Officers for the purpose determined/delegated by the principal authorities. Managed by designated officers.

##### Non-Profit Distributing Company (IPS or Company limited by guarantee)

- A separate entity from participating local authorities – can be established under various Acts.
- Composition and purpose set out in the Memorandum and Articles of Association.

##### For Profit Entity (Company limited by shares)

- As for not-for-profit but dividends payable.
- The normal preferred structure if profits are a key motivator and/or private sector involved.

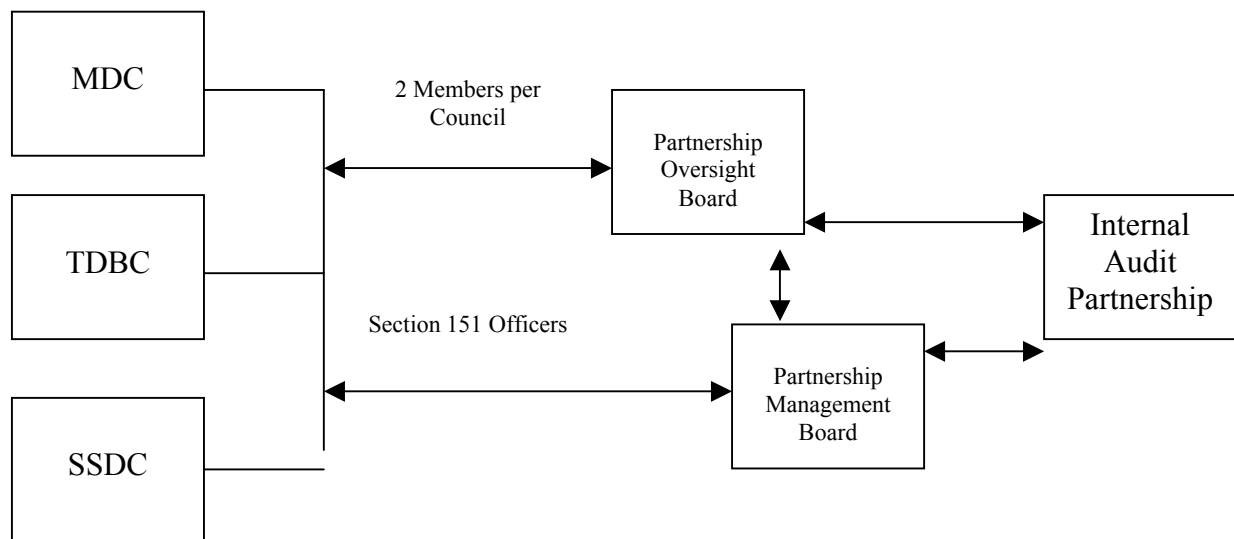
**5.2** The recommended model is to establish a Joint Committee. This has the following advantages:-

- The arrangement is well understood, has been tried and tested, and is relatively easy to establish.
- Partner Authorities have influence over policy and performance through the Oversight and Management Boards.
- Staff remain local government employees.
- The focus is on the provision of quality services and not for profit.
- Can be easily expanded to accommodate other public sector partners.

## 6. Governance Arrangements

6.1 Precise details of the management arrangements for the Partnership are being prepared and will form part of the formal agreement (which is being worked on by legal representatives for all Partners). If Members agree to the formation of the Partnership, then a Board of members will be formed to oversee the partnership – comprising two Members from each Partner. In addition, a senior management Panel, comprising the S151 Officers from each Partner will be formed to oversee the operational activities.

6.2 The overall governance arrangements will be as follows:



## 7 Management and Operating Arrangements

7.1 A project team, including legal, financial, HR and IT expertise have been working on the operational arrangements for some months now. Some of the more detailed issues are still under discussion, and will be finalised over the coming weeks.

7.2 It is not essential that these are finalised prior to transfer providing the following **broad principles** are agreed:-

- The Partnership will be established under a legal agreement that all parties will sign. The agreement will specify the basis on which each partner provides resources and the basis on which services will be provided to the partnership.
- Each partner will define its own internal audit needs, including provision of a tactical and strategic audit plan. This work may or may not be done by the partnership audit team.
- Each partner will have an equal say (or vote) in the partnership, regardless of size.
- Based on the defined audit needs, the partnership will calculate the total cost of audit provision and define the partnership staffing needs.

