

## **Meeting of the Executive Member for Corporate Services and Advisory Panel**

11 September 2007

Report of the Assistant Director (Audit and Risk Management)

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## **Shared Service Initiative for Audit and Fraud Services in the North Yorkshire Region**

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### **Summary**

- 1 The purpose of this report is to advise Members of discussions between York and North Yorkshire County Council (NYCC) regarding the business benefits of moving towards a shared service solution for internal audit and fraud services.

### **Background**

- 2 The recent government White Paper 'Strong and Prosperous Communities' encourages local authorities to challenge traditional methods of service delivery in order to reduce waste, identify efficiencies and improve outcomes for local people. The strong message in the White Paper is that the key means for local authorities to achieve such improvements will be through greater joint working to optimise economies of scale and maximise service efficiencies.
- 3 Preliminary discussions have been held between officers from City of York Council (CYC) and North Yorkshire County Council (NYCC) to explore the potential benefits of collaboration and, in particular, the possibility of sharing certain back office finance and governance functions. These discussions have shown that there is a mutual desire to identify suitable options for greater joint working and a clear commitment to deliver greater efficiencies across both authorities.
- 4 At this stage, officers have identified audit and fraud services as suitable areas for early consideration. The idea is to treat this as a pilot exercise so as to enable the benefits of such an approach to be properly assessed in a discrete, low risk service area for both authorities. The experience gained will then inform consideration of future collaboration in other service areas.
- 5 A three phase strategic approach is proposed;
  - a) Phase I – short term management arrangement and development of business options;

- b) Phase II – implementation of the agreed service vehicle and benefits realisation;
- c) Phase III – review, evaluation and appraisal of other shared service opportunities.

## **Drivers for Change**

6 There are a number of drivers for change;

- a) The transformational policy agenda. The Department for Communities and Local Government White Paper ‘Strong and Prosperous Communities’ is encouraging authorities to work collaboratively together, and with other public sector bodies to deliver efficiencies and value for money;
- b) Comprehensive Performance Assessment (CPA). Joint commissioning and shared services are key determinants in the Use of Resources – Key Lines of Enquiry assessment. The Audit Commission is currently consulting on the approach to be followed for the Comprehensive Area Assessment (CAA), but have already indicated that greater emphasis will be placed on organisational effectiveness, partnering, increased efficiency, and joint commissioning;
- c) Local Government Reorganisation. Whilst North Yorkshire County Council’s proposed bid for unitary status has not been successful there remains a strong expectation from government that authorities in and around North Yorkshire will in future work more collaboratively;
- d) The need to build service resilience and capacity across both authorities to maintain an effective and professional internal audit function in the face of problems in covering key staff vacancies and difficulties in being able to respond to changing priorities and increasing workload demands;
- e) The need to retain skilled and experienced staff by creating greater critical mass and providing more opportunities for career development and specialism;
- f) The need to make best use of scarce professional audit specialisms (for example contract and IT audit), particularly where both authorities have encountered difficulties in building sufficient capacity without recourse to expensive external providers.

## **Benefits of Collaboration**

7 The key benefits of possible collaboration are;

- a) Providing greater resilience and capacity. The combined team would be better placed to manage resource pressures, including staff vacancies and/or unexpected service demands;
- b) Providing greater flexibility to respond to changing priorities, initiatives and/or new working methods;
- c) Delivering efficiencies through sharing best practice, integrating processes and reducing duplication of effort;
- d) Demonstrating a positive response to the government's efficiency and service transformation agenda;
- e) Achieving economies of scale by sharing overheads and reducing unproductive time whilst maintaining or improving current levels of performance;
- f) Enhancing the focus on service delivery, professionalism and quality;
- g) Increasing the opportunities for staff to specialise and enhancing career opportunities, resulting in greater staff satisfaction and retention;
- h) Providing greater opportunity to develop audit specialisms and reduce the reliance on bought-in services;
- i) Providing a robust shared service model which offers greater opportunity for future collaboration with other Councils in the region, particularly the North Yorkshire districts, and which helps to develop the existing market place;
- j) Providing the opportunity for both authorities to evaluate the benefits of sharing back office functions before considering more high profile transactional and/or public facing services;

## **Current Arrangements**

- 8 The Internal Audit and Fraud teams within the Council are co-aligned within the Audit and Risk Management division. The teams are managed by the Audit and Fraud Manager. The principal functions of the audit and fraud services are set out in the Council's Financial Regulations, and include;
- a) Providing assurance to Members, Chief Officers and the general public on the effective operation of governance arrangements and the internal control environment operating at the Council;
  - b) Providing advice and making recommendations to improve controls and/or address the poor or inappropriate use of Council resources;
  - c) The examination and evaluation of the probity, legality and value for money of the Council's activities;
  - d) Providing a deterrent for all fraudulent activity, corruption and other wrong doing;

- e) Investigating any instances of suspected fraud or corruption, including alleged benefit fraud.

