

Wiltshire Council

Cabinet

18 October 2011

Subject: Future Provision of Internal Audit

Cabinet member: Cllr John Brady – Finance, Performance and Risk

Key Decision: Yes

Executive Summary

1. This report is to update the Cabinet on progress since its 24 May decision to pursue a section 101 partnership agreement with South West Audit Partnership (SWAP) to transfer of the Council's Internal Audit function.
2. Negotiations with SWAP have progressed well. The latest position suggests the transfer will save a further £27,907 on the current budget. Performance measures have been agreed in principle and enhanced following Audit Committee input. These focus on ensuring continued improvement in quality of the service post transfer.
3. Meetings have been held with staff, including 1:1s, and with SWAP. These continue to be held, and the Council is following its agreement with the Trade Unions for externalisation, procurement and the workforce, and associated protocols.
4. Negotiations and due diligence is on-going, and whilst there are still some issues to resolve none of these are expected to significantly change the current advice. As such a transfer on or close to 1st November is planned.

Proposal

That Cabinet confirms delegation to the Service Director of Finance following consultation with the Service Director, Law and Governance and the Cabinet Member for Finance, Performance and Risk to conclude the transfer of the provision of the Internal Audit function to the South West Audit Partnership once all issues are resolved in accordance with the Council's policy.

Reason for Proposal

This report is to update Cabinet on progress since its May meeting to pursue a negotiated transfer of the Council's Internal Audit function to the South West Audit Partnership (SWAP). Since the May meeting of Cabinet the Council's Constitution has changed to allow TUPE of less than 50 staff to be delegated to the appropriate Cabinet Member. Despite this Cabinet have expressed, in a spirit of openness and transparency, a desire for an update to consider Audit Committee comments prior to any decision.

Michael Hudson
Director of Finance

Wiltshire Council

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Purpose of Report

1. This report is to update Cabinet on progress since its May meeting to pursue a negotiated transfer of the Council's Internal Audit function to the South West Audit Partnership (SWAP). Since May the Council's Constitution has changed to delegate authority to approve such transfers as this to the relevant Cabinet Member. Given the role of this function it has been brought to Cabinet for consideration.

Background

2. In May 2011 both the Audit Committee and Cabinet members received a paper on the options for the future delivery of the Council's Internal Audit Function. Cabinet agreed, under a section 101 agreement of the Local Government Act 1972 as amended by the 2000 Act, for officers to commence negotiations with another local government partnership – SWAP (The South West Audit Partnership). Although if those negotiations were to stop for any reason to pursue, as an interim measure, the management of the section through the three Principal Auditors and this arrangement has been running since that period and during the SWAP discussions.
3. Whilst this is referred to as a Section 101 agreement, the ultimate result would be that staff would transfer to the employment of South Somerset District Council (the host body for SWAP). As such the officers have followed the Council's guidelines for a Transfer of Undertakings (Protection of Employment) (TUPE).
4. Since May negotiations and discussions have begun with
 - Staff (including Legal and HR)
 - Trade unions
 - Somerset Pension Fund
 - SWAP

5. The discussions with SWAP have progressed well and to date no 'show stoppers' have been identified. As such the option to pursue a transfer has not been withdrawn. As stated in paragraph 2 above the three Principal Auditors have led the service in the meantime. Whilst this has gone well there is no evidence to change the scoring of any of the options, although SWAP are now delivering more savings as discussed from paragraph 8, so could justify higher scoring. As such the SWAP proposal remains, it is not withdrawn and is still first option.
6. The Audit Committee has considered the update and in particular the performance indicators to measure the quality of a transferred service. The Committee made recommendations to enhance the proposed indicators, and these have been reflected in Appendix 1.
7. This report updates Cabinet on the progress made since May and the next steps, focusing on:
 - Economy and Efficiency – the cost of the partnership: Paras 8 - 10
 - Effectiveness– the qualitative performance of a future partnership service: Paras 11 - 15
 - Transfer process – progress and the actions / timetable to transfer: Paras 16 - 22.

