

REPORT TO	DATE OF MEETING
Governance Committee	01/12/10

Report template revised June 2008



SUBJECT	PORTFOLIO	AUTHOR	ITEM
Shared Assurance Service Planning Proposals 2011/12	N/A	G Barclay	

SUMMARY AND LINK TO CORPORATE PRIORITIES

When the Shared Financial & Assurance Partnership was established members were advised that the structures and budgets would be stabilised during the formative stage to enable the combined ways of working to become embedded.

2011/12 signals the third full financial year that the Partnership has been in operation and therefore one of the key tasks set for this year was to undertake a review to ascertain whether there are now any opportunities for process efficiencies and therefore budgetary savings which could be introduced from next year.

Subsequent to this has been the recent Comprehensive Spending Review under which local authorities are being asked to identify cost savings of 28% over the next 4 years, including 14% in 2011/12.

A detailed report for Shared Financial Services incorporating a full restructure has been approved by the Shared Services Joint Committee and the two host authorities which will generate recurring savings of around £150K per annum from 2011/12 (£75k per authority).

With regard to the Shared Assurance Service, changes in the external audit and inspection regime nationally plus several other developments are actually providing us with opportunities to reduce Internal Audit and Risk Management inputs next year in any event.

We reported our outline proposals to the Shared Services Joint Committee in October and given their potential impact on corporate governance it was agreed that we would consult with the members of the Governance Committee at South Ribble and the Audit Committee at Chorley on the underlying principles behind those proposals prior to submitting a detailed implementation plan to the Joint Committee at the end of January 2011.

This report contains those proposals for members' consideration. Following the Joint Committee meeting in January the detailed implementation plan will be included in the final budget submissions for approval by the Cabinets of both councils in February 2011.

The Shared Services Partnership is seen as a key project by both Chorley and South Ribble Councils and makes a direct and extensive contribution to the following strategic objectives:

“Ensuring that **Chorley** Council is a consistently top performing organisation”.

“**South Ribble** is an efficient, effective and exceptional council”

RECOMMENDATIONS

- 1 The Committee considers the corporate governance implications of the enclosed outline proposals to reduce the Shared Assurance Services budget in 2011/12;
- 2 The Committee recommends that the outline proposals form the basis of a more detailed implementation plan for consideration by the Shared Services Joint Committee on 24th January 2011 and subsequent approval by the Cabinet in February 2011.

DETAILS AND REASONING

Internal Audit

Internal Audit is a statutory service under Section 151 of the Local Government Act 1972. Its scope and terms of reference are also set out in the CIPFA Code of Practice for Internal Audit in Local Government. Internal Audit's compliance with the Code of Practice is subjected to a triennial review by External Audit.

Notwithstanding the statutory basis of Internal Audit and its need to comply with the CIPFA Code of Practice some opportunities now exist to reduce the overall amount of Internal Audit coverage next year. The attached **Appendix** contains proposed changes to planned audit time allocations in 2011/12. The table shows that whilst there are some proposed increases to the time allocations in some areas, for example to accommodate the transfer of the separate Revenues and Benefits functions into Shared Financial Services, we anticipate there will be a net reduction of 210 auditor days across all the Audit Plans. The rationale for the main changes is as follows:

National Policy Changes

There has been considerable Internal Audit input to Comprehensive Area Assessment and Use of Resources in recent years both in terms of supporting the inspection process and in conducting audits in areas covered by the regime. Their recent abolition by the new coalition government means that this will no longer be required.

The reduction in the number of National Performance Indicators has also led to a corresponding reduction in the requirement for auditing the corresponding data collection and data checking processes. It is still very important that the quality of the data being used for management decisions is reliable and we will continue to undertake risk-based checks on the respective systems and data.

Audit Inputs Not Required in 2011/12

Internal Audit was a member of the project team overseeing the establishment of a common financial system for Chorley and South Ribble in 2010/11. Given that this will go live on 1st April 2011 our input to this will no longer be required

Similarly the 2010/11 Audit Plans contained some one-off items which will not be required next year, for example our input to the efficiencies programme at Chorley.

Control & Risk Self Assessment

One of the main ways in which we will achieve lower audit inputs next year will be to assist managers to undertake risk and internal control self-assessments in their service areas. This is entirely consistent with CIPFA standards and is arguably a more efficient method of evaluating risks in individual services than adopting the traditional audit approach. Moreover the recent Customer Survey highlighted this as something that our customers wish to see in place.