The scope of the services provided has been extended from 2007/08 onwards to include financial investigations and value for money studies.

- 9 The Internal Audit Service at NYCC forms part of the Central Finance Business Unit. The team is managed by the Chief Internal Auditor, although this post is currently vacant. The principal functions of the Internal Audit Service at North Yorkshire are broadly similar to those undertaken at York.
- 10 The Internal Audit and Fraud functions in both authorities deliver high quality, cost efficient services that are valued by management and other stakeholders. Both teams operate to the same professional standards and follow similar working practices and procedures. Both audit teams also use the same IT application and provide services to a number of external customers.
- 11 The provision of audit and fraud services at both authorities is limited. As a consequence, this places pressures on audit coverage, difficulties in responding to peaks in workload and problems with covering staff vacancies. Both authorities also experience difficulties with recruiting and retaining the necessary skilled and qualified staff. The view of officers is that these capacity and resilience issues could be better addressed by combining resources across a shared service arrangement which provides critical mass and service flexibility.

## **Proposal**

- 12 A number of models exist for shared service provision, ranging from an informal partnership agreement through to a fully outsourced service involving a private sector partner. At this stage further work is required to understand the legal, financial and staffing implications of each model before any decisions can be made on the most appropriate way forward.
- 13 Members at NYCC are being advised of these proposals on 25 September 2007. It is understood that lead Members and chief officers at NYCC are supportive of the proposals set out below.
- 14 A three stage process is proposed to allow sufficient flexibility and time to explore all the options, as follows;

### Phase I - Short Term Management Arrangement/Development of Business Options

- 15 It is proposed that Phase I will commence on 1 October 2007. The initial development period will last approximately 6 months, and result in the following deliverables;
  - a) A detailed options appraisal which will identify the most appropriate long term delivery vehicle(s) for a shared service;

- b) A business case for the preferred option(s);
  - c) A communications strategy;
  - d) A change management programme;
  - e) Proposals for future governance and reporting arrangements;
  - f) Baseline benchmarking data for future benefits realisation work.
- 16 Management arrangements will initially be shared across the two teams. This will involve the existing Audit and Fraud Manager at York assuming overall management responsibility for the combined team. This will provide management economies of scale whilst at the same time providing clear leadership and focus through the period of change. The two teams will continue to operate from their existing office locations and staff will retain their current terms and conditions. Staff may be deployed to work for either authority as appropriate, although any changes will be limited in the short term.
- 17 NYCC will provide approximately £32k funding to CYC (equivalent to 50% of the Audit and Fraud Manager's costs) which will provide backfill and management support. To support the Audit and Fraud Manager a local management role will be created at each site. For CYC, this role will be undertaken by one of the existing Principal Auditors who will receive additional responsibility pay. Additional backfill resources will also be created further down the audit structure at CYC to reflect the changes in management arrangements.
- 18 The Assistant Director Resources (Audit and Risk Management) will act as client for the shared service and remain the Chief Internal Auditor at CYC for constitutional purposes. Similarly, the Assistant Director (Central Finance) would fulfil the equivalent client role for North Yorkshire Council.
- 19 The development and implementation phases will be coordinated by a project board comprising the AD Resources (ARM) – CYC, the AD (Central Finance) – NYCC and the Audit and Fraud Manager. The board will be supported by a project team comprising representatives from the services involved. Finance, legal and HR will be represented on the board to provide advice as appropriate.
- 20 One-off costs of approximately £10k will be incurred during the development phase. The majority of these costs will result from the need to obtain legal and other specialist advice and to support staff communications and integration. These costs will be met from other budgets within Resources.
- 21 Details of the options appraisal together with the business case for the preferred option will be reported to Members by March 2008. A commitment to maintain the existing resources of the CYC audit and fraud team is necessary to provide certainty during this period.

- 22 Member approval will be sought before either authority commences phase II.

