

The Vale of Glamorgan Council

Cabinet: 18th June 2018

Report of the Leader

Proposal to extend the Shared Service for Internal Audit to include Rhondda Cynon Taf County Borough Council and Merthyr Tydfil County Borough Council

Purpose of the Report

1. The purpose of this report is to propose a change to the current Internal Audit Shared Service to extend the Partnership Agreement to include Rhondda Cynon Taf and Merthyr Tydfil County Borough Councils.

Recommendations

THAT Cabinet considers the current position and :

1. Approves the proposal that the partnership for the Shared Service for Internal Audit is extended to include Rhondda Cynon Taf and Merthyr Tydfil County Borough Councils ;
2. Approves that the Vale of Glamorgan Council hosts the extended service and becomes the employer of all staff within the service ;
3. Authorises the Managing Director and the Section 151 Officer, in consultation with the Leader, to make the necessary detailed arrangements under delegated authority to establish the Regional Internal Audit Shared Service (RIASS) , including admission of further interested parties if appropriate subject to an agreed Partnership Agreement and Contract.
4. A legal Partnership Agreement based on Section 101 / 102 of the Local Government Act 1972 be entered into between the Councils to delegate the function and formalise the provision of services and basis for cost apportionment
5. Authorises the Head of Legal Services to execute the Partnership Agreement referred to in Recommendation 4 above; and
6. This report is referred to Audit Committee for consideration and approval

Reasons for the Recommendations

1. To enable the extension of the current service to develop a Regional Internal Audit Shared Service that will reinforce business resilience, further enhance the range of audit expertise available to the Council and support the delivery of a more efficient service.
2. To establish the Vale of Glamorgan as the host authority for the new shared service for internal audit.
- 3-4 As 1 above.
5. To provide the authority for legal to execute the legal documentation
6. As 1 above

Background

2. Councils have a track record of innovation, of delivering efficiencies and of serving communities well. However, with the all too familiar and long-established increasing need to do more with less, Councils need to respond, showing how they are able to protect communities and the services they value while ensuring the best possible value for money during a continuing period of austerity and uncertainty.
3. Sharing services enables Councils to do this by reducing duplication of effort and expenditure, thereby freeing up money from back office processes to be spent on improving front-line services. The Welsh Government White Paper - Reforming Local Government: Resilient and Renewed - was issued on 31st January 2017 and sets out the Welsh Government's statement of intent regarding the future of Local Government in Wales. The White Paper places an emphasis upon the importance of increased collaboration and greater regional working across and between local government. It sets out that regional working should achieve better outcomes for people and communities in the short term, while having a greater focus on prevention and de-escalation resulting in better outcomes in the long term.
4. In recent years, collaborative working activity has increased at pace in response to the challenging financial climate and also in recognition of the value that working in partnership to share skills, expertise and experience can have in tackling increasingly complex issues.
5. The provision of Internal Audit is recognised by all Councils as core to their effective governance, risk management and control arrangements. The requirement for Councils to maintain appropriate and effective internal audit arrangements is set out in the Accounts and Audit (Wales) Regulations 2018 and prior to these the Accounts and Audit (Wales) Regulations 2014. As Councils seek to ensure that systems and processes are as efficient as possible, it is imperative that the Internal Audit service can provide the objective assurances required by elected members and senior officers regarding the effectiveness of the systems of internal control.
6. The Bridgend and Vale of Glamorgan Internal Audit Shared Service has been fully operational under a formal partnership agreement since February 2013, which has been extended to 31st January 2020 as both Authorities have experienced the advantages of the shared service. Since its inception the Shared Service has delivered consistently against the approved annual risk based plans and achieved the necessary coverage in order to issue a robust, evidence based audit opinion at the end of each year as well as fully complying with its statutory requirements under the Public Sector Internal Audit Standards (PSIAS). In addition, significant benefits

have been realised by bringing the sections together, some of which included; effective use of the total audit resource, knowledge sharing and harmonising working practices and systems.

7. As such the IASS has and is achieving the following objectives:
 - The service is affordable and represents value for money, delivering efficiencies and economies of scale;
 - The service enhances the professionalism and quality of audit services provided to both Councils through shared knowledge and best practice;
 - The service is flexible and can respond to changing service requirements and priorities; and
 - The service can extend access to specialist audit services and other related disciplines to both Councils;
 - The service complies with the Public Sector Internal Audit Standards

