

# **Audit Risk Assurance (ARA) Shared Service Evaluation of Effectiveness**

**October 2017**

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## Background

Discussions had taken place over many years between the various Councils within Gloucestershire regarding the benefits of joint working between the authorities' respective internal audit teams. Following the successful partnering agreement between Gloucester City Council (GCiC) and Stroud District Council (SDC) for the management of the internal audit team in SDC, in December 2010 GCiC and SDC entered into a formal shared internal audit service, known as G A A P for the provision of an internal audit service to both Councils. Due to the success of this internal audit shared service arrangement between GCiC and SDC, the S151 Officers of GCC, SDC and Gloucestershire County Council (GCC) agreed to consider extending the shared service arrangement to include GCC and review the opportunities available to:

- Formally share internal audit and risk management services between the three Councils; and
- Bring the management of an extended shared service under one manager.

In February and March 2015, the three Councils recommended the introduction of a new shared service, with GCC becoming the host authority under a section 101 collaboration agreement, and agreed to GCiC staff, including those based at SDC, being transferred to GCC under TUPE arrangements. Whilst all staff were TUPE transferred to GCC on 1st June 2015, the new shared service, re-branded Audit Risk Assurance (ARA) did not become fully operational under the new Head of Service until 1st May 2016.

The development and implementation of ARA has been designed to re-profile the service to address changing demands to meet customer and business requirements. However the environment demands that the service stays ahead of the game and, together with all parts of our shared service partner organisations and external clients achieve more with fewer resources. To do this, we needed not only a different structure, but also a new way of working, which were built around the following principles:

- Being open and honest with ourselves and with our customers;
- Strong relationships with everyone that we do business with;
- Working as a team, because we are stronger collectively than as individuals;
- A positive, can-do and problem-solving approach;
- Clear leadership and direction at all management levels; and
- Openness to new ways of working.

## What were the Shared Service Business Case Objectives?

The business case objectives represented a real opportunity to provide:

- Economies of scale from the employment of a single Head of Service (Chief Internal Auditor), across the three authorities;
- Pool expertise to strengthen business delivery to the benefit of the clients;
- Provide critical mass and improved business resilience e.g. enabling the risk of sickness and vacancies to be better managed;
- Enhanced ability to undertake thematic reviews across the three authorities to share best practice across the shared service;
- Present succession planning, career opportunities and development for staff;
- Optimal use of resources through a modern collaborative approach;
- Economies of scale through shared training and procurement;
- Increased capacity, flexibility and specialist knowledge from pooling staff resources; and
- Benefits of adopting common day to day audit reporting and procedural approaches driven by a single Audit Management System for the shared service, along with common audit committee reporting protocols/methodologies/formats.

Opportunities for financial savings during the first year of the shared service i.e. 2015/2016, were limited given the transition phase required. During the second year of operation, i.e. 2016/17, it was agreed that the restructure and rationalisation of processes and procedures would target a minimum 3% saving across the shared service. This is within the context of continuing to deliver a quality, professional service. There is however, an expectation that the shared service will continue to focus on opportunities for further efficiencies.

The duration of the agreement is initially to be for a three year period (from commencement date 1<sup>st</sup> June 2015) and shall continue in force thereafter, unless and until one year's notice in writing is given by any of the Councils to withdraw from the agreement.

This report provides the outcomes of reviewing the effectiveness of the shared service against its original business case objectives.

## **Have the Business Case Objectives been met?**

### **Restructure and rationale**

The restructure of the shared service was effective from 1st April 2016 and can be found at Appendix 1 with the restructure being focused around three primary themes:-

1. review of the management arrangements for the shared service (SS);
2. delivery of the most efficient and effective service for each partner authority and external clients; and
3. delivery of a minimum 3% savings target from 2016/17 across the shared service.

#### **1. Review of Management Arrangements**

The approved Business Case included the proposal for the employment of a single Chief Internal Auditor. The new post of Head of the Shared Service is the nominated Chief Internal Auditor for all shared service partner organisations and external clients and the Head of the County Council's Insurance Services function.

