

Report of	Meeting	Date
Head of Shared Assurance Services	Audit Committee	20/01/11

SHARED ASSURANCE SERVICE PLANNING PROPOSALS 2011/12

PURPOSE OF REPORT

- 1 The aim of this report is to inform members of the Audit Committee of outline proposals to reduce the inputs to Internal Audit and Risk Management from next year.
- 2 We originally reported our 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.
- 3 The next step will be to submit a revised budget for the Shared Assurance Service to the Joint Committee on 24th January prior to it being included in the final budget submissions for approval by the Cabinets of both councils in February.

RECOMMENDATIONS

- 4 The Committee considers the corporate governance implications of the enclosed outline proposals to reduce the Shared Assurance Services budget in 2011/12;
- 5 The Committee recommends that the outline proposals should form the basis of the revised budget for Shared Assurance Services to be considered by the Shared Services Joint Committee and subsequently approved by the Executive Cabinet.

CORPORATE PRIORITIES

- 6 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 objective:

Strengthen Chorley's economic position in the central Lancashire sub region		Develop local solutions to climate change	
Improving equality of opportunity and life chance		Develop the character and feel of Chorley as a great place to live	
Involving people in their Communities		Ensure Chorley is a consistently top performing organisation	✓

BACKGROUND

- 7 This report sets out proposals to reduce Internal Audit and Risk Management inputs next year for both Chorley and South Ribble Councils.
- 8 During discussions with the Audit Commission and Heads of Internal Audit in Lancashire we have established that most authorities are planning to do this next year in response to the Comprehensive Spending Review.
- 9 However in our case this was already being planned and is based on sound business principles rather than it being a knee jerk reaction to the new financial situation.
- 10 Although there will be some impact in Risk Management the reductions will largely be met by not filling vacancies in Internal Audit which are due to a number of part-timers in the structure which have existed since the formation of the Shared Services Partnership.
- 11 A conscious decision was made to not fill these vacancies and recycle the savings to buy in resources from an external provider in anticipation that we could achieve some efficiency savings around now. It was seen as a temporary measure until we knew what our long-term staffing requirements would be once the shared service was fully embedded.
- 12 There are several reasons why we are now able to reduce inputs to Internal Audit and Risk Management next year without it impacting on service quality or on overall good governance and these are noted below.

Process Efficiencies

- 13 As combined ways of working have become established there are a number of areas where we are now able to streamline our processes and remove duplication of effort. Examples of these include:
- use of the performance management system for risk reporting purposes rather than operating a separate information system for risk;
 - Introducing joint approaches for emergency planning and business continuity;
 - Undertaking repeat audits within fewer days.

National Policy Changes

- 14 There has been considerable 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.
- 15 The reduction in the number of National Performance Indicators has also led to a 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

- 16 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 next year
- 17 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

- 18 A further way 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. During our recent Customer Survey this was highlighted as something that our customers wish to see in place. This approach is an efficient way of evaluating controls within services and is a valuable tool to apply in circumstances where there is significant organisational change, such as that brought about by the current financial climate.

OUTLINE AUDIT PLANS 2011/12

- 19 The Appendix to this report therefore contains outline Audit Plans for Chorley, South Ribble and Shared Services which encompass the above new developments. The total proposed reduction in inputs across all 3 Plans is 210 audit days or 18.7%.
- 20 Members should note that the 150 days reduction in Chorley's Audit Plan (485 to 345) is partly due to the revised ways of working but is also due to the transfer of Revenues and Benefits functions and aspects of the Finance function to Shared Services which sees a corresponding increase of 90 days (155 to 245).
- 21 This increase in the Shared Services Audit Plan also reflects the fact that all the key financial systems will remain a priority risk area, particularly during 2011/12 as the new combined financial system comes into operation.
- 22 Further work, including a detailed risk assessment is required before the Outline Audit Plans for Chorley and South Ribble can be finalised. The Final Audit Plans will later be presented to the Audit / Governance Committees for approval.

RESOURCE IMPLICATIONS

- 23 The proposed efficiency improvements will have some impact on the Risk Management structure and these will be contained in the detailed budget reports to the Shared Services Joint Committee and Executive Cabinet in January and February respectively.
- 24 However the vast majority of the efficiencies will be achieved by not filling the vacant posts in Internal Audit and removing the budget. The vacancies which currently exist amount to £80k per annum and 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 overall reduction in audit days proposed.
- 25 It is important to point out that whilst £70k amounts to a significant reduction in cost terms, the 210 or 18.7% reduction in audit days is comparatively modest given that externally sourced services are more expensive than in-house provision. £70k equates to 2 full time Auditor appointments or 340 auditor days and so had the vacancies already been filled this would have amounted to a 30% reduction in days.**
- 26 Members should also be aware that a feasibility study is currently in progress involving other councils in Lancashire to develop a larger shared services footprint for Internal Audit and this may provide an option for delivering efficiencies and budget savings beyond next year. For this reason it is proposed not to undertake a formal revision to the Internal Audit structure at this stage.

WIDER CONSULTATION

- 27 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.
- 28 Prior to producing this report we obtained feedback from External Audit on our outline proposals. Whilst acknowledging the pressures imposed by the new financial climate and accepting that most authorities were reviewing their Internal Audit inputs next year we were reminded by the Audit Commission of the need 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 Internal Audit standards in the context of that risk assessment.
- 29 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.
- 30 Members should also note that the Statutory Finance Officers of both Councils have been consulted on these proposals and have given an undertaking that the level of Internal Audit resources will be kept under continuous review to ensure that they remain adequate.

IMPLICATIONS OF THE REPORT

- 31 The proposals contained in the report are cross cutting and impact upon the authority as a whole, rather than specific directorates.

GARRY BARCLAY
HEAD OF SHARED ASSURANCE SERVICES

Background Papers			
Document	Date	File	Place of Inspection
Local Government Act	1972	Shared Assurance Services	Civic Centre - Leyland

Report Author	Ext	Date	Doc ID
Garry Barclay	01772 625272	3 December 2010	SAS Planning Proposals 2011-12

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)	