

<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>12 NOVEMBER 2010</b>
<b>TITLE OF REPORT:</b>	<b>RE-PROVISION OF INTERNAL AUDIT SERVICES</b>
<b>PORTFOLIO AREA:</b>	<b>RESOURCES</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

To seek the Committee's view on the re-provision of internal audit services.

### **Key Decision**

This is not a Key Decision.

### **Recommendation(s)**

**THAT the proposed approach for future internal audit services be noted.**

### **Key Points Summary**

- The Council, NHS Herefordshire and Hereford Hospital Trust have agreed an approach to Shared Services.
- The internal audit function will form part of Shared Services.
- It is appropriate that the number of audit days provided is reduced in line with the comments made in the recent review of internal audit.
- A market testing of internal audit services is to be carried out; this is with the view that a new provider will be in place from April 2011.

### **Alternative Options**

- 1 There are none given the reason for pursuing market testing of services.

### **Reasons for Recommendations**

- 2 To ensure the Audit and Governance Committee comment on the proposed approach.

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Further information on the subject of this report is available from  
David Powell, Director of Resources on (01432) 393518)

## **Introduction and Background**

- 3 Cabinet received a report on 21 October 2010 on Shared Services. In this report it was agreed that the Council enters into formal Shared Services arrangements with its partners, NHS Herefordshire (NHSH) and Hereford Hospitals Trust (HHT), adopting a “multi-source” approach that enables different “fit for purpose” models to be used to deliver shared services for each service or group of services.
- 4 The report confirmed that the Shared Services programme is now moving from a planning phase to the implementation phase.
- 5 A number of key influences on public services underpin the Shared Services work and these include the need to secure greater efficiencies and provide value for money particularly at a time when the Comprehensive Spending review (CSR10), announced on 20 October, has reduced the level of funding available to the public sector.

## **Key Considerations**

6. The changing environment affecting the provision of services is reflected by the implementation of Shared Services. The Council, NHSH and HHT have agreed to share services to deliver better outcomes for Herefordshire through the delivery of efficiencies.
7. The process agreed by the three partners acknowledges that services such as audit may be best suited to a Lead Commissioner/Provider model as one partner could provide and commission services on behalf of all partners.
8. The report of the Review of Internal Audit to Audit and Governance Committee on 17 September informed committee that the Council’s audit function was mostly compliant and that a mixed economy approach to the provision of future joint audit appeared to be the best option.
9. It also challenged the Council to consider altering the balance of audit coverage. The shift would enable more time for “adding value”. This conclusion was supported by the use of benchmarking information that suggested that the number of days for fundamental systems review work was above the unitary average for such work. In addition the level of audit provided to schools was three times the unitary average.
10. A combination of, the agreement to pursue Shared Services, and elements of the review of internal audit, mean that it is appropriate that internal audit services across the Herefordshire Public Services is a joint provision. For the Council this also enables a reassessment of the role that internal audit should play in the future at a time when reduced public sector funding means the current number of audit days needs to reduce.
11. As a result it is appropriate that the provision of internal audit services is market tested. This approach will see a tendering exercise commence with a view to an external supplier providing internal audit services from 1 April 2011.
12. The change means that staff affected will be covered by relevant Transfer of Undertakings (Protection of Employment) regulations (TUPE). Staff will also be covered by the relevant change management policies of the Council.
13. The status of staff affected by TUPE regulations will be communicated to any potential supplier.

## **Community Impact**

14. None.

## **Financial Implications**

15. None.

## **Legal Implications**

16. The requirement for an internal audit function is either explicit or implied in the relevant local government legislation which requires that authorities “make arrangements for the proper administration of their financial affairs”. More specific requirements are detailed in the Accounts and Audit Regulations 2003, in that authorities must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices”.

## **Risk Management**

17. Any change to the provision of internal audit will need to be managed in such a way that the level of risk is minimized.

18. The selection process covering any potential supplier will need to be robust to ensure the appropriate skills are available.

## **Consultees**

19. Staff, Trade Unions and schools

## **Appendices**

None.

## **Background Papers**

None identified.