

## **APPENDIX C**

# **Worcestershire Enhanced Two Tier Working**

# **Internal Audit**



**Detailed Business Case**  
**Executive Summary**  
**Version 2**  
**November 2009**

# **Worcestershire Two Tier Internal Audit**

## **Detailed Business Case**

### **Executive Summary**

**This document proposes the development of an integrated Internal Audit function in Worcestershire with participating District Council Partners operating within a unified operation.**

#### **The vision:**

***A District Council shared service, with co-location of staff operating within a single management structure and hosted by Worcester City Council.***

The original Detailed Business Case was developed on the basis that all six District Councils would participate in the shared service. However, at the Chief Executives and Leaders meeting on 3 November 2009, Wyre Forest District Council indicated that it did not wish to join the service at this time. However, the revised Detailed Business Case assumes that Wyre Forest will continue to purchase 100 audit days per year from Worcester City Council which will be provided by the shared service.

#### **Business case Headlines:**

- **Resilience** – combining the Internal Audit teams will provide the participating authorities with a larger pool of Internal Auditors with a greater breadth of expertise.
- **Savings** – the financial business case delivers ongoing revenue savings of £126,400 per annum by Year 3 (2012/13).
- **Staff development** – an improved career structure for staff, with increased variety of work and professional development opportunities.
- **Improved support to other Shared Services** – streamlined and uniform assurances will be provided to existing and future Shared Services.

#### **Outline of the proposal.**

This business case supports the development of an integrated Internal Audit function with participating District Council Partners (scalable for other councils to join at a later date eg Wyre Forest District Council) operating within a single management structure. This will allow a central team to be created which has the resilience, shared expertise and economies of scale to provide a broad and effective service base for the District Councils.

The model proposed focuses on service excellence and service resilience through building on existing good practice. Delivery of Internal Audit functions through a centralised hosted service provision is considered by the project team members to be well placed to provide a much improved service to each participating partner.

The model also provides opportunities for consistency of standards, quality and audit approach which will feed into Use of Resources Assessments, External Audit opinions and CIPFA Code of Practice compliance.

The Project Team established that Worcester City Council has a substantial Internal Audit team in comparison to the other Districts and is already carrying out work on behalf of Partners e.g. Malvern Hills District Council. The City Council generates 50% of its Internal Audit costs from completing work for other Authorities and this is built into the agreed budget for the Council. It is an organisation which is looking to expand its Internal Audit work or at least maintain its current volume to protect budget commitments.

The other Districts identified an opportunity for the City Council to become a host for a District shared Internal Audit service. This would operate under a single management structure however resource would not necessarily be restricted to operating out of a single location.

By merging the individual teams together a more resilient and flexible service can be developed, with shared expertise across a broader team. The City Council would deliver services to agreed requirements and costs for the Partnering District Councils subject to review at key stages.

The Project Team believe that there is potential for savings to be achieved as a result of this shared service relationship. The City Council highlighted the fact that existing savings / income created from current Partnership working would have to be maintained by the City Council as part of agreed Council budget commitments. All additional savings could be shared with Partners as part of the new shared service model, subject to confirmation.

The combined District team would be of similar size to that of the County Council Internal Audit team. There is a possibility of reduced overhead costs if the City staff relocates to County and then work on a cohabitation basis but retain their separate identity. This can be reviewed as part of the later stages of implementing the District Shared service. Once the District Partnership has been implemented there will be scope for the County Council and the Districts to review the potential for increased Partnership working.

### **The key Drivers & Benefits**

*Ref: 'Section 6' (Drivers for Change) of the WETT Internal Audit Detailed Business Case V10*

From the outset the Worcestershire Chief Executives & Council Leaders have made it clear that any shared service must consider three key principles i.e.;

1. Service Improvement & Increased Efficiency
2. Cost Savings & Return on Investment
3. Centralised Service Delivery

Examples from the business case include:

**Resilience:**

Availability of staff and skills, developing expertise & Developing new areas of auditing.

**Increased Quality:**

Sharing organisational best practice, Increased influence in negotiation – 3<sup>rd</sup> parties & External Audit, Opportunities for growth (%age of audit plan), Researching best practices, Uniformity of product delivery with robust methodology, Single point of contact for External Audit.

