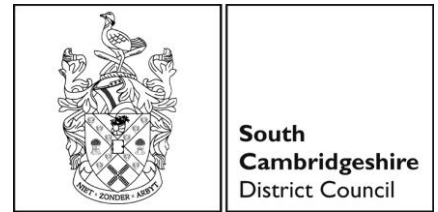South Cambridgeshire Hall
Cambourne Business Park
Cambourne
Cambridge
CB23 6EA

t: 03450 450 500
f: 01954 713149
dx: DX 729500 Cambridge 15
minicom: 01480 376743

South
Cambridgeshire
District Council

8 September 2016

To: The Leader – Councillor Peter Topping
           Deputy Leader – Councillor Nick Wright
           Members of the Cabinet – Councillors Francis Burkitt, Simon Edwards,
           Lynda Harford, Mark Howell, Robert Turner and Tim Wotherspoon
Quorum: Majority of the Cabinet including the Leader or Deputy Leader

Dear Councillor

This is a supplement to the previously-published agenda for the meeting of **CABINET** on
THURSDAY, 15 SEPTEMBER 2016, containing those reports which had not been received by
the original publication deadline.

Yours faithfully
JEAN HUNTER
Chief Executive

Requests for a large print agenda must be received at least 48 hours before the meeting.

AGENDA

PAGES

9.   Internal Audit Shared Service (Key)   **1 - 24**

Incorrect versions of the report and business case associated with the
Internal Audit Shared Service item were published with the original
agenda pack for this meeting. The revised report and business case
attached to this supplement should therefore replace those versions
originally published.

This page is left blank intentionally.

Agenda Item 9

Report To: Cabinet   15 Sep 2016

Lead Officer: Executive Director (Corporate Services)

Shared Internal Audit Services

Purpose

1. Cambridge City Council (CCC), Huntingdonshire District Council (HDC) and South Cambridgeshire District Council (SCDC) have agreed to work in partnership to deliver shared services and have agreed general principles to underpin the approach.

2. This report provides the business case to establish an Internal Shared Audit Service (SAS) between the Councils and details the activity to create it.

3. This is a key decision because it results in the authority incurring expenditure which is, or the making of savings which are, significant having regard to this Council's budget for the service or function to which the decision relates and it was first published in the July 2016 Forward Plan.

Recommendations

4. Cabinet is recommended to approve the Business Case and delegate authority to the Executive Director (Corporate Services) to make decisions and to take steps which are necessary, conducive or incidental to the establishment of SAS in accordance with the business case.

Reasons for Recommendations

5. Reasons for the recommendations are set out in the Business Case.

Background

6. The business case for the establishment of the SAS can be found at Appendix A to this report. The rationale for its establishment is that it will provide the opportunity to deliver a more resilient and responsive service resulting in:

   - Improved audit coverage that is of high quality.

   - Increased productivity

   - Improved career opportunities for staff

   - Increased potential for audit services to be offered commercially

Considerations

7. It is proposed that SCDC will act as the employing authority for the SAS; its scope is solely audit services.

8. A new joint lead role post will be created to lead the implementation of the SAS. The SAS will be created by the TUPE transfer of staff from HDC (4), CCC (5) to SCDC; this is proposed to happen in 2017/18 once the joint lead role is in post. The opening staffing level of the SAS will be 10. A review will then be undertaken of the rest of the staffing structure.

9. The SAS would have an opening staffing budget of circa £425k combining the 16/17 staffing budgets for each of the 3 current audit service operations. The ratio of the budget contribution at start up is CCC 47%, SCDC 13%, and HDC 40%. This ratio forms the basis of saving distribution and additional cost incurred, if any, such as redundancy, pay protection etc.

10. Savings of £51.9k have been targeted for 17/18 for the shared service; the equivalent of a reduction of 11% of the net revenue budget, the SCDC share of the savings is £5,003

11. Set up costs of £25k have been identified; SCDC contribution will be £3k which will be funded from its Transformation Fund.

12. The work to develop the attached business case has been undertaken by a project group consisting of audit staff from each of the three Councils.

13. The work of the SAS will be driven by its Audit Plan (AP) agreed with the three client Councils. The AP will identify what has to be delivered and establish the means for measuring and assuring its performance. SCDC will act as a client of its services. The AP will be agreed on an annual basis. With regard to the SCDC's element this will be via the usual process, that being, by approval of the Audit and Corporate Governance Committee. The AP will be a key element of the operational plan for the SAS.

Options

14. Options are set out in the Business Case.

Implications

15. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered: -

Financial
16. The SAS has a minimum saving target of 11% of net revenue budget.

Staffing
17. (if not covered in Consultations Section) SCDC will become the Lead Authority for the SAS. As such, identified Audit staff in HDC and CCC will transfer under TUPE to SCDC. Formal consultation with staff, Unions (and in addition Staff Council at HDC) will take place during October / November in accordance with each Councils policy

on consultation. The consultation will be in respect of the proposed TUPE arrangements and new Senior Audit Manager post.

Equality and Diversity

18.   An Equalities Impact Assessment (EQIA) has been carried out. The EqIA will be reviewed at all key stages including when the implementation papers are ready and after consultations have taken place.

Climate Change

19.   Low Positive Impact. Reduction in accommodation and energy use associated will have a positive impact. Potential negative impact from increased travel will be mitigated by increased mobile and remote working.

