

Committee: Cabinet

Date: 29th June 2015

Wards:

Subject: Shared Internal Audit Service and Update on HR Shared Service

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Recommendations:

- A Cabinet note the decision to serve notice of our intention to withdraw from the Sutton – Merton shared HR service and the plans of the council to explore alternative options over the coming months.
- B Cabinet to agree to Merton joining the shared Richmond and Kingston Council Internal Audit Service

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report provides an update on the HR Shared Service with the London Borough of Sutton in light of other joint arrangements amongst South London boroughs.
- 1.2 This report outlines the proposal for Merton to join the Richmond and Kingston Shared Internal Audit Service with effect from 1st October 2015, with Richmond as the lead authority.

2. DETAILS

2.1 Human Resources update

- 1.1 In May the London Borough of Merton served notice of our intention to leave the Sutton – Merton shared HR service. The notice period agreed within the collaboration agreement is one year and as such the current arrangement will terminate on the 31st May 2016.
- 1.2 This decision was taken in light of the following developments:
 - In January Wandsworth Borough Council (WBC) and the London Borough of Richmond upon Thames (LBRuT) announced their intention to move to a shared staffing agreement between the two boroughs.
 - As such, LBRuT served notice to the Royal Borough of Kingston (RBK) that they intended to leave the Richmond – Kingston shared HR service.

- Subsequently, RBK and the London Borough of Sutton (LBS) have agreed to investigate the potential for a shared HR arrangement between them.
- LBM has been in a shared HR service with LBS for over five years and in light of the above decisions and the multiple options these present it seemed like the right opportunity to take a step back and consider the most optimal solution for HR services in Merton.
- Merton has multiple options for the best solution for the future of our HR services – as part of an LBS –RBK shared service, as part of a WBC-LBRuT shared service or in an alternative model.

1.3 Taking account of the above LBM served notice in order to keep our options open and to give us an opportunity to consider the best solution for the provision of HR services for the council for the coming years.

1.4 The work looking at options will continue over the coming months with a recommendation brought back to Cabinet towards the end of the year.

2.2 Internal Audit Shared Service

2.2.1 In 2011 Richmond and Kingston Internal Audit and Investigation service became a shared service. In April 2015, the investigation function for 5 councils, Richmond, Kingston, Sutton, Merton and Wandsworth were joined in a partnership, led by Wandsworth council.

2.2.2 The Richmond, 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.

2.2.3 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. There are, however, some differences in the scope of the two functions, with Richmond risk and some aspects of corporate assurance are within its Internal Audit Service. Merton has some aspect of corporate assurance and RBK and Merton has specifically split off risk. Richmond and Kingston currently outsource a larger proportion of their audit work to Mazars than Merton.

Drivers for change

2.2.4 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

2.2.5 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.

- 2.2.6 As well as Internal Audit providing an effective service now they need to ensure they are resilient against any potential future efficiency.
- 2.2.7 A Memorandum of Co-operation signed by South London Partnership Boroughs supporting collaboration and endorsed by Merton. At this time when shared services are being explored for Merton, it makes sense to consider joining an Internal Audit Service.
- 2.2.8 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.
- 2.2.9 Richmond and Kingston are similar sized London Boroughs to Merton, geographically adjacent, and influenced by similar issues in their respective market places.

Benefits

- 2.2.10 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.

3. Governance arrangements for Internal Audit shared service

- 3.1 The project sponsors are the Directors of Finance or Corporate Services 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 in the Legal Shared service (led by Merton).
- 3.2 The Project Board will report into both Kingston's Strategic Leadership Team (SLT) and 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.
- 3.3 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 will be identified as the project progresses, but are likely to include areas such as governance, HR, IT, Finance,, Accommodation and communication and culture
- 3.4 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.
- 3.5 Thereafter, it is proposed that oversight of the shared service will be through a joint officer board comprising those 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.
- 3.6 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

- 3.7 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.
- 3.8 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.

4. ALTERNATIVE OPTIONS FOR AUDIT SHARED SERVICE

- 4.1 An independent review was undertaken in 2013/2014 recommending a shared audit 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.
- 4.2 The option of not moving to a shared service would leave Merton's Internal Audit Service less effective if future cost efficiencies were required.

5. CONSULTATION UNDERTAKEN OR PROPOSED FOR AUDIT SHARED SERVICE

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

6. TIMETABLE FOR AUDIT SHARED SERVICE

- 6.1 A project plan has been developed to include target dates for the 5 work streams; Governance, Finance, culture & communications; IT & accommodation and HR. Frequent meetings will be held to keep the project on course.
- 6.2 The proposed timescales would be for the staff consultation to start is the 7th July 2015 with a view to starting the shared service in October 2015.

7. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS FOR AUDIT SHARED SERVICE

- 7.1 Savings flowing from the shared service are likely to be minimal. Project management and implementation related costs will be shared between Kingston and Richmond and Merton and appropriate approval for these will be sought.

8. Legal and statutory implications for audit shared service

- 8.1 Section 151 of the Local Government act 1972 requires every local authority to make arrangements for the proper administration of its financial affairs.
- 8.2 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”

- 8.3 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 upto implementation of the shared service arrangements and, subsequently, a further legal agreement to cover the ongoing arrangements once implemented.

9. Human rights, equalities and community cohesion implications for audit shared service

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

10 CRIME AND DISORDER IMPLICATIONS

None

11. Risk management and health and safety implications for audit shared service

- 11.1 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 and risk management
- Size of the functions considered, related budget and resilience
- Need to satisfy any procurement legislative requirements

12 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- Business Case for audit shared service