**Staff retention and development:**

Achieve consistent high standards and increased morale and motivation.

**Economies of Scale & Transformational Changes:**

Overall cost saving.

**Consistency of standards and quality:**

Standardise services and quality, consistency of audit approach to ensure best practice is applied at all sites: Eliminate duplication and overlap in processes & working practices, best practice audit methodologies, elimination of barriers when working with other 'shared services'.

**Scope**

*Ref: 'Section 5' (Scope) of the WETT Internal Audit Detailed Business Case V10*

The project team have agreed that the Internal Audit (IA) Shared Service would deliver the core IA service including IT Audit. However Value for Money review, Non Housing Benefit Fraud, Risk Management and Corporate Governance could be bought from the Shared Service if required.

The intention in the first year of operation is to include the 'optional' areas where the relevant Internal Audit section is currently carrying out the function and includes days in its existing audit plan. Any areas which are not included in existing audit plans will need to be the subject of discussions with WIASS about available resources.

Additional areas of audit work which are emerging e.g. Environmental Auditing, could also be highlighted and factored in to future proof the service from an early stage.

**Finances & Cost Savings**

*Ref: 'Section 8' (Financial Analysis) of the WETT Internal Audit Detailed Business Case V10*

**Assumptions:**

**Wyre Forest**

- 100 audit days currently provided under SLA by Worcester City are assumed to continue for the purpose of this Business Case

- Potential redundancy costs have not been apportioned to Wyre Forest. This would need to be revisited if they became part of the 'shared service' or if they withdraw from the current contract

### **Inflation/Pensions**

- Pay award set at 1% for 2009/10, no increases reflected thereafter
- No inflation has been included for non-pay items
- Pensions rate reduced to common rate of 11.2% (i.e. no back-funding) as per other business cases.

### **Audit Days/Activity**

- Audit Plans based on schedules provided including latest version from Bromsgrove
- For the model purposes, Districts buying audit days from Worcester City also receive a pro-rata share of absence and support days as appropriate
- Audit days are modelled on 68:32 split from year 1 (2010/11) and then 70:30 split from thereafter
- Chargeable days are reduced by 5% in 2011/12 and 6% in 2012/13, to reflect transformation improvements.
- It is assumed that the same level of audit assurance is provided despite the reduced number of days.

### **Other External Activity/Income**

- It is assumed that no other external activity takes place in 2010/11.
- There is currently a net profit of £26k p.a. generated from contracted activity in Worcester City. This is protected for Worcester City each year through the model.
- It is assumed that the same level of external activity as now is restored by 2012/13 with a net contribution/profit of £26k (as now) shared between the Districts.
- It is assumed that 50% of current external activity as now is restored by 2011/12 with a net contribution/profit of £13k shared between the Districts.
- No additional staff/non-pay costs have been included for this external activity, apart from the contribution/profit element, this is assumed to be revenue neutral with additional income

### **Staff Transfers/TUPE**

- It is assumed that the WIASS Manager is appointed/assimilated w/e from 1st June 2010 and any protection is in place for a period of 12 months thereafter.
- It is assumed that the two other managers are appointed/assimilated on the 1st June 2010 and any protection is in place for a period of 12 months thereafter.
- It is assumed that the remaining staff TUPE to WCC with effect from 01/06/10 on existing T&Cs.
- It is assumed that the new structure is implemented from 01/12/10 and any protection is in place for 12 months from this date

### **Redundancies**

- It is assumed that there will be no redundancies from the appointment/assimilation of the three managers
- It is assumed that there could be two redundancies from the remaining staff at an average estimated cost of £25k each

- It is assumed that the redundancy costs will be shared equally amongst the participating Districts (excluding Wyre Forest, see 2 above)

### Staff Costs/Non-Pay Costs

- It is assumed that a new structure will be implemented from 1/12/10, and a further reduction of 2.00 fte will take place thereafter to reflect the reduced number of audit days.
- It is assumed that non-pay costs will reduce in proportion to FTE except for Travel which will increase
- It is assumed that a new IT Audit system will be implemented with a new recurring annual maintenance cost of £5k p.a. from 2010/11