Consultation responses (including from the Youth Council)

20.   This will be conducted in accordance with the Councils agreed policy.

Background Papers
Shared Services Report – 16 Oct 2014

Appendices:
Appendix A – Shared Audit Service Business Case

No other background papers were used in the preparation of this report.

Report Author: Alex Colyer – Executive Director (Corporate Services)
                       Telephone: (01954) 713023

This page is left blank intentionally.

Business Case and Proposal

**Formation of an Internal Audit Service for
Cambridge City Council, Huntingdonshire District Council and South
Cambridgeshire District Council**

1.0 Executive Summary

1.1 Cambridge City Council ('CCC'), Huntingdonshire District Council ('HDC') and South Cambridgeshire District Council ('SCDC') – collectively known as 3Cs - have agreed the principle of working in partnership to deliver a range of shared services. This report sets out proposals for delivering a full, professional shared Internal Audit Service (IAS) across the three Councils that will meet the statutory requirements of the Public Sector Internal Audit Standards (PSIAS).

1.2 Internal audit has a vital role to play in helping Councils manage effectively through the challenges they face by ensuring that governance, risk management and control arrangements remain effective. To do this successfully, internal audit teams need to be fit for purpose and provide assurance of the necessary quality, depth and coverage.

1.3 There were two main drivers behind the decision to consider reviewing the options available for improving the delivery of the IAS. These were:

1. HDC, CCC and SCDC desire to have new joint role to lead the Share Internal Audit Service across the 3Cs.
2. Bringing together the professional discipline of internal audit into one team, provides the opportunity to deliver a more resilient and responsive service that would allow internal audit work to be carried out seamlessly and without barriers across the 3Cs.

The Aims of the new service are:-
   1. Improved audit coverage that is of a high quality
   2. Increased productivity
   3. Career structures for staff with better long-term personal development opportunities
   4. The ability to audit, without boundaries, any of the current shared services.
   5. The ability to become commercial and offer services to other organisations

1.4 This proposal recommends that the 3Cs create a shared IAS. The service would operate and be governed in accordance with the principles that the 3Cs have already agreed for the Phase 1 shared services, including the appointment of a new joint lead role and the transfer of internal audit staff to one employing authority.

1.5 The shared IAS would deliver revenue financial savings of £51.9k in the first year (11% of the 2016/17 budget) through only employing one CIA. The three shared services that have already been introduced have been required to deliver 15% savings. To achieve this figure across the internal audit, budgets would require further savings of £19.3k. In the last five years internal audit budgets across all three Councils have been reduced by £121k (20%). The option for future year's savings will be explored once the audit requirements and the budgets for future years have been established.

In addition there will be capital set up costs to cover ICT and relocations costs of £25K in year one as a one off cost.

1.6 A shared IAS would have a larger pool of auditors available to work across the 3C's, providing additional resilience to cover holidays, training and any sickness.

1.7 Through working across more than one Council, the options for auditors to develop and use specialist skills will increase. Initiatives can be developed at one Council and then rolled out to all. The new combined CIA will have the ability to call upon a wider skills and knowledge base. This is particularly important at SCDC who employ only one auditor, who is required to undertake the majority of internal audit reviews.

1.8 The three current internal audit teams are experienced and have good customer satisfaction levels. They have been kept informed of the proposals for a shared internal audit service and have all had the opportunity to comment on this Business Case and have specifically contributed to the development of the Vision Statement.

2.0 Proposal

2.1 A professional, independent and objective IAS is recognised by the 3Cs as a key element of good governance. The requirement for Councils to maintain appropriate and effective internal audit arrangements is set out in the Accounts and Audit Regulations 2015[1].

2.2 The 3Cs currently employ 8.5 full time equivalent (fte) internal audit staff. (In addition to the fte numbers noted in the table below, specialist computer audit services are obtained from the private sector).

	Total	Head of Audit	Audit & Risk Manager	Auditors
CCC	4.4	0.4		4.0
HDC	2.9	0.0	1.0	1.9
SCDC	1.2	0.2		1.0
	8.5	**0.6**	**1.0**	**6.9**

2.3 Whilst HDC employ their own 1.0fte Audit and Risk Manager, a 0.6fte service lead is provided to CCC and SCDC under an agreement with Peterborough City Council. The combined cost of audit management across the three authorities for 2016/17 is £120.1k. Employing a single CIA across the three authorities would deliver a saving of £51.9k and fulfil one of the two main criteria for establishing a shared service. This saving is equivalent to 11% of the new combined service budget for 2016/17. In subsequent year's productivity gains and the removal of non-audit tasks will be looked at for additional savings. A copy of relevant organisational charts for each Council is shown in Appendix 1.

2.4 The three current internal audit teams have been managed in different ways and performance standards differ across the three teams. This has resulted in them having differing productivity levels (audit days delivered/fte). Whilst SCDC and

[1] Accounts and Audit Regulations 2015 state that 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards (PSIAS) or guidance'.

HDC exceed the Shire District average as reported in the CIPFA 2013/14 internal audit benchmarking study, CCC do not. Meeting the Shire District average (of 173 days/fte) will see an increase of some 80 days across the shared service, the equivalent of an additional 0.3fte. Allowing for the introduction of new working practices, this should be achievable within two years of the shared service operating.