The remit of the SS is to provide an internal audit and risk management service to the three partner organisations and external clients (currently Gloucestershire Police). The employment of a single Chief Internal Auditor provided the opportunity to review the level of management capacity within the structure. In order to maintain an appropriate level of management capacity, the post of Audit, Risk Management and Value for Money Officer was deleted and a new post of a Group Manager was created.

This new post acts as the deputy to the Head of the Shared Service. The creation of a deputy post is also in accordance with the External Quality Assessment of Gloucestershire County Council's internal audit function which was undertaken by the Chartered Institute of Internal Auditors during May 2015. They advised that the creation of a deputy role was required to enable the ongoing effective delivery of the shared service.

#### **2. Delivery of the most efficient and effective service for each partner organisation and external client.**

In order to ensure compatibility of roles, retain and improve on the current level of service delivery to the appropriate standards, improve business resilience, present succession planning and staff development opportunities, the following changes have been implemented:-

- One of the Senior Auditor's posts which was held vacant was deleted and a new post of Principal Auditor created. This enabled the portfolio area of the two district councils to be effectively managed. There is now a Principal Auditor based at each of our partner sites, who acts as the client lead, in order to gain a thorough understanding of the Council's culture, services provided and risk profile to help inform our service provision, provide on site presence and visibility, enable early response to questions / queries and build key stakeholder relationships to help us meet client expectations;
- The Audit and Assurance Officer posts were deleted and replaced by a Senior Auditor post and a Trainee Internal Auditor post. All of these posts are career graded posts, to facilitate the recruitment and retention of staff and support the SS's workforce succession plan;
- The vacant part time Audit and Assurance Officer post was deleted and replaced by a full time Senior Auditor post, to increase the number of audit/risk productivity days provided;
- Whilst the vast majority of staff within ARA have professional qualifications in relation to internal auditing, accountancy, risk management, counter fraud, banking, business administration etc., professional qualifications are currently being undertaken in relation to internal auditing and data analytics, to ensure that the service continues to develop and maintains the relevant skills and competencies to provide a high quality, credible, added value service;
- Continuing Professional Development (CPD) is also a key priority to ensure that all staff are kept 'up to date' with any new ways of working, changes in legislation etc. which ensures the activity is correctly focused. As part of staff performance development reviews, relevant training is identified and provided accordingly;
- ICT and Counter Fraud contracts have been developed and implemented with third party providers to provide and/or supplement the relevant technical skills required;
- The shared service uses IDEA, a powerful and user-friendly data analysis tool designed to help auditors perform data analysis quickly to help improve audits and identify control breakdowns;

- Significant participation in national and regional internal auditing, fraud, risk management networks / groups, such as the Counties Chief Internal Auditors Network (CCAN), Midland Counties Heads of Internal Audit Group (MCHIAG), District Council's Chief Internal Auditing Group, Fraud and ICT networks and ALARM (The Public Risk Management Association) and participate in focused task groups in order to share good practice, and participate in benchmarking exercises;
- Member of the National Anti Fraud Network (NAFN) Data and Intelligence Service. As a member of NAFN we are part of the largest shared service in the country. NAFN provides data, intelligence and best practice services for all teams within member organisations. NAFN is recognised by key government departments and agencies as the preferred single point of contact for specialist data enquiries. This enables us to establish secure, central links to information providers and deliver a faster service;
- The Audit and Risk Support Officer and Audit and Risk Technical Officer posts were both renamed Audit and Risk Technical Officers, to reflect their more technical support role and consistency, also enabling more productivity from the auditors; and
- The requirement within all job profiles is that all internal audit and risk management staff will be rotated / located based on service need and demand, to enhance business and personal resilience.

### **3. Delivery of a minimum 3% savings target from 2016/17 across the shared service.**

The target of a minimum 3% savings target was best secured through the restructure and rationalisation of processes and procedures. This was within the context of continuing to deliver a quality, professional service and ensuring that an investment in training essential to the recruitment and retention of staff. Whilst the savings target of £4k were met, the restructure created additional productivity which provided an extra four audit activities within the original number of 515 audit days purchased.