Economy and Efficiency

8. The current (2011/12) gross cost of the service, allowing for a full year cost of a vacant post recently recruited to, is £603,400. This is a £150,000 reduction from 2010/11, when three management posts were removed as part of the Council's restructure. The remaining resources were still sufficient to deliver the audit plan.
9. Discussions have been held with SWAP as to the fee that would be due under a partnership. A fee of £575,493 has been agreed in principle for the same number of staff (15 staff) and outputs, or improved outputs. Thus, this is less than the current cost of the service and will represent a part year saving of around £7,000 to the Council in 2011/12 and a full year saving of £27,907 in 2012/13.
10. The fee will be fixed for the period of the Contract, and as such would give the Council financial security in its costs and further savings due to nil inflation. Thus, the proposal to transfer is seen as efficient.

Effectiveness

11. The current level of performance reporting of the Council's Internal Audit function, due to poor IT is low. A key factor to assess is how officers and members can set and ensure a high standard of performance of a partnership. As such, a number of Key Performance Indicators (KPIs) have been agreed in principle with SWAP. Also in drawing up these KPIs consideration has been given to include measures that will address concerns

raised by members and staff during this process. These KPIs have been discussed by the Council's Audit Committee and enhanced following that debate.

12. The draft KPIs are set out in detail at Appendix 1 of this report, and reflect changes recommended by the Audit Committee. The focus of the measures are to ensure:

- Quality of audit coverage and work
- Efficiency and cost
- Quality of staff and partnership relationship
- Innovation

Key features to draw out include:

Area of Concern	Proposed KPI	Assurance Gained	Target
1. Current Wiltshire Council IA staff due to transfer will not work on Wiltshire Council Work once transfer occurs.	<ul style="list-style-type: none"> • % of transferred staff's available time, by individual officer, spent on Wiltshire Council audits 	To ensure staff transferred continue to work on Wiltshire Council audits unless mutually agreed by all parties.	80% Unless agreed by: <ul style="list-style-type: none"> • SWAP • Individual, & • CFO
	<ul style="list-style-type: none"> • % of non-Wiltshire Council staff working on Wiltshire Audit 	To measure the added value of staff supporting Wiltshire Council from elsewhere in SWAP.	20%
2. Additional External Audit fees are incurred for lack of SWAP audit work.	<ul style="list-style-type: none"> • % reliance placed by external audit on SWAP work 	An assessment of quality. If less than 100% and SWAP gives rise to a consequential financial loss to the Council, SWAP will be responsible for any additional cost.	100%

Area of Concern	Proposed KPI	Assurance Gained	Target
3. The level of coverage will worsen.	<ul style="list-style-type: none"> • % of audits delivered to agreed plan (or revised if agreed) 	Assurance that audits required and agreed are delivered.	95%
	<ul style="list-style-type: none"> • % of unplanned work as a % of the total audit work and original plan 	An assessment of the quality of planning and identification of the key risks and focus of work	5%
	<ul style="list-style-type: none"> • % follow-up audit recommendations actioned 		
	<ul style="list-style-type: none"> • % key audit dates to deliver work met 	<p>An assessment of the quality of audit work.</p> <p>Assurance audit work is being carried out and completed promptly.</p>	<p>90%</p> <p>95%</p>

Note: Most of these measures are not currently collected or reported, so this represents a significant improvement. The targets will therefore be reviewed once performance is assessed for the first time, but overall remain the goal.

13. In finalising the agreement with SWAP these KPIs will be finalised in terms of wording and targets and included within our local performance benchmark balanced score card. They will be reported to the Audit Committee each quarter for consideration and action as and if appropriate.
14. In addition to performance measures, discussions have progressed well with regard to the operation of the function post any transfer. Key staff issues such as will they be able to wear Wiltshire Council identity badges and use the County Hall to Shurnhold bus have been agreed positively. In addition, SWAP has agreed that the current good practices within Wiltshire Council IA reports, such as the risk matrix favoured by members will be retained.

15. We are also looking at ICT arrangements to ensure ICoCo compliance. This is likely to mean IA staff operating initially with two computers, but we are reviewing arrangements to assess if this is needed long term. SWAP have encountered similar situations at other councils where one machine is required for running SWAP systems and reports, and another for access to the council's data. This has been overcome at other sites through the use of desktops and limited access permission. At present these arrangements may not fit with Wiltshire Council's aim to facilitate greater home working where possible, but we will continue to review the matter and it is not expected that it will have any impact on performance.