2.5 To meet the aims set out above, it is proposed that a single internal audit service be formed (SIAS). This will require the recruitment of a new joint lead role to lead the SIAS. Once the new joint post has been successfully filled then a Transfer of Undertakings (Protection of Employment), (TUPE) will take place in respect of those staff who currently work in Internal Audit teams. The individuals will transfer to the employing authority (South Cambridgeshire District Council) to form a new single team

2.6 In addition, private sector specialists BDO Public Sector Internal Audit will supplement the in-house internal audit service by providing 70 computer internal audit days per year through to 2018/19.

2.7 The new CIA role would be responsible for leading a shared internal audit service that would have free access to review any services or activities undertaken by each Council whether collectively or individually. They would have no other operational responsibilities. This requirement would be reflected in the Internal Audit Charter. The key service deliverable is to provide assurance on each Council's control environment, comprising the systems of governance, risk management and internal control – this will include:

- preparation and delivery of annual audit plans to each Council that are reflective of their strategic plans and objectives and the risks to their achievement
- providing an annual opinion statement on the adequacy and effectiveness of the Council's control environment and which may be used as a key assurance source when drafting the Annual Governance Statement
- communicating with stakeholders in a timely and appropriate manner the results of work undertaken
- considering whether operational and management arrangements are delivering the most economical, effective and efficient use of resources
- providing support and advice as required to managers on new developments, policy initiatives, programmes and projects as well as emerging risks

2.8 The Audit and Risk Manager at HDC is responsible for not only the internal audit service but also overseeing risk management and insurance services. The risk and insurance service areas will be transferred to another HDC Officer prior to the commencement of the shared service.

2.9 The other main non-audit duties that are currently performed by each of the three teams accounted for 80 days in 2015/16 and are listed below. Each Council has reviewed these tasks and confirmed they will be re allocated to other teams at no additional cost. This will create some free capacity which will be reviewed following the creation of the audit plans for 17/18

	CCC	HDC	SCDC
National Fraud Initiative	40	7	23
Preparation of Annual Governance Statement	5	5	--
Total days	45	12	23

3.0 Delivery options considered

3.1 Six options have been identified and assessed at a high level. These were:

1 The three services remain independent but work together on selected audits.

2 Develop a shared service as per Phase 1 (Legal, Building Control, IT) of the 3C shared service arrangement.

3 Co-sourcing (Option 2 above but with one or more of a range of specialist services procured from the private sector).

4 Expand option 2/3 with the inclusion of Peterborough City Council.

5 Outsource the service to the private sector.

6 Join an existing partnership.

3.2 The shortlisted options were assessed and reported to the 3C Shared Services Leaders' Group meeting in both November 2015 and February 2016. Following the February meeting it was agreed that a business case detailing the benefits of Option 2/3 should be prepared.

3.3 The other four options were rejected on various grounds including cost, resilience, capacity and staff implications.

4.0 Existing internal audit provision

4.1 Each Council maintains an in-house IAS. HDC employ their own Audit and Risk Manager whilst both CCC and SCDC obtain this service (0.6FTE) from Peterborough City Council (PCC) at a cost of £51.9k for 2016/17.

4.2 Excluding the lead auditor provided by PCC to CCC and SCDC, 7.9 fte auditors are employed. In addition, HDC obtain specialist computer audit services from an external supplier under contract – this is equivalent to a further 0.3fte.

Staffing costs

4.3 The 2016/17 budget (excluding the lead auditor provided by PCC to CCC/SCDC) for the three services is £423.5k. 97% of the service budget relates to staff costs, which includes staff salaries, professional training and development and computer audit costs.

	FTE incl. computer audit	Total budget £	Staff costs £	FTE excl. computer audit	Other costs £	Computer audit £
CCC	*4.0*	187,170	180,360	*4.0*	6,810	
HDC	*3.1*	195,350	163,230	*2.9*	7,120	25,000
SCDC	*1.0*	41,040	39,990	*1.0*	1,050	
Total	*8.1*	**423,560**	**383,580**	*7.9*	**14,980**	**25,000**
% of total budget			**91%**		**3%**	**6%**

5.0 Internal Audit Resourcing

5.1   The number of staff employed by each Council varies. There is no nationally agreed minimum or benchmark figure that can be used to judge whether the current auditor fte numbers are set at an appropriate level or not.

5.2   The business case makes the assumption that the number of auditors employed is appropriate. This is because the Public Sector Internal Auditing Standards (PSIAS) requires the CIA to prepare an annual audit plan that takes into account the requirement to produce an annual internal audit opinion. In determining annual internal audit coverage, PSIAS requires that if the CIA believes that the level of agreed resources will impact adversely on the provision of their annual internal audit opinion, then the consequences must be brought to the attention of the Audit Committee. No such concerns were reported to any of the 3Cs Audit Committees in respect of the audit plans for 2014/15 or 2015/16.

5.3   The current staffing structures (excluding PCC lead auditor) provides for 1,338 days (excluding contracted IT audit) to be delivered across the 3Cs during 2016/17.

2016/17 – Time allocation

	Total
Total days	**2,065**
Less: Non-productive time	455
Management & admin	272
Audit plan days	**1,338**

There are differences in non-productive time (e.g. annual leave, sickness, training, dealing with risk and insurance matters) and management and administrative time (e.g. team and section meetings, budget management, operational planning, staffing and recruitment issues) across the three audit teams which are reflective of the differing team sizes and the differing tasks that each audit team allocate to these areas through their own time recording processes.