In addition, the partnership continues to focus on opportunities for further efficiencies.

## How is the Shared Service Governed?

A Shared Services Board (SSB) has been created comprising of the s151 Officers (or duly authorised senior financial representative) in each Council, to initially oversee the implementation of the s101 collaboration agreement, charging/funding arrangements and functional reporting requirements, quality, performance, risks and consider major strategic changes to the service. The Board meet on a quarterly basis. The Head of ARA reports operationally to the SSB and functionally to the relevant Audit Committees. No performance, concerns or service delivery issues have been raised by the SSB.

## Review of Internal Audit's Effectiveness 2016/2017

### (1) External Assessment of the effectiveness of Internal Audit (Covers all Shared Service Partners and Police)

The External Quality Assessment (an independent assessment of the effectiveness of an internal audit function which should take place at least every five years) was completed within 2015/16 of the Gloucestershire County Council internal audit service.

The review was undertaken during May 2015 by the Chartered Institute of Internal Auditors and included a review of the team's conformance to the International Professional Practice Framework (IPPF) as reflected in the Public Sector Internal Audit Standards (PSIAS) 2017, benchmarking the function's activities against best practice and assessing the impact of internal audit on the organisation. There are 56 fundamental principles to achieve with more than 150 points of recommended practice in the IPPF.

The independent assessment identified 100% conformance.

The Chartered Institute of Internal Auditors assessors stated:

- *'It is our view that (the Council's) internal audit function conforms to all 56 principles. This is excellent performance given the breadth of the IPPF and the challenges facing the function'.*
- *"I have to say we struggled to find anything to comment on and, were it not for the one issue, this would be as near perfect a report as it's possible to produce - well done!!"*
- *"It was a very enjoyable and interesting EQA. You have established a very effective and highly regarded Internal Audit service, and I wish you well with the new challenges you will face with implementation of the shared service, which I am sure will be another success story".*

The internal audit shared service applies consistent systems and processes, which supports compliance across the Audit Risk Assurance Shared Service partners including Police.

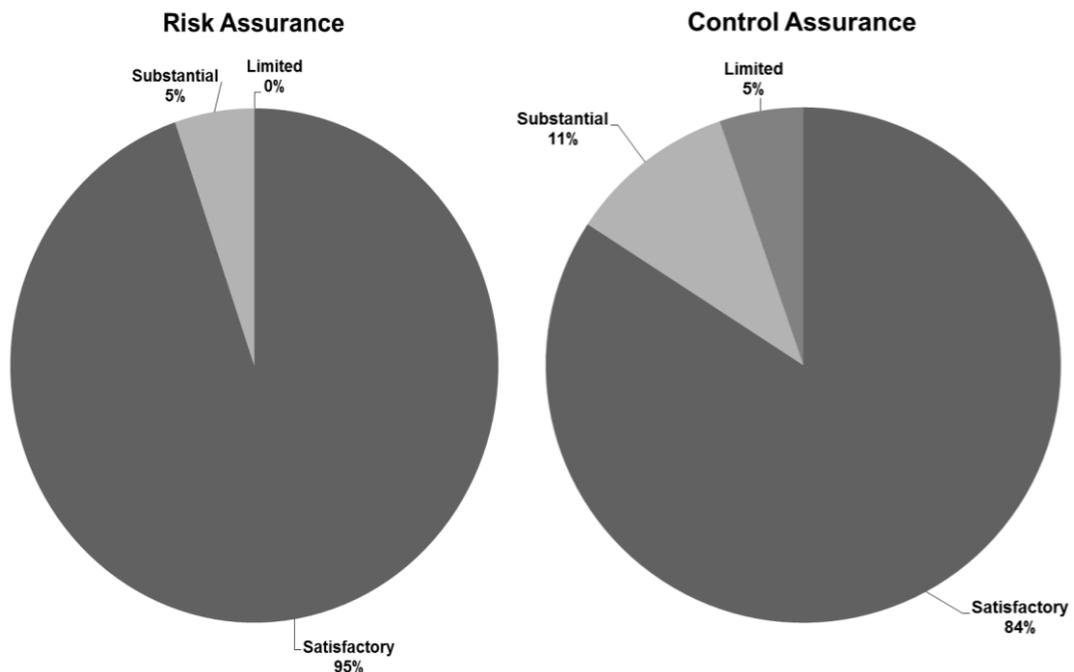
During 2016/17 the Chief Internal Auditor assessed Internal Audit's performance against the Internal Audit Quality Assurance and Improvement Programme (QAIP) as required by the PSIAS. The QAIP confirmed compliance against the PSIAS.