### Hosting Costs

- It is assumed that there will be a small increase of £6K pa of support costs for the host – Worcester City

### Support Costs/ICT Support Costs

- It is assumed that no savings will arise from the existing level of support costs across the districts
- It is assumed that each district will provide accommodation, desktop PCs and ICT infrastructure as per existing levels
- Although the level of corporate support (HR/Finance etc) provided by the other Districts will reduce, this has not been quantified and no savings have been reflected

### Implementation Costs

- It is assumed that the implementation is undertaken by the WIASS Manager and no additional costs arise.  
It is assumed that IT implementation costs for the new system of £49k are met fully from RIEP funds

**Table 1: Current Costs of Service**

	Current Budget 2009/10	Current Support Costs 2009/10	<b>Base Budget 2009/10</b>	Chargeable Audit Days 2009/10	Cost per Chargeable Audit Day 2009/10	Direct Cost per Chargeable Audit Day 2009/10
Bromsgrove DC	£92,510	£68,648	<b>£161,158</b>	428	£377	£216
Malvern Hills DC	£92,950	£0	<b>£92,950</b>	310	£300	£300
Redditch BC	£160,854	£26,530	<b>£187,384</b>	673	£279	£239
Worcester City	£88,047	£46,990	<b>£135,037</b>	602	£224	£146
Wychavon DC	£127,549	£24,515	<b>£152,064</b>	552	£276	£231
Wyre Forest DC	£29,800	£0	<b>£29,800</b>	100	£298	£298
<b>Total</b>	<b>£591,710</b>	<b>£166,683</b>	<b>£758,393</b>	<b>2,665</b>	<b>£285</b>	<b>£222</b>

**Table 2: Proposed Costs of Service**

	Current Budget 2009/10	Cost 2010/11	Cost 2011/12	Cost 2012/13
Service Costs	£591,710	£592,670	£527,540	£465,299
Support Costs	£166,683	£166,683	£166,683	£166,683
Total Costs	£758,393	£759,353	£694,223	£631,982
<b>Cost / (Saving)</b>		<b>£960</b>	<b>(£64,170)</b>	<b>(£126,411)</b>
Chargeable Audit Days	2,665	2,665	2,532	2,380
Cost per chargeable Audit Day	£285	£285	£274	£266
Add provision for redundancies		£50,000		

**Table 3: Proposed Costs of Service by District (excluding Support Costs)**

	Cost 2009/10	Cost 2010/11	Cost 2011/12	Cost 2012/13
Bromsgrove DC	£92,510	£102,312	£92,125	£81,488
Malvern Hills DC	£92,950	£76,553	£66,450	£58,884
Redditch BC	£160,854	£164,004	£146,421	£128,410
Worcester City	£88,047	£89,956	£77,735	£66,668
Wychavon DC	£127,549	£131,472	£118,051	£104,694
Wyre Forest DC	£29,800	£28,372	£26,758	£25,156
<b>Subtotal</b>	<b>£591,710</b>	<b>£592,670</b>	<b>£527,540</b>	<b>£465,299</b>
<b>Saving p.a.</b>		<b>£960</b>	<b>(£65,130)</b>	<b>(£62,242)</b>
<b>Saving recurring p.a.</b>		<b>£960</b>	<b>(£64,170)</b>	<b>(£126,411)</b>

## Governance

Ref: 'Section 8' (Governance Arrangements) of the WETT Regulatory Services Detailed Business Case V10

The Internal Audit Project Team discussed two clear governance options that could be in place for an Internal Audit Shared Service:

**Option 1:** Direct management by Worcester City Council on behalf of all. Thereby each authority delegates their Internal Audit functions to the host under an SLA arrangement; however there is a performance board in place to manage performance on quarterly basis.

**Option 2:** Appointing a joint committee of elected members to oversee all activity with the participating authorities delegating relevant decision making to the committee and officers of the joint service.

The Internal Audit Project Team originally recommended Option 2 for the shared Internal Audit Service. Following the Chief Executives and Leaders meeting on 3 November 2009, it is now recommended to proceed with Option 1.