5.4   A target will be set to reduce by March 2019, the total amount of time spent on management and administrative duties by 80 days so as a minimum, the 2013/14 CIPFA Shire District benchmarking average of 173 productive days/fte is achieved. As overall productivity increases across the 3Cs staffing levels savings will be reviewed.

5.5   It is proposed that for 2017/18 the number of audit days to be delivered at each authority will be at least that approved in the current 2016/17 plans. The audits will be delivered by any auditor employed within the shared service.

5.6   Apart from reducing the lead auditor resource at CCC and SCDC as a consequence of Peterborough City Council not wishing to be party to the shared service, there is no expectation of any further reduction in fte's across the new service in year 1 but efficiencies will be looked for in future years initially by natural churn.

6.0   Benefits to be realised

6.1   A shared IAS should bring clear benefits to the 3Cs over and above the cost savings. The aims for the service are:

- A staff resource that can be deployed more flexibly, with better ability to cope with vacancies and / or ad hoc work;
- the opportunity to share operational knowledge to assist in the reduction of average costs per audit day;
- increasing the sharing of best practice and access to a larger pool of specialist knowledge;
- economies of scale e.g. training, resourcing specialist skills such as IT and contract audit and specialist fraud expertise;
- keeping unproductive time to a minimum;
- providing for flexible deployment if and when necessary, and allowing staff to build up specialist knowledge of the council(s) they are working within;
- providing better opportunities for staff to further careers within the internal audit function; and
- savings through efficiencies and increased utilisation.

These benefits will be measured through the business plan and performance monitoring

6.2   The PSIAS were introduced in April 2013 and require each authority to be subject to an external independent review at least once every five years. HDC had their external assessment in 2014 which concluded that it was effective in delivering credible assurance to stakeholders, improved the management of risks and corporate governance arrangements and supported the achievement of corporate objectives. Neither CCC nor SCDC have been reviewed in the same way. Consequently the shared service will require an external independent assessment by March 2018. If the IAS is found not to be in compliance with the PSIAS, it is very likely that any bids for external work would be unsuccessful as conformance with PSIAS is a pre-bid approval requirement in many cases. Once the shared service is working effectively and working in accordance with the PSIAS, then the opportunity for it to become more entrepreneurial will be reconsidered.

7.0   Vision for the future

7.1   The following Vision statement identifies the desired future outcomes for the shared service.

Vision – to be valued as an integral part of the business by providing high quality assurance, acting as a catalyst for change and advocating improvements to risk management, control and governance processes.

Objectives	Be a fully integrated commercial internal audit service across the 3Cs	Deliver robust assurance on risk managm't, control and governance processes	Be proactive, flexible, future-focused and innovative	Communicate in a clear, easy to understand and timely way	An attractive place to work
Principles	One team. Alignment of audit plans & processes. Clear performance targets.	Audit plans aligned with the strategies, objectives, and risks of the authority.	Audit plans responsive to speed of developments. Increase in collaboration and systems development. Be trusted advisors.	Encourage customer input prior to, during and after work undertaken. Report in the most appropriate manner.	Develop people's contributions for the benefit of the team and the individual. Flexible, home and remote working
Activity	Review of structure. One audit plan across the 3Cs. Auditors work at any of the 3Cs. New audit manual & audit software.	Regular meetings with senior management to develop client relationships. Identify assurance gaps.	Undertake audits focused on specific & immediate risks. Promote best practice and new ideas (e.g. continuous auditing). Marketing the benefits that can be gained.	Report actions aligned to risk appetite. Redesign audit report format. Interim reporting to drive change.	Focused staff development and training. Agile working – to meet the clients' needs.
Outcome	Standard and consistent processes. PSIAS compliance. Auditors work to same goals & targets. Knowledge sharing amongst auditors and with managers.	Annual opinion report. Suggest ways to add value to service outcomes across 3Cs.	Real and immediate contribution to Council developments and initiatives. Provide timely advice when requested.	Influence and bring about meaningful change. Full and quick response to reports from managers. Educated client.	Motivated and engaged staff. Increased productivity.

7.2   The Vision Statement has been shared and discussed with all of the internal audit staff and the management teams at each Council and been subject to review and challenge. It is supported by the three Chief Executives.

8.0   Meeting customer expectations

Management

8.1   One of the most important elements of an effective IAS is the need to deliver a service that meets customer expectations. The Vision already contains a number of customer service components (e.g. engaging management throughout the audit process, regular meetings with senior management). A challenge for the CIA will be to quickly understand the expectations of each of the 3Cs Management Teams and to introduce a formal and cohesive engagement programme so that the Vision can be delivered.

8.2   The CIA will strive to obtain a consensus of approach across the 3Cs towards the delivery of key internal audit tasks, including:

- the involvement of managers (and audit committees) in developing the internal audit annual plan to ensure that it is relevant and consistent with each Council's corporate plan, objectives and risks and directs audit effort to the most appropriate areas;
- agreeing procedures for keeping internal audit informed of emerging issues, risks and priorities so that the audit plan can be amended throughout the year and audit resources refocused;
- agreeing the timetable for the delivery of individual audits so that disruption to business operations is minimised;
- introducing one reporting format (including discussing different reporting formats, such a powerpoint reports or one-page summary reports, that could significantly speed up the reporting cycle) and one set of assurance and recommendation definitions;
- reaching an understanding on the definition of 'timely' and developing processes to meet that time frame;
- consulting effectively prior to new developments and initiatives being introduced so that the IAS can contribute ideas and advice on an ongoing basis; and
- building a relationship with the intelligent client at each Council to facilitate audit planning, the conduct of audits and provide periodic updates on the status of previously agreed audit recommendations.