## (2) Internal Audit Activity undertaken compared to that planned

The net effect is that although the work undertaken was slightly different to that originally planned we are able to report that we achieved **93%** of the overall revised plan 2016/17, against a target of 85%.

## (3) Internal Audit Assurance Opinions on Risk and Control

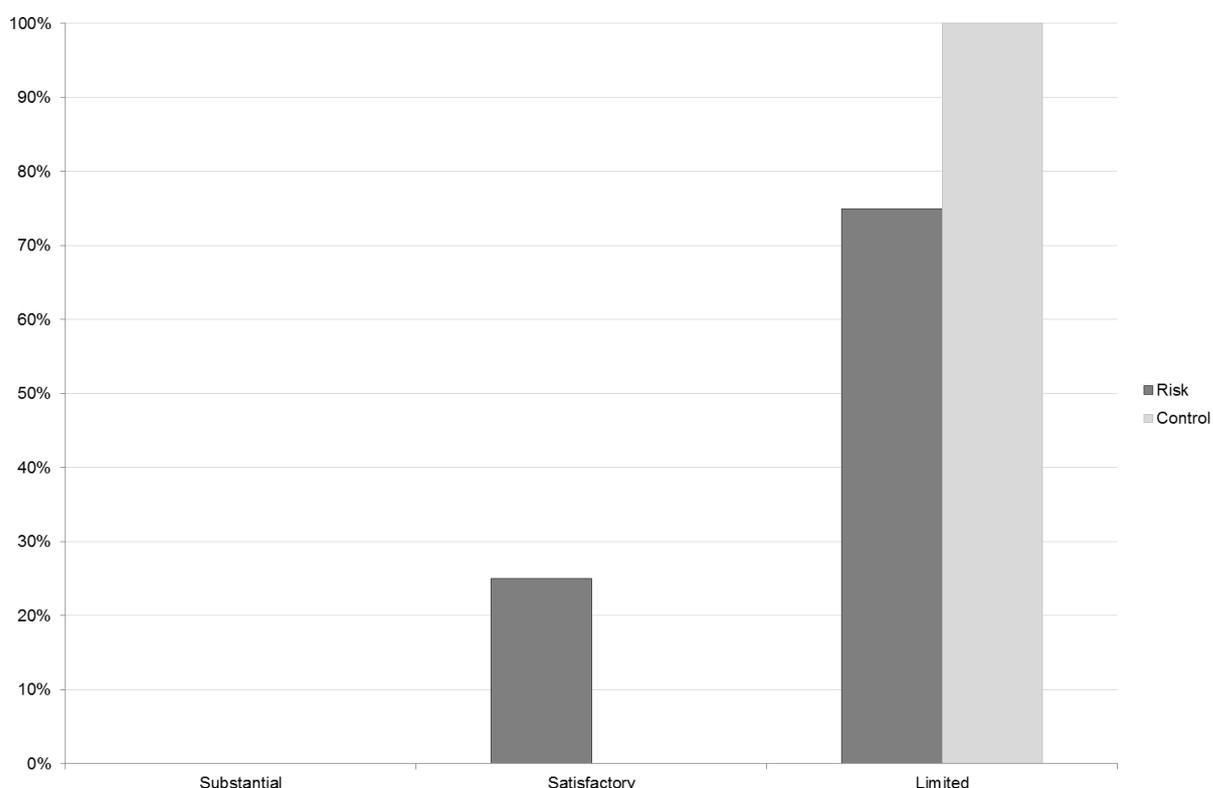
The pie charts below show the summary of the risk and control assurance opinions provided within each category of opinion.