- The Partnership Management Board will have the final say on the total cost of the audit service provided to each Partner, and on staffing levels (including the initial determination of staffing needs and any additional increases).
- The services of SWAP will be provided by a single audit team with officers based at the three partner Councils' main sites, or any other site a partner may stipulate.
- The powers of the Partnership Board, and the Partnership Management Board will be specified in the partnership legal agreement. Each partner will specify, within their Financial Regulations, the scope and extent of internal audit authority of the Partnership Audit Team.
- The partnership will be formed under section 101 of the Local Government Act 1972 and will therefore be exempt from EU procurement rules.

7.3 The management structure is being finalised, and all Partners agree that one post of Head of Internal Audit should lead the Partnership Team. Within the three existing internal audit teams, there is no obvious candidate for this role.

7.4 The current Group Manager (Business Support) at SSDC is a qualified internal auditor with more than 20 years experience – and it is proposed that he should transfer full-time to the Partnership in the role of Head of Internal Audit. He is an excellent candidate for this role - a view fully supported by the three Partner organisations s151 Officers. The main duties of this post will be:-

- To prepare audit plans for each Council.
- To manage the audit team and its resources.
- To develop the business plan and grow the Partnership.

## **8 Employee Issues**

8.1 The Chief Personnel Officers in each authority are currently working on the detail of this proposal. In very simple terms, the following summarises the key issues around employees:-

### **8.2 Communication and consultation.**

Staff have been, and will continue to be, consulted throughout the process. Regular feedback sessions and joint team building days have occurred and more are planned. Unions and staff-side have also been kept informed of the proposals and have now been formally consulted.

### **8.3 TUPE transfer**

The partnership will be established on the basis of one hosting Authority (to be SSDC) to act as employer, for 'pay and rations', for the partnership. This will result in staff from two of the Councils being subject to TUPE transfer to the hosting Council.

### **8.4 Standardisation of terms and conditions**

Where possible and practical the principle of 'best of the best' will be adopted. For instance, if one Council has a more flexible flexi-time scheme, then that would be adopted for all staff. Detailed agreement has yet to be reached on this. It may be that, due to the timescales involved, that staff will transfer on existing terms and conditions.

**8.5** Membership of existing pension schemes to continue.

By adopting the hosting Council model, all staff will remain local government employees and will continue to be included in the Somerset County Council pension scheme.

**9. Financial Arrangements**

- 9.1 The Financial Services Managers in each authority are finalising the detailed arrangements required in order to create this Partnership arrangement.
- 9.2 The broad principle that the cost of internal audit should not increase because of the creation of the Partnership is accepted.
- 9.3 The intention is for the Partnership to cost TDBC no more than current annual costs over a five-year period. This will require a contribution from balances of £20,000 to support the Partnership initially, but will be repaid over 5 years. It is hoped that this can be found within existing approved budgets (potentially from the end of financial year underspend).

**10 Conclusions and Next Steps**

- 10.1 There are clear advantages to entering into an Internal Audit Partnership, including quality, sustainability and resource issues. Experience suggests that Partnerships are often difficult to establish, but once they are, the benefits can be quickly realised.
- 10.2 Each Partner authority will formally recommend the formation of SWAP to their respective organisations during March 2005. At TDBC, this report has been considered and supported by the Corporate Governance Committee (21 Feb) and is now being presented to the Executive for formal approval.
- 10.3 Meantime, work continues on the detail of the legal agreement, the HR, Finance and IT issues. The project is being managed using the broad principles of PRINCE2.
- 10.4 The Chief Finance Officers will take responsibility for ensuring the detailed business plan, and measures of success are developed, and that the necessary corporate governance arrangements are put in place at each Partner authority.

## **11 Recommendations**

11.1 The Executive are requested to recommend that:-

1/ An Internal Audit Partnership (initially between TDBC, SSDC, and MDC) is established under s101 of the Local Government Act 1972 (Joint Committee).

2/ The Internal Audit Partnership will commence on 4 April 2005 between TDBC and SSDC, with MDC joining on 1 July 2005.

3/ The initial contribution of £20,000 is found from existing approved budgets (year end underspend), and is repaid over five years.

4/ The final agreement of the Partnership Business Plan, host authority arrangements, legal agreement, and working practices is delegated to the Head of Resources (subject to the Partnership demonstrating a break-even position within 5 years).

5/ There will be two TDBC Member representatives on the Partnership Oversight Board. The Members Services Manager will liaise with the Group Leaders on the most appropriate method of filling these posts.

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