

**REPORT FOR: GOVERNANCE, AUDIT
AND RISK MANAGEMENT
COMMITTEE**

Date of Meeting: 1 September 2010

Subject: Risk, Audit and Fraud Service Efficiency Review

Responsible Officer: Myfanwy Barrett, Corporate Director Finance

Exempt: No

Enclosures: Appendix 1: PWC Review Report
Appendix 2: Stage 1 Consultation Protocol
Appendix 3: Stage 2 Consultation Protocol

Section 1 – Summary and Recommendations

This report sets out progress to date in relation to a service efficiency review of the Risk Management, Internal Audit and Corporate Anti-Fraud Fraud teams.

Recommendations:

The Committee is requested to:

- (a) Note the work undertaken to date;
- (b) Provide feedback as part of the consultation process.

Section 2 – Report

Background

- 2.1 As part of the council's wider transformation programme, directorates are conducting efficiency reviews at service level in a number of areas.
- 2.2 Within the Risk, Audit and Fraud Division, whose services are all monitored by the GARMC, reviews are currently taking place in the Insurance service and the Health and Safety service. In addition, a combined review is taking place in respect of the Risk Management, Internal Audit and Corporate Anti-Fraud services.
- 2.3 All these reviews will be reported to the GARMC for Members comments and feedback during the consultation stages. In addition, comments will be sought from Members with particular responsibility for these service areas (such as the GARMC Chair, Vice Chair and nominated Lead Members),
- 2.4 This report sets out the first of these reviews to reach the consultation stage, which is the combined review referred to above.

The review

- 2.5 It is considered an ideal time to review these services in line with the council's wider transformation agenda, particularly as the vacancy rate is high.
- 2.6 In particular, it is critical that support services, including Audit and Risk, are flexible and move with the times.
- 2.7 The council already has a call-off contract in place with Price Waterhouse Coopers (PWC) that provides for a range of services and advice, therefore PWC were invited to conduct a review and make a proposal under the call off contract.
- 2.8 Their report is attached at appendix 1.
- 2.9 Their proposal was to provide internal audit and risk management expertise, again under the call-off contract rates, to supplement the permanent in-house staff.
- 2.10 This has the advantage of building flexibility into service delivery and providing expertise "on tap" in emerging areas of need, which will increasingly happen as the council's transformation programme progresses.
- 2.11 PWC already provide support to in-house Internal Audit teams across a number of London authorities and one of these is Camden. The Director of Finance and Divisional Director (Risk, Audit & Fraud) visited Camden's equivalent officers and their feedback on the arrangement, which has been in place for 2 years, was extremely positive.

2.12 In addition the proposal was expected to realise a modest efficiency of approximately £30k per annum from a combined salary budget of approximately £782k.

Consultation

2.13 There were two initial consultation stages following the receipt of the report from PWC. Firstly the service managers of the respective teams were asked to comment on the proposal and secondly a formal consultation was entered into with all staff in the teams, together with Trade Unions.

2.14 A copy of the formal consultation document (May 2010) is attached at appendix 2.

2.15 Whilst it is not reproduced here in a public report, consultation feedback has been shared with key Members and can be summarised as follows:

- There is a potential conflict of interests if PWC provide the expertise, having undertaken the review.
- The proposal may not provide best value for money
- There may be better providers of the services at cheaper cost
- The internal posts should just be appointed to as co-sourcing rates will equate to a reduction in audit days
- The services are high performing and would not benefit from external co-sourced resources.

2.16 On 1st June 2010 the draft proposal and a summary of the consultation feedback was presented to the council's Corporate Strategic Board and further work was requested to address the concerns raised.

2.17 Procurement and legal advice has been sought and discussions were held with key Members.

2.18 As a result, a revised proposal has been drafted and this is attached by way of the second formal consultation document (appendix 3).

2.19 The revised proposal is a compromise between the perceived benefits of co-sourcing and the concerns raised.

2.20 The main changes are as follows:

- A procurement exercise will be carried out to secure a co-sourcing provider. This will be a full tender process specifically for risk management, internal audit and anti-fraud expertise rather than the full menu of services covered by the council's current call-off contract. This is to avoid limiting the interest to a small number of large companies who have the capacity to provide such diverse services.
- 2 of the vacancies (out of 5) in the internal audit team will be appointed to immediately, on a permanent basis. This is likely to be one auditor and one assistant auditor post.

- One post (the Administrative Assistant) will be deleted as this has already been identified and not required.
- The two remaining posts will be frozen and provided by co-sourcing arrangements to build flexibility into future service delivery.

2.21 Until the tender exercise has been undertaken it is not known what the costs or other efficiencies will be, and the Committee will be kept informed of progress as this develops.

2.22 However, as this is a full EU tender process the timescales are such that it is unlikely any new arrangements will be entered into in the current financial year.

Financial Implications

2.23 The work of the Risk, Audit and Fraud division is carried out within the budget available and supports the achievement of financial objectives across the council.

Risk Management Implications

2.24 Risk Management is the core subject matter of this report and the Risk, Audit and Fraud group of services exists specifically to support a wide range of risks affecting the council's services.

Corporate Priorities

2.25 Collectively the Division supports the delivery of all the corporate priorities through supporting the council as a whole to achieve their targets and objectives.

Section 3 - Statutory Officer Clearance

Name: Myfanwy Barrett Chief Financial Officer

Date: 10th August 2010

Name: George Curran on behalf of the Monitoring Officer

Date: 19th August 2010

Section 4 - Contact Details and Background Papers

Contact: David Ward Tel: 020 8424 1781.
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Background Papers: None