### Service Managed by SLA vs. Joint Committee

The table below outlines the positive and negative aspects of options 1 & 2 for the management/ oversight of the proposed shared service.

SLA Managed Service vs. Joint Committee			
SLA Approach (Option 1)		Joint Committee (Option 2)	
Advantage	Disadvantage	Advantage	Disadvantage
Robust and Flexible SLA	Members may perceive lack of political influence	Ensures political link back to constituent authorities. No democratic deficit	Bureaucracy around organising committees & associated costs
Able to agree clear output levels for some aspects of work.	Members may feel that they do not have enough influence on the host authority	Decision making based in one area	Less responsive to commercial timescales and pressures for external contracts
Can agree some specifics of local provisions through SLA		Takes advantage of existing joint committee infrastructure	
		May assist standardisation of service provision.	
		Districts are "equal partners"	
		Stronger links with Audit Committees or equivalent	



## **Agreed Service Delivery Model**

*Ref: 'Section 7' (Agreed Service Delivery Model) of the WETT Internal Audit Detailed Business Case V10*

### **General Principles**

- Local knowledge base retention i.e. 'lead' auditors would be relied on for local knowledge for each site but not necessarily based permanently at those sites.
- Staff would be based/tasked depending on the work and skill requirements i.e. no guarantee that they would be based at their current offices - ongoing allowance implications.
- Work life balance would be a consideration in all assignments
- Clear agreement required in respect of current terms and conditions re. Leave, mileage, overtime, etc.
- Other joint working / shared services are being introduced across the Districts and these will have an effect on audit plans which will need to be taken into account
- Best practice methodology to be introduced across the shared service will require time and resource and this will have implications e.g. the new working practices will need to be introduced and time taken for consultation with individual employees.
- Each authority's audit plan would be based on a standard risk assessment methodology and tailored to the needs of each authority with s151, Chief Executives, Heads of Service and External Audit inputs.
- IT Audit Management software requirement to modularise the LA's but link resource to manage the potential of 5 sites – see ICT section
- If all participating authorities become part of the shared service at 1 June 2010 then this will require existing audit plans to be 'adopted' for the nine months of the shared service
- There will be standard localised audit plan provision from a centralised function; a need to keep it real and personalised for each authority.
- Political requirements – the WIASS Manager will report to an Audit Committee or equivalent at each authority
- Clear communication channels will need to be set up so that audit advice is available at any time and at any site

### **Accommodation**

- The Internal Audit lead Manager will be located at the host authority
- The Audit Managers will have access to a desk and workstation at the sites they are managing.
- The Internal Auditors will be located at the authority at which they are auditing at any one time.

**Please note:** No extra accommodation will be needed. Accommodation needs could be matched to audit resource placement requirements.

**Timescale:** It is envisaged that the Internal Audit shared service will start from 1 June 2010; however there could be a phased approach but the following will need to apply:

- commitment needed from all LAs that are to become part of the shared service even if on a phased basis

- infrastructure and governance needs to be in place from the start
- the numbers and the costings are based on 5 authorities but if an authority drops out then the business case will be revisited
- The detailed costings are based on the WIASS Manager being in post by 1<sup>st</sup> June 2010, the Audit Managers being in post from 1<sup>st</sup> June 2010 and the Internal Auditors being in post in the new structure from 1<sup>st</sup> December 2010.

**Structure:** Please see attached Structure Chart at **Appendix 3** of the Internal Audit detailed business case

## Performance

*Ref: 'Section 13' (Performance & Workload), 'Appendix 2 (Resource Allocation Summary)' & 'Appendix 5 (Performance & Workload Data) of the WETT Regulatory Services Detailed Business Case V10*

**Workload:** It is important to note that each participating District has a different way of annual audit planning and uses different headings for the subjects that are audited. However it is planned that under the shared service audit plans will be standardised.

It is anticipated that benchmarking will be carried out using CIPFA benchmarks and subsequently each authority will decide the level of auditing that is required under the shared service. This will then define the number of Internal Auditors required under the new arrangement for subsequent years.