The benefits that regular contact with customers will bring to the IAS include:

- providing insights that will help to improve internal audit planning, prioritising of activities, and reporting;
- educating customers on the role that internal audit can and should play;
- demonstrating how internal audit adds value;
- marketing the contribution of an effective IAS and the benefits to be gained;
- building relationships that are based on cooperation, collaboration and mutual respect; and
- trusting the CIA to 'tell it as it is' by reporting without fear or favour.

Whilst the responsibility for understanding the expectations of the customer will mainly be the responsibility of the CIA, all internal auditors will be expected to contribute to the achievement of the aims listed above.

8.3   One of the most important elements of meeting customer expectations is achieved by ensuring the audit reports deliver practical, constructive and actionable recommendations that are supported by robust evidence and findings. This is achieved by ensuring internal auditors adhere to professional standards and that their work is appropriately supervised and reviewed so as to monitor progress, assess work quality and coach staff. To ensure the CIA can maintain oversight of the work that is being performed across three sites, whilst still allowing auditors to work flexibly and in an agile manner, it is proposed to hold discussions with 3C IT shared service colleagues to investigate the options for a audit working paper and reporting system.

Set up Costs

8.4   There are a number of one off capital costs which need to be included in the first year's budget to cover the set-up of the service, relevant estimates are:

	£000
Accommodation moves and changes	5
Mobile working ICT	7
Case management system	13
Total	**25**

8.5   If there was a redundancy situation, these costs would be shared in accordance with the protocol agreed between the 3Cs for non-Head of Service posts. Further, costs relating to travel between sites would be managed in line with those of the other 3Cs shared service operations.

Audit Committee

8.6   Elected Members are also a key customer for the IAS. Each Council is required to conform with the PSIAS – which requires the appointment of a CIA and a Board (Audit Committee) to which the CIA reports.

8.7   It is proposed that the Civic Affairs Committee at CCC, the Audit and Corporate Governance Committee at SCDC and the Corporate Governance Committee at HDC will fulfil the Board responsibilities as set out within PSIAS.

8.8   The work of internal audit is carried out primarily for the benefit of the Board and the Management Team at each Council. For the Board, the CIAs annual report is likely to be a significant assurance source in assisting them discharge their responsibilities. This is because the CIA, in accordance with the PSIAS, has a responsibility to provide an annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control processes. It should also be noted that the role of Responsible Financial Officer (Section 151) places considerable reliance on the role of internal audit, including a view in respect of the key financial controls that underpin the accounts and the administration of the Councils affairs

8.9 The CIA will report to the Board as required by the PSIAS. The issues to be reported include:

- the Internal Audit Charter;
- the risk based internal audit plan and significant changes to the plan;
- the internal audit budget and resource plan; and
- the CIA annual opinion and report and periodic reports that detail the performance of internal audit, conformance with PSIAS, key findings, significant issues of concern, audit recommendations outstanding and the results of both internal and external quality assurance assessments.

8.10 The CIA will communicate and interact directly with the Board, so as to safeguard their position in remaining free from interference in determining the scope, performance and the communication of findings from work undertaken. Furthermore, the CIA will have free and unfettered access to the Chair of each Board.

8.11 The CIA will also support each Boards development by sharing good practice or new initiatives introduced elsewhere or by organising training.

9.0 Risks

9.1 Any new service delivery model creates a specific set of risks over and above the 'business as usual' risks. The shared Internal Audit Service risks that will need to be managed in the pre and post implementation phase are set out below:

Risk	**Mitigation**
1. Through concentrating on setting up the new service, the audit teams do not deliver the 2016/17 audit plan or those of its first year (2017/18).	Clearly explain to PCC CIA what is required to be delivered by 31 March 2017 in respect of the CCC and SCDC audit plan.
	Prior to the commencement of the new service, appoint a CIA for the shared service who will prepare and agree with the RFO's a development programme covering the first year.
	Identify and manage 'business as usual' risks.
	Keep staff motivated through selling the benefits of the new service.
	Audit Committees amend the audit plans for 2016/17 to allow auditors time to contribute to developments and assist the CIA with setting up the new service. 2017/18 plans also include a similar time allowance.
2. Resistance from team members to change.	*Pre new service:* Engagement/consultation with the staff concerned. Reassure them on job security.
3. Auditors unhappy with the new service and	Ensure the process is completed quickly and

	Risk	Mitigation
	leave; qualified and experienced replacements unable to be recruited.	staff have confidence in the new arrangements. Staff take ownership of designing new processes and are engaged in the change process.

Post new service:
Continued engagement/consultation on changes being introduced. |
| 4. | Failure to deliver increased productivity. | Performance management targets introduced for all auditors linked to annual appraisal mechanisms.

Undertake comparative benchmarking in 2018/19 (based on first year of operation) and if necessary, introduce changes to working practices.

Introduce audit management software that allows the auditors to work across all 3 Councils and for file reviews to be completed remotely.

