

## **Committee: General Purposes Committee**

**Date: 25<sup>th</sup> June 2015**

Wards:

### **Subject: Shared Internal Audit Service**

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Councillor Mark Allison

Contact officer: Margaret Culleton – Head of Internal Audit email.  
margaret.culleton@merton.gov.uk

---

### **Recommendation:**

- A To agree to the principle of Merton joining the shared Richmond and Kingston Council Internal Audit Service from the 1<sup>st</sup> October 2015

#### **1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 This report seeks General Purposes Committee endorsement for Merton to join the Richmond and Kingston shared internal audit service with effect from 1st October 2015, with Richmond as the lead authority. Approval will be sought from Cabinet at both Merton and Richmond and Policy and Finance Committee at Kingston.

#### **2. DETAILS**

- 2.1 The Richmond and Kingston Internal Audit and Investigation shared service went live in June 2012. In April 2015, the investigation function for 5 councils, Richmond, Kingston, Sutton, Merton and Wandsworth were joined in a partnership, led by Wandsworth council.
- 2.2 The Richmond and Kingston Shared audit service is now seeking to expand their audit service to include neighboring authorities. Discussions have started on the feasibility of Merton joining and an outline project brief developed. This has received endorsement in principle at senior management level in each authority and endorsement is now sought from Members to progress this work.
- 2.3 The Internal Audit function at Merton has 6 posts. The Internal Audit function at Richmond and Kingston Shared service is of a comparable size with 9 posts and 2 FTE equivalent outsourced from Mazars. Both Merton and the Richmond/Kingston shared service use a risk based audit model, using Galileo. The Head of Audit at Merton has responsibility for pulling together the AGS whereas Richmond and Kingston do not.

#### **3 Drivers for change**

- 3.1 Councils are facing enormous challenges as a result of grant reductions by central Government. It is crucial that each council applies its limited resources in the most effective way possible

- 3.2 Internal audit teams have a vital role to play in helping Councils manage effectively through the challenges they face by ensuring that governance, risk management and control arrangements remain effective. To do this successfully, internal audit teams need to be fit for purpose and provide assurance of the necessary quality, depth and coverage. Often this will mean giving assurance on complex and risky issues and using specialist resources when necessary.
- 3.3 As well as Internal Audit providing an effective service now they need to ensure they are resilient against any potential future efficiency.
- 3.4 A Memorandum of Co-operation signed by South London Partnership Boroughs supporting collaboration was endorsed by Merton. At this time when shared services are being explored for Merton, it makes sense to consider joining an Internal Audit Service.
- 3.5 The scale of a potential shared service would be manageable and objectives realised within a reasonable timescale and would provide scope for further integrated arrangements with other boroughs in the future.
- 3.6 Richmond and Kingston are similar sized London Boroughs to Merton, geographically adjacent, and influenced by similar issues in their respective market places.

#### **4. Benefits**

- 4.1 It is proposed that the Internal Audit Shared Service Project be progressed in order to realise the potential business benefits for all councils including:
  - i) to deliver a programme of high quality and reliable assurance on all key governance, risk and control systems to each Council, operating in accordance with statutory requirements, professional standards such as the Public Sector Internal Audit Standards, and recognised best practice methodology
  - ii) To deliver the service through a mix of in-house staff and contract days procured through the Croydon framework contract (or similar). This allows greater flexibility to buy in specialist audit services and in a period of significant organisational change in both authorities, to expand or contract as and when required;
  - iii) to deliver high standards of customer service and be responsive and flexible in its approach, offering the benefits of a 'close' in-house team
  - iv) to offer a wide base of experience, resilience, specialisms and skills, taking advantage of the economy of scale available to larger audit teams
  - v) to deliver efficiencies through exploiting opportunities for joined-up working, adopting a common methodology and service standards, sharing knowledge, skills and expertise whilst continuing to provide the assurance required to the Section 151 officers that appropriate resources are in place in a time of reductions in public sector funding

- vi) to provide a supportive and stimulating working environment for those staff working in the Shared Service with opportunities for career development
- vii) to be open to future opportunities to expand the Shared Service, thus enabling greater efficiencies to be achieved.

## **5 Governance arrangements**

5.1 The project sponsors are the Directors of Finance of each council. The co-Project Sponsors at RBK will be the Executive Head of Organisational Development and Strategic Business and Director of Finance. A Project Manager has been appointed at Merton

5.2 The Project Board will report into both Kingston's Strategic Leadership Team (SLT), Richmond's Executive Board and Merton Corporate Management Team and will drive forward the delivery of the project by:

- Providing the energy, direction and support to enable the project team to deliver its brief
- Leading the engagement and communication with staff and other stakeholders across both boroughs
- Managing the risks and issues that will arise through the delivery of the project
- Considering and agreeing any significant changes to the project.