One of the key risks faced by individual services will be to ensure that adequate internal controls are retained in systems and processes affected by budget cuts. Control & risk self-assessment will be a valuable tool to apply in these circumstances. We understand that the Audit Commission have also identified the budget cuts as a potential risk to both councils' internal control environments and they will be carrying out some work in this area themselves next year.

Other Planning Considerations

The proposed Audit Plans possess both resilience and flexibility in that we will retain the ability to respond to unforeseen circumstances such as a large irregularity or to undertake an important unplanned review at short notice.

Going forward we anticipate that the establishment of the common financial system and Shared Revenues & Benefits service may lead to reduced audit requirements in those areas in future years. However this will be a key focus for Internal Audit in 2011/12 as the newly merged systems and arrangements will need to be process mapped and the key controls evaluated.

Audit Resource Implications

One option for achieving the proposed reduction in internal audit days next year could be to delete the vacant posts which currently exist in the Internal Audit structure and remove the budget. A number of full-time posts in the structure are currently occupied by part-time staff and the temporary savings arising from those vacancies have been recycled to support the audit plans by purchasing audit resources from an external service provider.

The vacancies which currently exist in the structure amount to £80k per annum. It is proposed that £10k of this be retained to purchase specialist computer audit resources from an external provider but the remaining £70k is offered as savings in 2011/12 (£35k per authority). This would equate to the 210 days reduction in audit days proposed.

It is acknowledged that reductions in Internal Audit resources could potentially lead to service viability issues which were amongst the key drivers for establishing the shared services partnership originally. This could be addressed by operating the Internal Audit Service across a wider footprint and a feasibility study is currently in progress involving other Councils in Lancashire to provide a solution to this.

This development may also provide an alternative option for delivering efficiencies and budget savings beyond next year and for this reason it is proposed not to undertake a formal revision to the Internal Audit structure at this stage.

Prior to producing this report we obtained feedback from the Audit Commission on our outline proposals. The Audit Commission acknowledged that other Councils are also looking to review Internal Audit inputs but we were reminded to ensure that our activity remains linked to an assessment of risk at each Council and that it can still provide sufficient assurance and meet CIPFA standards in the context of that risk assessment.

Further work on the attached Audit Plans, including a detailed risk assessment, is required before they can be finalised and they will be re-presented to the Governance and Audit Committees for approval. However we are satisfied that the proposed changes to time allocations will enable Internal Audit to continue to provide each Council with the necessary assurance in respect of their respective control environments and in doing so continue to meet CIPFA standards.

The outline proposals have also been discussed by the Senior Management Team and they will also be involved in constructing the detailed Audit Plans.

Members should also note that the Statutory Finance Officers of both Councils have been consulted on these proposals and the level of Internal Audit resources will be kept under continuous review to ensure that they remain adequate.

Risk Management

The Risk Management function currently contains the following elements:

- Strategic Risk Management
- Emergency Planning Administration
- Business Continuity Planning
- Insurance Administration

With regard to Strategic Risk Management, over the last year or so the Risk Manager has been working closely with the Policy Units at both Chorley and South Ribble Borough Councils in order to align and streamline the strategic risk and performance management processes which were hitherto separate. This has culminated in a more efficient data collection and reporting process and therefore a consequential reduction in the staff time required in the Risk Management Team to maintain the process.

Emergency and Business Continuity Planning are statutory services under the Civil Contingencies Act 2004. However since the formation of the shared services partnership we have identified areas of duplication and overlap between the previously separate services thereby creating efficiency savings in those areas also.

For these reasons we believe there is the opportunity to reduce the resources in the Risk Management Team to deliver additional savings next year but this requires further appraisal before being included in the detailed implementation plan to Joint Committee in January.

In terms of insurance, at the moment of writing we are currently preparing for a major exercise to tender and renew the insurance policies for both councils. Additionally there are developments nationally to establish alternative insurance options for local authorities including collaborative procurement arrangements, which could potentially deliver savings in insurance premiums. We will be actively exploring all the options with our brokers but any savings will only be realised from 2012 onwards.

Concluding Comments

Members will be aware that both South Ribble and Chorley are high performing councils which have stable and effective governance frameworks including risk management and internal control arrangements. This was recently acknowledged by the Audit Commission in their final Annual Audit Letters to both authorities. In spite of the financial pressures now felt by both Councils, these proposals will ensure that the key organisational risks will continue to be evaluated and managed effectively.

WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of the following:

FINANCIAL	The above proposals are aimed at delivering the necessary savings from 2011/12 and beyond whilst maintaining service levels and quality required by the host authorities.
------------------	---

LEGAL	The above proposals recognise the ongoing need to comply with the Local Government Act 1972, Civil Contingencies Act 2004 and the CIPFA Code of Practice for Internal Audit in Local Government
--------------	---

RISK	Although there is the potential for a reduced Assurance Service to impact on governance we have sought to mitigate this through efficiency savings and by directing resources away from lower priority areas
-------------	--

OTHER (see below)	
--------------------------	--

<i>Asset Management</i>	<i>Corporate Plans and Policies</i>	<i>Crime and Disorder</i>	<i>Efficiency Savings/Value for Money</i>
<i>Equality, Diversity and Community Cohesion</i>	<i>Freedom of Information/ Data Protection</i>	<i>Health and Safety</i>	<i>Health Inequalities</i>
<i>Human Rights Act 1998</i>	<i>Implementing Electronic Government</i>	<i>Staffing, Training and Development</i>	<i>Sustainability</i>

APPENDIX - PROPOSED AUDIT PLAN TIME ALLOCATIONS 2011/12

Audit Areas	10/11 Days	11/12 Days	+ (-) Days	Rationale for Changes
SOUTH RIBBLE				
CORPORATE GOVERNANCE				
External Inspection (CAA, UofR)	15	0	(15)	Abolition of CAA & UofR
Service Assurance Statements	15	15	0	
Data Quality / National Indicator Set	25	0	(25)	NIS Abolished. DQ checks in service audits
ANTI-FRAUD & CORRUPTION				
National Fraud Initiative (NFI)	30	30	0	
Systems Interrogation	10	10	0	
Anti Fraud Policies / Awareness	15	15	0	
KEY CORPORATE SYSTEMS				
Selected Areas via Risk Assessment	35	30	(5)	Align with CBC
COMPUTER AUDIT				
Selected Areas via Risk Assessment	35	30	(5)	Align with CBC
FINANCIAL SYSTEMS				
Key Local Financial Systems	60	20	(40)	Revs & Benefits, BEU & Debtors to Shared Services
KEY SERVICE LEVEL SYSTEMS				
Selected Areas via Risk Assessment	120	60	(60)	Support managers with risk self-assessments
GENERAL AREAS				
Irregularities	20	20	0	
Post Audit Reviews	25	25	0	
Residual Work from Previous Year	25	25	0	
Unplanned Reviews (Contingency)	20	20	0	
Project Support	15	15	0	
Governance Committee Reporting	20	20	0	
South Ribble Sub Total	485	335	(150)	
CHORLEY				
CORPORATE GOVERNANCE				
External Inspection (CAA, UofR)	20	0	(20)	Abolition of CAA & UofR
Service Assurance Statements	15	15	0	
Data Quality / National Indicator Set	10	0	(10)	NIS abolished. DQ checks in service audits
Efficiencies	20	0	(20)	Not Required 2011/12
Contract Standing Orders	15	0	(15)	Not Required 2011/12
ANTI-FRAUD & CORRUPTION				
National Fraud Initiative (NFI)	30	30	0	
System Interrogations	10	10	0	
Anti Fraud Policies / Awareness	5	15	10	Align with SRBC
KEY CORPORATE SYSTEMS				
Selected Areas via Risk Assessment	30	30	0	
COMPUTER AUDIT				
Selected Areas via Risk Assessment	30	30	0	
FINANCIAL SYSTEMS				
Key Local Financial Systems	75	20	(55)	Revenues & Benefits & BEU to Shared Services
KEY SERVICE LEVEL SYSTEMS				
Selected Areas via Risk Assessment	90	60	(30)	Support managers with risk self-assessments
GENERAL AREAS				
Irregularities	20	20	0	
Post Audit Reviews	30	25	(5)	Align with SRBC
Residual Work from Previous Year	30	25	(5)	Align with SRBC
Unplanned Reviews (Contingency)	15	20	5	Align with SRBC
Project Support	15	15	0	
Audit Committee Reporting	25	20	(5)	Align with SRBC
Chorley Sub Total	485	335	(150)	

APPENDIX - PROPOSED AUDIT PLAN TIME ALLOCATIONS 2011/12 (CONT'D)

Audit Areas	10/11 Days	11/12 Days	+ (-) Days	Rationale for Changes
SHARED SERVICES				
Key Shared Financial Systems	135	245	110	Inclusion of Revenues & Benefits, BEU & SRBC Debtors from 2011/12
FIMS Project Support / Controls Advice	20	0	(20)	FIMS implemented 2010/11
Shared Services Sub Total	155	245	90	
GRAND TOTALS	1125	915	(210)	