### Phase II - Implementation and Benefits Realisation

- 23 Subject to Member approval, a shared audit and fraud service would then be established to provide services to both authorities. Work on a detailed implementation plan and contract/partnership agreement would be completed by June 2008. Together these would cover;

- a) Governance arrangements;
- b) Client roles and reporting arrangements;
- c) Service delivery, performance monitoring and benchmarking;
- d) Funding and cost sharing arrangements;
- e) Staffing arrangements;
- f) Accommodation, IT and support arrangements.

- 24 Full implementation of the new arrangements would be expected by March 2009. The shared service would be treated as a pathfinder, giving both authorities the opportunity to formally evaluate the results of greater collaboration, before considering whether such an arrangement is suitable for other back office functions.

### Phase III – Review and Evaluation

- 25 Where considered appropriate, other back office finance and governance functions could be added to the shared service and/or brought together on a similar collaborative basis.

## **Consultation**

- 26 Staff from both authorities, together with local and regional representatives from Unison have been consulted on the proposals. CYC staff and Unison support the proposals.
- 27 In addition, senior management at both authorities have also been consulted and are supportive of the proposals. Discussions have also been held with HR, finance and legal.
- 28 Staff will be kept informed through the change process. To facilitate this a communications strategy will be developed. Formal consultation with staff and Unison will also be undertaken as part of the evaluation process to identify an appropriate long term service delivery vehicle.

## **Options**

- 29 Members have two options to consider. The first option is to confirm the agreement, in principal, to enter into a shared audit and fraud service with NYCC, together with the proposed interim shared management arrangements. The second option is seek alternative measures to address the existing constraints on service capacity and resilience. The

first option is recommended. A detailed options appraisal will be undertaken before moving to phase II of the process.

## Analysis

- 30 The benefits of entering into a shared service with NYCC for the delivery of audit and fraud services are detailed in the report. These benefits could not easily be achieved by any alternative service solution.

## Corporate Priorities

- 31 This report contributes to the Council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. It also contributes to all the improving organisation effectiveness priorities.

## Implications

- 32 The implications are;

- **Financial** – Finance have been consulted on these proposals. Whilst there will be a need for some cost sharing between the two authorities during the interim stage, it is anticipated that the overall costs to CYC of the shared management arrangement (stage 1) will be met by the funding contribution from NYCC. The estimated one-off development costs of approximately £10k will met from other budgets within Resources. The financial implications of the long-term shared service solution will be assessed and reported to Members before any decision is made to progress to phase II.
- **Human Resources (HR)** – HR have been consulted on the implications of the proposals set out in this report. For working across boundaries in the initial Phase 1 stage, employees will be paid in accordance with their respective Council contractual terms and processes. The proposed changes in management arrangements in phase 1 will necessitate a payment of some additional responsibility allowances. The implications for staff of any long term solution will be assessed and reported to Members.
- **Equalities** - there are no equalities implications to this report.
- **Legal** – Legal Services have been consulted on the proposals. There are no legal implications associated with phase 1 of the process. The legal implications of the long-term shared service solution will be assessed and reported to Members.
- **Crime and Disorder** – there are no crime and disorder implications to this report.
- **Information Technology (IT)** - there are no IT implications to this report.
- **Property** - there are no property implications to this report.

## Risk Management Assessment

33 The proposed collaboration offers an opportunity to deliver efficiencies and economies of scale. The financial, HR and legal risks of collaborating with NYCC to deliver audit and counter fraud services through a shared management arrangement (phase I) have been assessed and judged to be low. A full option appraisal including a detailed risk assessment will be undertaken as part of the process to identify the most suitable long term delivery vehicle.

## Recommendation

- 34 Members are requested to advise the Executive Member to;
- a) Note the officer discussions to date and the agreement, in principle, to develop a shared service solution with North Yorkshire County Council for the provision of audit and fraud services;
  - b) Approve the proposed shared management arrangements as set out in this report (phase I of the proposal) from 1 October 2007 until at least March 2008, but with the option to extend this period by up to 12 months;
  - c) Approve the commitment of resources to the arrangement on the basis of the existing audit and fraud service levels and costs.

### Reason

To enable Members to consider future collaboration with North Yorkshire County Council in the delivery of internal audit and fraud services.

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Report Approved

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### Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report



## **Background Papers**

- Department for Communities and Local Government White Paper 'Strong and Prosperous Communities'

## **Annexes**

There are no annexes to the report.