#### (4) Consultancy Activity (where no opinions were provided)

The reduction in limited assurance opinions during 2016/2017 is due to audit activity more focused on 'adding value' and therefore providing consultancy activity to support business improvement e.g. HRA, BACS Direct Debit, ICT Disaster Recovery and Business Continuity and the Multi Services Contract.

**However please note that if these activities had been undertaken as audit assurance work, limited opinions would have been provided on these reviews.**

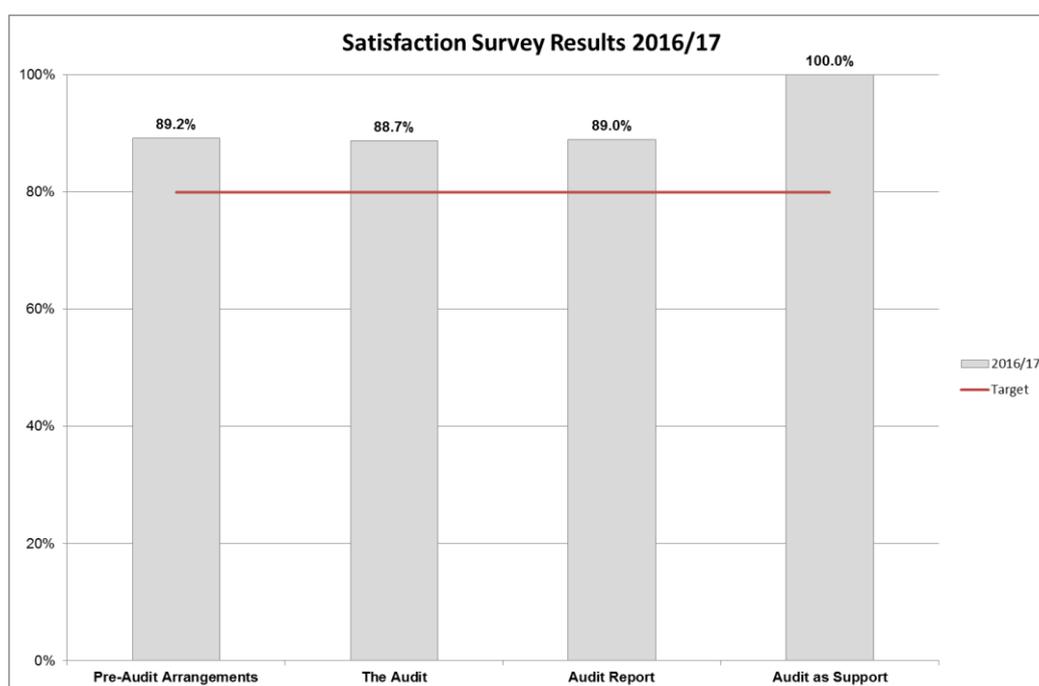


#### (5) Internal Audit recommendations made to enhance the control environment

Year	Total No. of high priority recs.	% of high priority recs. accepted by management	Total No. of medium priority recs.	% of medium priority recs. accepted by management	Total No. of recs. made
2016/17	24	100%	67	100%	91

## (6) Internal Assessment - Customer Satisfaction Survey results 2016/17

A target of 80% was set where overall, audit was assessed as good or better. The latest results as summarised below, shows that the target has been exceeded, with the score of **100%** reflecting Internal Audit as being a positive support to their service.



In addition, the following positive comments have been received from our customers:

- *'We were able to discuss and agree a way forward which was beneficial for the service. Whilst we took a slight detour from the original scope the recommendations are appropriate and will help minimise risk during our annual billing exercise'.*
- *'The appreciation of the time pressures my team and I were under was of the highest level, the auditor was very mindful of deadlines and worked round us while still ensuring we were all able to complete our tasks. Also the friendly nature with which the auditor conducted herself was really appreciated by us and I cannot speak highly enough about her'.*
- *'The open and honest interaction between the auditor and the officers involved'.*
- *'Regular communication and constructive approach'.*