Introduce a management information system that enables both performance to be monitored and the early identification of issues, so allowing CIA to take remedial action. |
| 5. | The reputation of the new service may be harmed if auditors/auditees or Managers do not see any immediate improvements or different approaches to the way in which the service is delivered. | CIA meets managers prior to the new service starting and explains the changes/savings that will be delivered and within what time period.

CIA meets frequently with managers to allow them to share and resolve their concerns. |
| 6. | Auditor rotation across the 3 Councils highlights the differing skill & competency levels and Managers complain about the standard of audits being delivered from the new service. | A skills audit is undertaken within the first three months of the new service being established and training plans developed for all auditors. The CIA introduces a quality review process to ensure that all work undertaken is to appropriate standards.

CIA engagement with Managers during initially set-up and transition phase.

End of audit survey forms issued and results reviewed by CIA. Discussions with Managers in all cases to understand and address reasons |

Risk	Mitigation
	response falls below 'quality' threshold.
7. Two Council's feel that they are losing direct control of their internal audit service by delegating its functions to one Council and consequently make frequent demands for additional work to be undertaken.	CIA to meet regular with 'intelligent client' at each Council. One Internal Audit Charter to be introduced that will set out the range of work that the shared service will undertake. The CIA will introduce a method for prioritising work demands and agreeing changes to the audit plan with the 'intelligent client'.
8. IT and other support services are not available or are inadequate to support agile working, threaten the opportunity for productivity gains and disrupt delivery of the audit plan.	Learn the lessons from the Phase 1 shared services who have already faced and resolved similar risk issues. Investment in the necessary start up IT costs Engagement with IT and support services throughout the implementation phase.

10.0 Governance and decision-making processes

10.1 The same governance principles and decision-making processes that have already been agreed by the three Councils for the Phase 1 shared services will apply to the Internal Audit shared service.

10.2 In addition, the following is proposed for the Internal Audit Shared Service:

- The CIA be line managed by the Deputy Responsible Financial Officer of the employing authority.

- The CIA shall remain independent and be solely responsible for managing the Internal Audit Service.

- One Internal Audit Charter covering internal audit responsibilities across the 3Cs will be prepared, reviewed annually and approved by the Audit Committee at each authority. The Charter will provide a framework for the conduct of Internal Audit across the 3Cs.

11.0 Key performance indicators

11.1   Setting key performance indicators for the service will assist in driving forward performance.

It is envisaged that one set of common indicators will be introduced that will meet the requirements of the 3Cs. The indicators will be agreed between the CIA, the 'intelligent client' at each authority and their respective Audit Committee.

In addition to reporting the indicators to Members via the Audit Committee process, they will also be reported quarterly to the Shared Services Management Board.

12.1   Managing the Shared Service

12.1   It is proposed that the shared service will be managed by a new joint lead role. They will be responsible for the delivery of the Internal Audit Service to the 3Cs in accordance with the PSIAS.

13.0   Timetable

13.1   Following consultation with managers at each Council, a Business Plan will be developed that will deliver the benefits outlined within this Business Case. It is expected that the shared audit service will operate from April 2017; this may be delayed to July 2017 if there is a need to externally recruit a CIA.

13.2   An outline implementation plan is shown at Appendix 3. The key elements of the plan include:

- It is anticipated that the Business Case will be discussed within the Member forum at each Council during October and November 2016.

- Formal consultation with staff, Unions/Staff Council will take place during November/December 2016 in accordance with each Councils consultation policy.

Appendix
1   Organisational Charts
2   Budget details
3   Timetable for implementation

Organisational Charts

Cambridge City Council

```
Head of Finance
(Section 151 officer)
```

```
Head of Internal Audit (0.40 FTE)
```

```
Principal Auditor (0.76 FTE)
```

```
3 x Senior Auditors (2.60 FTE)

(0.60 FTE)

(1.00 FTE)

(1.00 FTE)
```

```
Assistant Auditor (0.76 FTE)
```

