

## APPENDIX A

### THREE RIVERS & WATFORD SHARED SERVICES JOINT COMMITTEE

7 MARCH 2011

#### ADDENDUM TO ITEM 5

#### INTERNAL AUDIT

##### Background

The Shared Services Internal Audit Manager retires on 31 March 2011.

The recent cost reduction / service prioritisation exercise identified that we need to achieve a saving of £25,000 in 2011/12 rising to £50,000 per annum thereafter. £30,000 has been taken out of the budget for consultants in 2011/12 to achieve this, leaving a further £20,000 to be found in 2012/13.

##### Options

The following option has been considered and rejected:

###### *Option 1*

The County Council and five of the Hertfordshire districts are planning to share internal audit arrangements with effect from 1 July 2011.

We have approached the partnership to see if it would be possible for it to provide a management resource in the short term.

The partnership has responded that it would be difficult as it is really trying to focus all its effort on going live with the shared service on 1 July, and it would therefore be concerned that it simply couldn't deliver at present. Also, and probably more problematically, the partnership feels that a management arrangement doesn't really fit in with the way in which it is planning to operate the partnership, i.e. by 'TUPEing' district staff to the County Council.

The following options are still open in the medium-term:

###### *Option 2*

Join the Hertfordshire internal audit partnership. This is not an option in the short-term whilst the partnership finds its feet. The new partnership has indicated, however, that it wants to be open to other Herts authorities that are interested in joining and that there may be a second 'window' later in the year or in 2012.

###### *Option 3*

Outsource the service. There are concerns, though, over potential pension transfer costs.

#### **Option 4**

The councils have been talking with Wycombe District Council and Aylesbury Vale District Council who have come up with a draft proposal for a shared service hosted by Aylesbury Vale to whom staff would be transferred and who would also provide the manager.

There are a number of issues that need further clarification, namely:-

- that such an arrangement complies with procurement law
- how T.U.P.E. arrangements would apply
- whether there would be a prohibitive pension transfer charge
- the indicative audit programmes required by the councils

If members are content that further work be carried out on this option, then a detailed business case will be drawn up for consideration.

In addition to the number of audit days required, a detailed business case will consider productivity – the number of available staff days and the time taken to do an audit – and the skills mix required (private sector firms tend to use more junior staff). Another Hertfordshire district has also expressed an interest in joining.

In the short-term the following action, which in the longer-term does not preclude any of the options 2 to 4 above, is recommended:

#### **Option 5**

Ask the two councils' audit committees to agree their requirement for audit days and appoint one of our existing staff to act up as manager in the short-term.

#### **Comparative Costs**

The County Council partnership is thought to be charging £254 per audit day, although it is unclear what client side costs, if any, need to be added to this. This is comparable with the private sector. Based on a tender exercise for 2010/11, their basic daily charge would be £265 per day, but IT audit could cost as much as £329 per day. There would again be 'client-side' costs if the service was outsourced.

The councils' current audit plan is attached at Appendix 1. It is supplied by the Audit Manager, three senior auditors and contractors charging £40,000 per annum. This costs £260,730 or £411 per audit day (635 audit days). There are no additional costs.

The Audit Manager's proposed plan for 2011/12 is attached at Appendix 2. It allows for 475 audit days on a needs basis. 35 of these days are to be provided by contractors (Note:  $35 \times £329 = £11,515$  against a budget of £10,000) leaving 440 days to be provided by our remaining three auditors who have 535 productive days available. If this level of programme is agreed by our audit committees, then there are 95 days available for management, which seems excessive, or additional audits, which implies over-capacity. Members may not see this, therefore, as a longer term solution. It is thought that the management of a programme of this size should take about 60 days. The total costs, when adjusted for the Audit Manager, are £187,480 or £395 per audit day (475 days) or £368 per day (510 days). There are no additional costs.

For option 4, comparable costs will be determined within the business case.

**Recommendation**

1. that the two councils' audit committees be asked to agree their requirement for audit days based on need.
2. that one of our existing staff be appointed to act up as manager in the short-term.
3. that talks continue with Wycombe District Council and Aylesbury Vale District Council with a view to producing a detailed business case for the four councils with flexibility to include further authorities if the case warrants it.
4. that options 2 and 3 be kept 'open' at this stage.

## APPENDIX 1

## AUDIT PLAN 2010/2011

AUDIT	DAYS SHARED SYSTEMS	DAYS WATFORD BC	DAYS THREE RIVERS DC
Creditors	20		
Sundry Debtors	20		
Payroll (administration)	20		
Benefits Administration	25		
Council Tax	20		
NNDR	20		
Financial Management System	25		
VAT	10		
Procurement	15		
Parking Control	20		
Post handling (incoming and outgoing)	10		
Cash and Banking (inc. bank reconciliations and receipting systems).		18	17
Budgetary Control		10	10
Treasury Management		10	10
Asset Management		12	13
Risk Management		10	10
Performance Management		15	15
Data Quality (inc. security)		10	10
Project management		10	10
Trade waste		10	10
Ben Subsidy claim		15	15
Homelessness and Housing Needs		5	5
Authorised signatories		3	3
Watersmeet – follow up			8
Fraud – best practice review			10
Commercial Rents			10
Suspense Account			5
Leisure Management			5
Community Centres transfer		8	
H&S follow up		10	
Leisure management Contract monitoring		5	
Grants to voluntary sector		10	
IT - BACS payments	10		
IT - Back up – new solution	10		
IT - Touchpaper	10		
IT – to be decided	30		
Fraud Investigations	15		
Contingency	28		
<b>Totals</b>	<b>635</b>	<b>161</b>	<b>166</b>

APPENDIX 2

INTERIM  
ANNUAL PLAN 2011/2012

AUDIT	DAYS SHARED SYSTEMS	DAYS WATFORD BC	DAYS THREE RIVERS DC
Payroll	15		
Recruitment	8		
NNDR	15		
Council Tax	15		
Benefits	25		
Creditors	15		
Debtors	15		
FMS Reconciliations	25		
Insurance	10		
IT - Network Controls – follow up	5		
IT - Disaster Recovery and Back-up	10		
IT - Strategy	5		
IT – Project Management	10		
IT - Asset Management	5		
IT - Virus Protection	5		
COA – Post Implementation Review	20		
Income Collection		15	15
Benefits Subsidy Claim		8	8
Benefits Overpayments		8	8
Treasury Management		6	6
Budget Monitoring		8	8
CIS		5	5
S. 106		8	8
Financial Procedure Rules		4	4
Hospitality		3	3
Money laundering		5	5
Current Contracts		10	10
Home Improvement Grants		10	10
Museum		10	
CSC		5	
External Audit Recommendations – follow up		8	
Land and Property Service			8
Development Control			8
Cemeteries			5
Licensing Income			8
Special Investigations	20		
Contingency	25		
<b>Totals</b>	<b>475</b>	<b>113</b>	<b>119</b>