- *'Feedback on Radon was particularly helpful as we weren't aware of all the issues raised'.*
- *'The ability to discuss the issues of concern and provide further background information to support the audit'.*
- *'The auditor was very approachable and was keen to get a balanced view of the service in light of where we are and what we are doing moving forward'.*
- *'I have been given great support throughout the process and have appreciated all the feedback on where we can improve'.*
- *'Fully engaged and supportive approach'.*
- *"The auditor was very accommodating bearing in mind the difficult situation the service was in at the time and the understanding and the patience shown by the auditor'.*

### **Lessons Learned from customer feedback and actions taken by Internal Audit**

The following specific feedback for improvement of audit approach has been received within 2016/17:

- *We have discussed looking at specific risk areas rather than the audit concentrating on something that would have been audited last year and every year before that.*
- *More recognition of history and more focus on improvements moving forward than righting things retrospectively.*

The development comments have been noted and will be actioned within the Internal Audit Plan 2017/18.

## **(7) Additional Audit Risk Assurance work undertaken within Budget / Days**

The following is a list of activities undertaken in addition to that covered above all within budget and procured days:

- Developed the Annual Governance Statement and Local Code of Corporate Governance based on revised principles;
- Reviewed, developed and implemented a revised Governance Assurance Framework;
- Responded to client requests on 'lessons learnt' i.e. BACS and additional assurance activity i.e. HRA.
- Developed an Anti-Fraud and Corruption Policy/Strategy, Anti-Money Laundering Policy and Anti-Bribery Policy and communicated via Proud of Stroud sessions and via the website;
- Self assessment against the Chartered Institute of Public Finance and Accountancy (CIPFA's) role of the Chief Financial Officer (CFO);
- Self assessment against the Risk Management ISO 31000 principles;
- Supported the development of the Corporate Risk Management Policy Statement, Strategy and toolkit and supporting SDC Officers to implement, as required;
- Developed the Chair of the Audit and Standards Committee's Annual Report to Council;
- Counter Fraud Activity including participation in the Cabinet Office's National Fraud Initiative, and working closely with Tenant services on tenancy fraud; and
- Developing and implementing contracts with Gloucestershire Fraud Hub to enable support with counter fraud activity across all partner sites.