**Performance:** The Performance Indicators to be used to ensure the service can be monitored for comparison and continual improvement are:

- Cost per audit day based on the CIPFA benchmark
- % of audit plan delivered
- Audit time as a % of time available
- Annual Survey of the Audits delivered
- Feedback sheets after each audit
- % of CIPFA Internal Control self assessment
- Recommendation tracker – 3 month follow up with HOS prior to CMT and then potentially the Audit Committee (or equivalent) meeting

**Heads of Audit:** It is recognised that during the last few years a number of Local Authorities within Worcestershire have made reductions in staff within Internal Audit, roles which include the Chief Internal Auditor. The move to closer partnership working will improve the senior support which is available to participating Councils.

## Transformational Benefits

*Ref: 'Section 15' (Transformational Benefits) of the WETT Regulatory Services Detailed Business Case V10*

**Resilience:** Combining the Internal Audit teams will provide the participating authorities with a larger pool of Internal Auditors with a breadth of expertise that that does not currently exist in the constituent authorities.

**Savings:** It is anticipated that the shared service will generate savings by decreasing the total number of audit days required by each of the participating authorities. This will be achieved by increasing the chargeable audit days as a percentage of total days to 68% in 2010/2011 and 70% subsequently (from the existing 65% average across the districts) and then in the second and third years decreasing the number of chargeable days by 5% and then 6%. This will mean that audits are carried out in fewer days and in practice will be achieved by economies of scale, standardising and sharing working practices (using best practice) and the use of appropriate software to manage multi-site activity and the most appropriate deployment of resource. (The software will also provide a repository for all working papers to ensure consistency).

**Staff Development:** There will be an improved career structure for Internal Auditors plus the added benefits that will be gained by working at different authorities, with different systems, different environments and different working practices. In addition there will be the opportunity to obtain further professional qualifications and satisfy CPD requirements.

**Other shared services:** The benefit of an Internal Audit shared service will be that not only will the auditing of current shared services e.g. Revs & Bens, Building Control be more streamlined but also future shared services coming on-line (whether in the North or the South) will also benefit. It will eliminate the need to decide which LA is responsible for auditing the newly formed service and the assurances provided will be uniform and acceptable to all the local authorities and External Audit.

## ICT

*Ref: 'Section 12' (ICT) of the WETT Internal Audit Detailed Business Case V10*

There are two key areas of consideration with regard to the ICT issues around the proposed Shared Internal Audit Service:

- The need for an **Audit Management System** to help manage audit progress and performance effectively
- The issues regarding **flexible and remote working**.

**Audit Management System:** The Business Case assumes that Worcester City will host this service.

Currently, neither the City, nor any other participating district Audit team, uses an Audit Management System, as the size of the teams has not justified the investment.

During the course of this project, the WETT Audit Project Team has identified an Audit Management System as now not only justifiable, but essential, in order to make most effective use of resources.

From investigations carried out so far, the most suitable systems, including all hardware and maintenance costs are priced at approximately £50,000. They are well developed packages that would require minimal technical implementation beyond that provided by the supplier. This would allow for a flexible implementation timescale for the Shared Audit Service.

**Flexible and remote working:** The business model assumes that there will be "hot desk" facilities at a number of locations around the County. Staff at any one location will need access to systems located at other locations. This will put an additional strain on the capacity and resilience of the authorities' ICT networks, and the links between them.

Following discussions between the various ICT Managers, an approach has been agreed to fund the additional network capacity from existing budgets. County will meet the capital cost as part of its forthcoming infrastructure upgrade. Revenue costs will be shared amongst the

partners. It is anticipated that the additional revenue costs for districts will be offset by equivalent savings from existing network links.

In order to make best use of the additional network capacity, it will also be necessary to ensure that the various networks are fully compatible with each other. Experience in the South Worcestershire Revenues and Benefits Shared Service has shown how important it is to ensure that changes to user network access requirements can be made quickly, to avoid impacting on service quality. Incompatibilities between networks impact on the speed of such changes.

It is not anticipated that there will be any investment needed with regard to telephony requirements specifically for the Audit Service. However, it is worth noting that a significant increase in flexible working arrangements will at some stage put a strain on telephony facilities across the WETT partnership.