Transfer Process

16. In total there have been over 50 meetings with staff to date, including:
- Team meetings - with and without others, such as the Director of Finance, HR, SWAP and Trade Unions.
 - One to ones - with the Director of Finance; and
- with SWAP representatives
17. In addition, this diligence has included sharing of some information with SWAP such as job descriptions and staff costs. Staff are verifying the accuracy of their HR records. These will then be shared with SWAP in mid October.
18. In addition, SWAP is still undertaking due diligence of the Council's audit processes and records at the same time.
19. Information is also being shared between the Wiltshire and Somerset Pensions Funds to assess any pension liability. As this affects only a small number of staff the exact liability difference between the two funds is expected to be low. Any extra liability up to the point of transfer that differs to the new fund could give rise to a future cost for which Wiltshire Council would act as guarantor, but it is expected this would likely have negligible costs, if any. The exact figure will be available before transfer and the delegation to the Cabinet Member will enable that decision to be assessed based on advice from officers as to the scale of any liability.
20. Council officers, including Finance, Legal and Human Resources are working with SWAP to finalise the legal and TUPE documentation in preparation for a 1st November 2011 transfer. To date a draft Partnership Agreement has been shared with SWAP that sets out the details included in this report, including the KPIs at Appendix 1. The draft Trading and Partnership Agreements are attached at Appendices 2 and 3 respectively. These include provision for Wiltshire Council as a partner to SWAP to be represented by the Section 151 Officer on the Management Board of SWAP and a Member on SWAP's Partnership Board. It also sets out issues such as:
- Period of the contract

- Indemnity arrangements
 - Dispute resolution procedure.
21. It is hoped that these along with all HR and pension transfer matters will be resolved before the end of October allowing the transfer to take effect on or close to 1st November 2011. The Common Seal of the Agreement would be signed by the Monitoring Officer following approval by the Cabinet Member – Finance, Performance and Risk

Main Considerations for the Council

22. The proposed transfer under Section 101 to SWAP is progressing well, is on target to conclude by 1 November 2011, and will yield more savings than anticipated with greater performance reporting.

Risk Assessment

23. There are no direct risk implications associated with this report.

Equality and Diversity Impact of the Proposal

24. None have been identified as arising directly from this report.

Environmental Impact of the Proposal

25. The carbon footprint of work undertaken by SWAP, on behalf of Wiltshire Council, would need to be included as part of the authority's overall footprint. This relates to emissions from transport (business and public transport journeys) and buildings. For the latter, if SWAP operates any buildings of their own, the emissions would be pro-rata, depending on the percentage of work undertaken for Wiltshire Council, during the 12 month period.
26. Guidance on the nature of information required along with the frequency of submission can be provided by the Energy, Change and Opportunity (ECO) team
27. As SWAP covers the South West region consideration needs to be given to the carbon footprint of journeys made by auditors. Allocating work based on geographical proximity to where they reside and implementing a green travel plan would help offset this issue.

Financial Implications

28. The Director of Finance is the author of this report and the financial consequences of the transfer are set out at the Economy and Efficiency section (paras 8-10) of this report.

29. In addition, it is noted that a lack of ability to place reliance on Wiltshire Council's Internal Audit's work in 2011/12 has led to an additional £40,000 cost incurred by KPMG to seek assurance. The KPIs proposed would mean that cost, if it were ever to incur under SWAP would be borne by SWAP not the Council.

Legal Implications

30. Wiltshire Council has the power to enter into a joint local government partnership (Local Government Acts 1972 and 2000). Consultation with staff is currently in progress and the final transfer agreement, and other legal agreements will need a Cabinet Member delegated decision approval for any subsequent TUPE transfer.

Michael Hudson
Director of Finance

Report Author: Michael Hudson, Director of Finance

Background Papers: 13 May 2011 Audit Committee report
24 May 2011 – Cabinet report
28 September 2011 – Audit Committee report

Appendices:

Appendix 1 – Key performance Indicators proposed