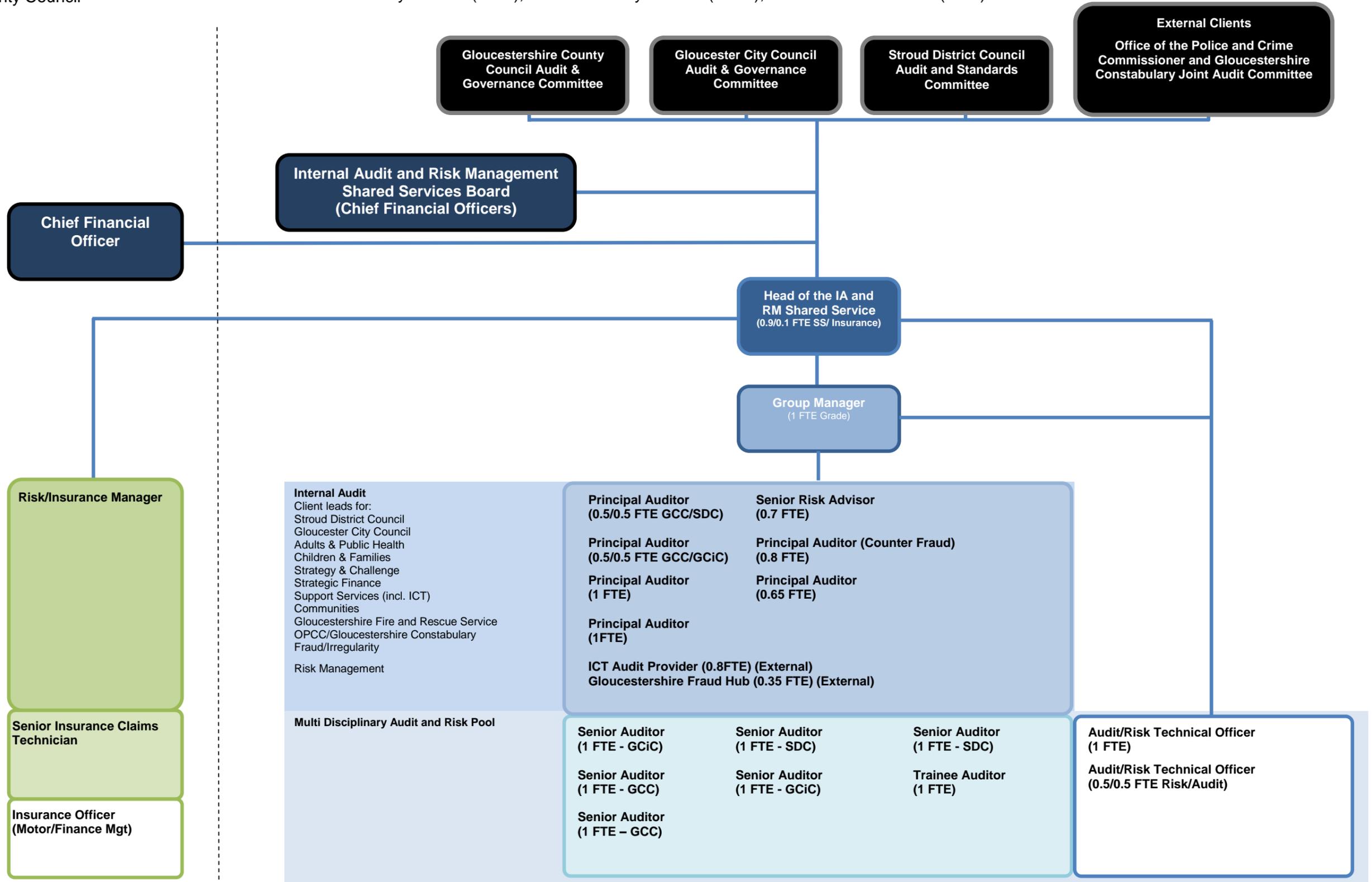
## Conclusion

Effective corporate governance is a fundamental feature of any successful public sector organisation. The trend for strengthening governance arrangements has resulted in the joint CIPFA / Society of Local Authorities Chief Executives (SOLACE) good practice publication / guidance *'Delivering Good Governance in Local Government – 2016 Edition'*.

Being well managed and well governed are important attributes in helping the Council to improve performance and to reduce the risk of failing to achieve our objectives and providing good services to our community.

Internal Audit is widely recognised as a core component of effective governance, their key role is to independently oversee and assess the internal control environment, comprising governance, risk management and control and advise the Council on the adequacy and effectiveness of these arrangements.

In conclusion, based on the evaluation against the original shared service business case and the annual review of the effectiveness of internal audit, it is recommended that the Audit and Standards Committee consider whether the shared service has made a positive contribution to the Council's overall governance and control arrangements.



Staff will be rotated / located based on service need and demand

- All posts are on Gloucestershire County Council terms and conditions

<b>Insurance</b> 2.6 FTE	<b>Audit</b> 17 FTE	<b>Risk</b> 1.2 FTE
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Business Case Objectives	Evaluation Outcome
➤ Economies of scale from the employment of a single Chief Internal Auditor, across the three authorities;	Achieved
➤ Pool expertise to strengthen business delivery to the benefit of the clients;	Achieved
➤ Provide critical mass and improved business resilience e.g. enabling the risk of sickness and vacancies to be better managed;	Achieved
➤ Enhanced ability to undertake thematic reviews across the three authorities to share best practice across the shared service;	Achieved
➤ Present succession planning, career opportunities and development for staff;	Achieved
➤ Optimal use of resources through a modern collaborative approach;	Achieved
➤ Economies of scale through shared training and procurement;	Achieved
➤ Increased capacity, flexibility and specialist knowledge from pooling staff resources; and	Achieved
➤ Benefits of adopting common day to day audit reporting and procedural approaches driven by a single Audit Management System for the shared service, along with common audit committee reporting protocols/methodologies/formats.	Achieved