Relevant Issues and Options

8. The service has operated very effectively since 2013 as stated in paragraph 6 above. However, the service has faced some challenges over the past 18 months in terms of recruitment, although this has presented the opportunity for a more proactive and focused approach being taken in respect of workforce planning and growing the service to ensure its continued success. As a consequence of this, Section 151 Officers of all four Councils have been considering whether there would be any benefits in extending the current partnership arrangement to include the two additional authorities.
9. The principal functions of the Internal Audit Sections at the four participating Councils are broadly similar. The development of a Regional Internal Audit Shared Service offers the opportunity to bring together related and complimentary professional disciplines across the Councils. Discussions have concluded that Internal Audit is a service that can be delivered on a regional basis and a larger shared service would benefit all the local authorities in many ways, including :
 - The business case evidences that overall savings can be made whilst ensuring the level of internal audit resources available will be sufficient to form an opinion on effective governance, risk management and control arrangements in place for each authority;
 - The development of a larger service would provide career opportunities for staff which should encourage individuals to remain within the service ;
 - The service would be able to develop specialist services ;
 - The development of a shared service would meet the aspirations of Welsh Government with regard to increased regional working ; and
 - The service would be more resilient than the current audit teams are in the existing arrangements.
10. In addition to the benefits highlighted above, the extended regional service could become more entrepreneurial in its outlook which could include bidding for contracts with other public sector bodies which would drive costs down further.

11. In order to develop an extended shared service, the following will be required :
 - A legal Partnership Agreement based on Section 101 / 102 of the Local Government Act 1972 should be entered into between the Councils to delegate the function and formalise the provision of services and basis for cost apportionment ;
 - All Councils will be required to sign-up to the terms and conditions of this document for a set period of time (proposed minimum of three years) in order to demonstrate commitment;
 - There should be a single employing authority. The proposal is that this should be the Vale of Glamorgan Council, however this is subject to agreement by the Cabinets of all the partner Authorities ; and
 - Staff currently employed in the audit function by the Local Authorities will be subject to TUPE (Transfer of Undertakings - Protection of Employment Regulations) and transferred to the employing Council.
12. A new staffing structure should be implemented to ensure the RIASS is fit for purpose and able to deliver the level of service required. It is proposed that staff be transferred into the extended service on their current terms and conditions. The new staffing structure should then be implemented after all staff are employed by the employing Council. Joint working between the HR services in all authorities will be required to support this.
13. It is proposed that oversight of the RIASS will be a Joint Partnership Board comprising the respective Section 151 Officers (or their nominees) from each Council. The Board will monitor the performance of the IASS to ensure that it delivers the standards and expectations set out in the partnership agreement.
14. Whilst the partners will jointly oversee the performance of the RIASS, the responsibility for the adequacy of the whole system of internal audit will remain with the Councils themselves, who will remain responsible for approving audit plans and monitoring delivery via the Council's respective Audit Committees. This will be fully compliant with and will support each Audit Committee's Terms of Reference.
15. The individual Councils 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 of the approved Audit Plan. They will also be responsible for the effectiveness of their governance, risk management and control arrangements, hold managers to account for delivery and receive regular progress updates on internal audit work, consider key themes and issues and take them forward as necessary.
16. Initial indications of the level of service required have been considered and this information has been used to determine the indicative costs of the service. The costs will be shared in proportion to the level of service required on a full cost recovery basis.

Resource Implications (Financial and Employment)

17. The proposal will improve resilience, enhance career development opportunities for staff, develop wider skills such as computer and contract audit and will ensure all officers roles are secure and not at any financial disadvantage.
18. The business case has costed a possible structure for the service and identified overall efficiency savings, £35,000 of which would accrue to the Vale of Glamorgan Council.

19. Legal and Human Resources support is being received in order to ensure that the appropriate governance arrangements are put in place for a joint service. If agreed, consultation will have to commence on the staff transfer arrangements to the employing Authority and be worked through with those staff affected and their respective union in each Authority area. Further consultation will then take place with all staff on the new RIASS organisational structure after transfer arrangements have been agreed.
20. The RIASS will employ agile working practices including hot-desking, home and site working together with the innovative use of ICT in order to minimise travel costs and their associated impact upon the environment.

Legal Implications (to Include Human Rights Implications)

21. Provision of an adequate and effective Internal Audit function is a legal requirement under the Accounts and Audit (Wales) Regulations 2018.
22. The RIASS will be underpinned by a legally binding Partnership Agreement in accordance with Section 101 / 102 of the Local Government Act 1972.

Crime and Disorder Implications

23. Pursuing initiatives to prevent, detect and deter crime is encompassed within the terms of reference under which the audit function operates.

Equal Opportunities Implications (to include Welsh Language issues)

24. The initial RIASS structure will be ring-fenced to existing internal audit staff and the process of matching and competition for posts will be part of the consultation process with staff and Trades Unions.

Corporate/Service Objectives

25. The work of internal audit is intended to assist in the achievement of all corporate and service objectives.

Policy Framework and Budget

26. The proposals in this report are in accordance with the policy framework and budget and a matter for executive decision by Cabinet.

Consultation (including Ward Member Consultation)

27. The consultation requirements for staff are outlined earlier in this report

Relevant Scrutiny Committee

28. Corporate Performance and Resources and Audit Committee

Background Papers

None

Contact Officer

Helen Smith - Principal Auditor

Officers Consulted

Head of Human Resources
Head of Legal Services

Responsible Officer:

Carys Lord, Head of Finance and Section 151 Officer