Depending on the nature and extent of flexible and remote working, there may be a requirement for additional IT equipment. A figure of £9,500 should cover most likely requirements.

## **Human Resources:**

*Ref: 'Section 10' (HR) of the WETT Internal Audit Detailed Business Case V10*

The current 2009/2010 staffing structure in summary shows 16.82 FTE at a cost of £604,660

Partners will treat this as a TUPE situation and the transfer of staff will be as it would be in a TUPE situation. This approach was pursued under the Worcestershire Hub and the Revenues & Benefits Shared Service arrangements, and therefore District Councils have experience and understanding of the process involved.

It has already been agreed that Worcester City Council will be the host employer under this proposed Internal Audit Shared Service. Staff will therefore transfer to the employment of Worcester City Council as detailed below:

The preferred option is to appoint the senior manager and Audit Managers (this was the model used by the Hub). Then transfer all other employees from the participating districts on existing Terms and Conditions on 1<sup>st</sup> June 2010. N.B. New posts would be on Worcester City Council Job Evaluation and Terms & Conditions.

The costings are based on two Audit Managers – one for the South Worcestershire authorities and one for the North Worcestershire authorities (including the Wyre Forest contract work).

Bromsgrove and Redditch have recently announced a single management structure to be in place from April 2010 onwards and many of their systems will therefore be merged. This does however pose a significantly enhanced risk environment during the first year of the merged Bromsgrove and Redditch operation because of new & merging working practices and disruption of employees.

In order that the shared service can be implemented from 1<sup>st</sup> June 2010 it is necessary for the senior Manager and the Audit Managers to be in place from 1<sup>st</sup> June 2010. However that means that existing Heads of Audit will have to put together IA plans, discuss with relevant stakeholders and present to Audit Committees before 1<sup>st</sup> April 2010.

Future costs will be agreed via legal agreement between the relevant parties to ensure costs are shared proportionately in relation to any redundancy liabilities and any subsequent claims associated with achieving the new structure and service integration.

## Implementation

To be completed by Worcester City as part of the final stage of detailed business case development.

## Risks

*Ref: 'Section 14' (Risks) of the WETT Internal Audit Detailed Business Case V10*

Effective risk management includes early and aggressive risk identification through the collaboration and involvement of relevant stakeholders. Strong leadership across all relevant stakeholders is needed to establish an environment for the free and open disclosure and discussion of risk.

Below are examples of some of the key risk areas identified by the project group. Further detail around these risks and the associated 'mitigation' plans are contained within Section 14 of the Internal Audit detailed business case V10

### **Risk 1 - Loss of local knowledge & expertise**

Reduction in performance

Mitigation: Make sure experience is utilised correctly and build a framework for each authority into the legal case

### **Risk 14 - LA pulls out of the shared service negotiations at the '11<sup>th</sup>' hour**

Potential for higher costs (e.g. start up) for remaining LAs and project failure.

Mitigation: Binding commitment from LAs from an early stage that they will join the shared service.

### **Risk 20 - Drop in productivity due to new working practices**

The annual audit plans may not be achieved

Mitigation: Manage the introduction of new working practices so that the impact is as little as possible

### **Risk 25 - The Internal Auditors operating at the different sites within the shared service will not be able to access and share electronic files as and when required**

The Internal Auditors will not be able to work as efficiently and effectively as is necessary to give the required savings.

Mitigation: Suitable network capacity and 'sharing' needs to be in place from the start of the shared service

## **Conclusion**

*Ref: 'Section 16' (Conclusion) of the WETT Internal Audit Detailed Business Case V10*

- The Internal Audit shared service will use best practice working methods adopted from current practices throughout the participating Districts in addition to Professional Organisations' advice.
- The main objectives of the Internal Audit shared service are transformation, resilience, increased quality, staff retention and development, economies of scale, consistency of standards and consistency of audit approach all of which will benefit the end client.
- This business case is supported by costings which show that savings will be made and when pay protection no longer applies and economies of scale and more efficient working practices start to kick in, the savings will increase.