Huntingdonshire District Council

```
Head of Finance
(Section 151 officer)
```

```
Audit & Risk Manager

CT011: 1.0 fte
```

```
Auditor x 3

CT036: 0.4 fte
CT037: 0.5 fte
CT037: 1.0 fte
```
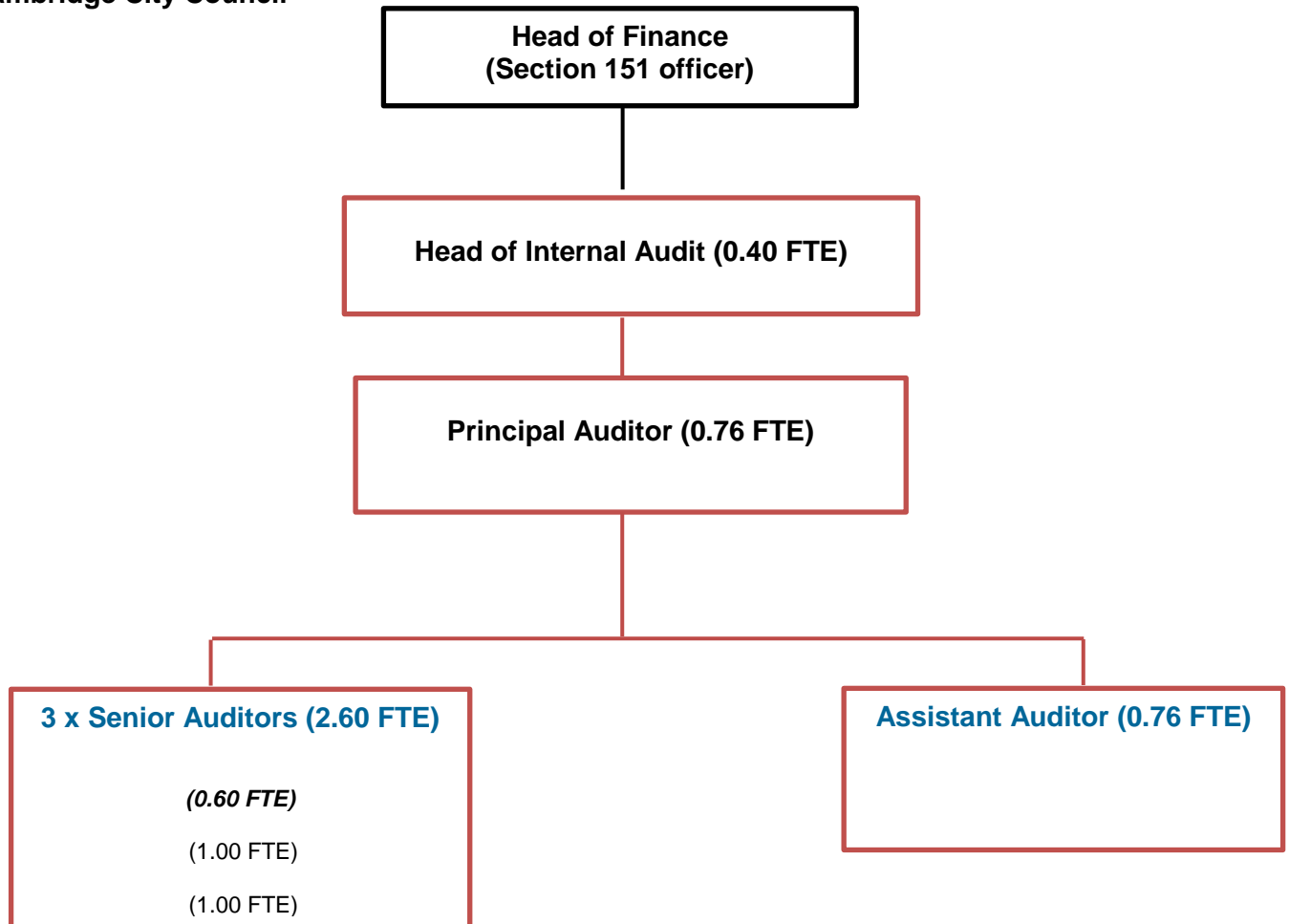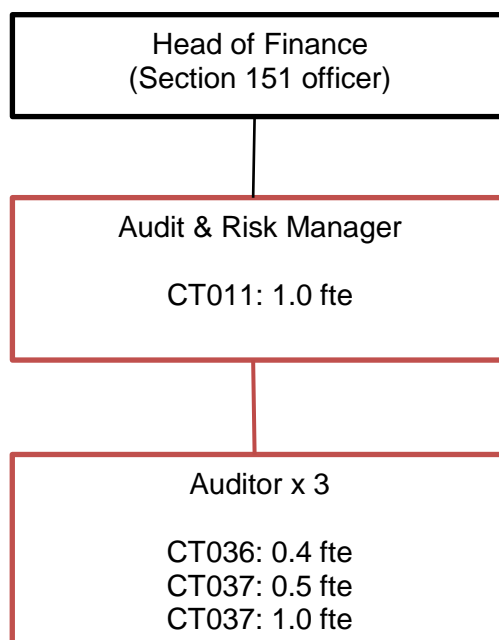
Organisational Charts
South Cambridgeshire District Council

Executive Director
(Section 151 officer)

Human Resources Manager

Head of Resources
(Deputy Section 151 officer)