5.3 A Project Team to include the Head of Audit of Richmond & Kingston and the Head of Audit at Merton will be formed in order to deliver the project and co-ordinate the activities of the Work Stream teams. These Work Streams have been identified as Governance, Finance, Culture & Communications, IT & Accommodation and HR.

5.4 It is proposed that the arrangement will be governed through a detailed partnership agreement which will set out the arrangements in place, standards and expectations, and performance targets.

5.5 Thereafter, it is proposed that oversight of the shared service will be through a joint officer board comprising the Finance Directors of the 3 authorities, given their particular interest in ensuring the adequacy and effectiveness of internal audit arrangements. The board will monitor the performance of the Shared Service to ensure that it delivers the standards and expectations set out in the partnership agreement.

5.6 Whilst the partners will jointly oversee the performance of the shared service, the responsibility for the adequacy of the whole system of internal audit will remain with the Councils themselves,.

### **Merton's Governance arrangements**

5.7 Merton will be retaining a Head of Internal Audit, as part of the shared service, who will continue to report to General Purpose's committee.

5.8 General Purposes Committee will retain responsibility for approving audit plans and monitoring delivery and will continue to:

- be responsible for overseeing the effectiveness of the internal audit function at Council level, and holding the Head of Internal Audit to account for delivery
- be responsible for the effectiveness of their respective governance, risk management and control arrangements, holding managers to account for delivery
- Receive regular progress updates on internal audit work, consider key themes and issues, and take them forward as necessary.

## **6. ALTERNATIVE OPTIONS**

- 6.1 An independent review was undertaken in 2013/2014 recommending a shared service delivery model. Although this was not taken forward at the time and the review related to the establishment of a four borough shared service, the principles remain relevant.
- 6.2 The option of not moving to a shared service would leave Merton's Internal Audit Service less effective if future cost efficiencies were required.

## **7. CONSULTATION UNDERTAKEN OR PROPOSED**

- 7.1 Consultation is proposed to commence on the 7<sup>th</sup> July 2015 with all staff. Any concerns or questions arising from this will be responded to and included in the final business case.

## **8. TIMETABLE**

- 8.1 A project plan has been developed to include target dates for the 5 work streams. Frequent meetings will be held to keep the project on course.
- 8.2 The proposed timescales are for the staff consultation to start on the 7<sup>th</sup> July 2015 with a view to starting the shared service on 1<sup>st</sup> October 2015.

## **9. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 9.1 A financial evaluation of the business case for expanding the Shared Internal Audit Service has been undertaken. The key driver is to establish a more resilient, flexible and effective internal audit service. Any savings will be made through improved audit processes and the development of in-house expertise in areas such as contract and IT audit, currently procured externally. More significant savings are anticipated where other Authorities join the shared service through the sharing of management costs and the generation of greater economies of scale. Project management and implementation related costs will be shared between Kingston and Richmond and Merton and appropriate approval for these will be sought.

## **10. Legal and statutory implications**

- 10.1 Section 151 of the Local Government Act 1972 requires every local authority to

make arrangements for the proper administration of its financial affairs.

- 10.2 Section 6 of the Accounts and Audit Regulations 2015 states that “A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”
- 10.3 The Council has the necessary legal powers to arrange for the discharge of its functions by another authority. In practical terms, the Council will need to enter into an inter-authority agreement to cover the process up to implementation of the shared service arrangements and, subsequently, a further legal agreement to cover the ongoing arrangements once implemented.

## **11. Human rights, equalities and community cohesion implications**

- 11.1 A full EIA will be updated and completed by the formal consultation. A full EIA will be completed prior to the decision to settle the structure and will be taken into account as part of the future decision making.

## **12 CRIME AND DISORDER IMPLICATIONS**

None

## **13. Risk management and health and safety implications**

- 13.1 Project Board will be responsible for managing the key risks and issues arising from the delivery of the project, and a full risk register will be developed during the initiation phase. This is likely to reflect a number of the initial challenges and potential constraints that have already been identified:

- Shaping and responding to the vision of different organisations with separate democratic responsibilities and arrangements
- Different organisational cultures and priorities
- Different employment policies and arrangements across boroughs
- Different terms and conditions of Internal Audit staff across boroughs
- Different scope of current Internal Audit functions — e.g. corporate assurance
- Size of the functions considered, related budget and resilience
- Need to satisfy any procurement legislative requirements

## **13.2 BACKGROUND PAPERS**

A Business case has been established which will be reported to Cabinet.