Head of Internal Audit

0.2 fte

Senior Internal Auditor

1.0 fte
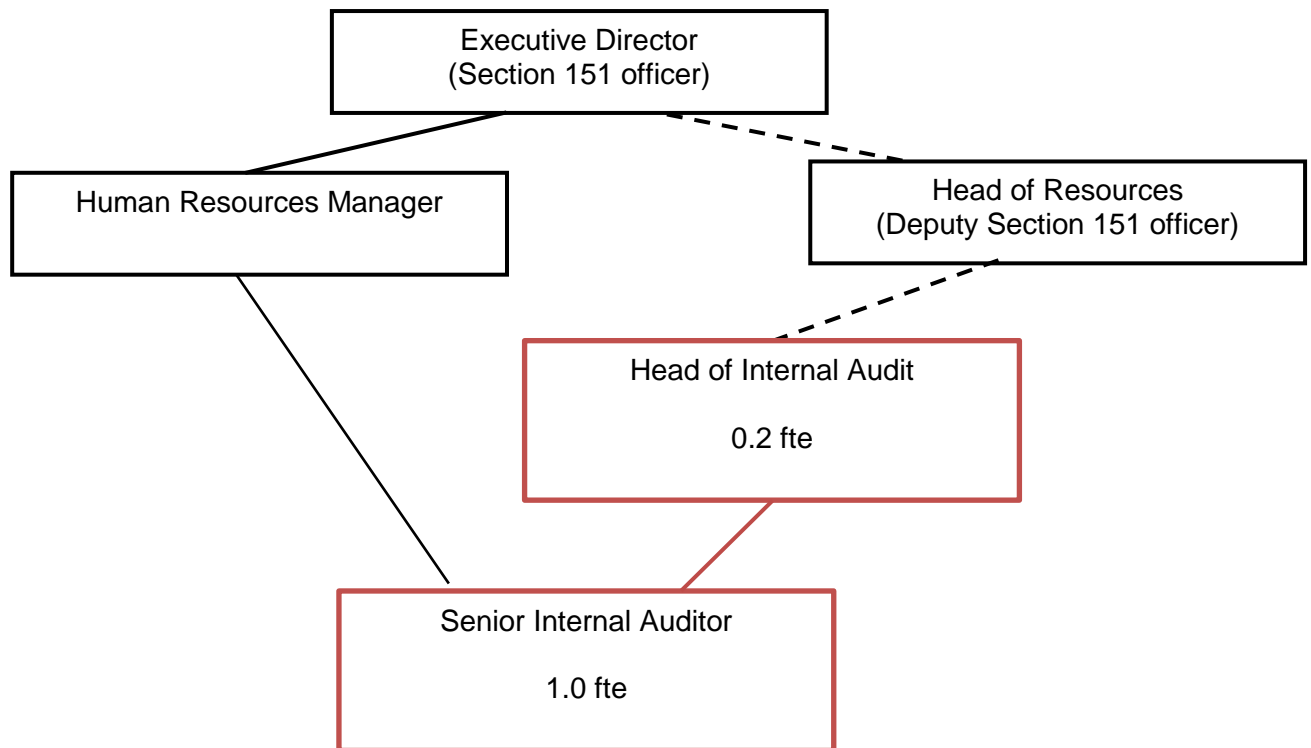
Internal Audit Service Budgets

Total Internal Audit Service budgets

	2012/13	2013/14	2014/15	2015/16	2016/17	Shared service 2017/18
	£	£	£	£	£	£
CCC	280,050	279,200	218,380	213,720	222,110	199,158
HDC	233,879	238,469	217,834	197,304	195,350	171,395
SCDC	82,750	77,950	54,500	56,510	58,040	53,007
TOTAL	596,679	595,619	490,714	467,534	475,500	423,560

Savings achieved 12/13 – 16/17 £ 121,179
20%

Shared service savings 16/17 – 17/18 £ 51,940
11%

The three tables below show the budgets per Council

Table 1
Cambridge City Council

	2012/13	2013/14	2014/15	2015/16	2016/17	Shared service 2017/18
	£	£	£	£	£	£
Employee costs						
HoIA costs	40,980	42,170	36,890	33,960	34,940	11,988
Salaries	226,390	224,180	168,380	168,920	175,340	175,340
Training	1,960	1,920	1,970	3,240	5,020	5,020
Supplies & Services	10,420	10,630	10,840	7,300	6,510	6,510
Transport	300	300	300	300	300	300
TOTAL	280,050	279,200	218,380	213,720	222,110	199,158

Savings achieved 12/13 – 16/17 £ 57,940
21%

Shared service savings 16/17 – 17/18 £22,952
10%

Internal Audit Service Budgets

Table 2
Huntingdonshire District Council

	2012/13	2013/14	2014/15	2015/16	2016/17	Shared service 2017/18
	£	£	£	£	£	£
Employee costs						
Salaries	130,981	132,794	142,710	142,284	161,330	137,375
Hired staff	39,558	35,114	35,992	21,000	0	0
IT audit (contractor)	47,636	56,125	25,333	25,000	25,000	25,000
Training	7,184	6,064	5,815	1,900	1,900	1,900
Supplies & Services	6,738	6,542	6,113	6,120	6,120	6,120
Transport	1,782	1,830	1,871	1,000	1,000	1,000
TOTAL	233,879	238,469	217,834	197,304	195,350	171,395

Savings achieved 12/13 – 16/17	£ 38,529
	16%

Shared service savings 16/17 – 17/18	£ 23,955
	12%

Table 3
South Cambridgeshire District Council

	2012/13	2013/14	2014/15	2015/16	2016/17	Shared service 2017/18
	£	£	£	£	£	£
Employee costs						
External contractor	82,750	77,950				
HoIA costs			17,000	17,000	17,000	11,967
Salaries			36,200	37,710	39,290	39,290
Training			1,000	700	700	700
Supplies & Services			200	700	850	850
Transport			100	400	200	200
TOTAL	82,750	77,950	54,500	56,510	58,040	53,007

Savings achieved 12/13 – 16/17	£ 24,710
	30%

Shared service savings 16/17 – 17/18	£ 5,033
	9%

Timetable for implementation

Appendix 3

2016

October

Draft business case to Leaders Board

Briefing for IAS staff on business case

Business case to Member Committees

Informal staff consultation

TUPE Consultation and feedback

November

December

Recruitment of CIA for the Shared Service

2017

January

Develop new working practices, reporting formats, opinion statements and QAIP.

February

2017/18 budget agreed

March

Service plan prepared

April

Commencement of Internal Audit Shared Service
(if CIA is recruited internally)

July

Commencement of Internal Audit Share Service
(if CIA is recruited externally)

This page is left blank intentionally.