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Internal Report

Options Appraisal for the Future Delivery of Bath and North East Somerset Internal Audit Service

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The Author would like to thank all staff involved in this review for their valued assistance and co-operation

Internal Report

Options for the future delivery of Internal Audit Services

This report may refer to certain findings that relate to personal data as defined by the Data Protection Act 1998, therefore its contents should be treated as strictly confidential.

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Contents: **Page:**

1. Introduction & Background

1.1 Internal Audit is defined by the CIPFA Guideline as;

"…..an independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources".

1.2 Auditors in the public sector have a pivotal role to play in ensuring that public funds are administered properly, economically, efficiently and effectively, in the interests of the public and there is an expectation by the community that audit is protecting the public purse.

1.3 In Local Government, an internal audit service is a mandatory requirement; and all principal authorities in England and Wales are required by statute (under the Accounts and Audit Regulations and section 151 of the Local Government Act 1972, to have an adequate and effective internal audit function.

1.4 Since the last round of local government reorganisation in 1996, Bath & North East Somerset Council Internal Audit has been delivered by an in-house team. The team currently stands at 9 FTE (7 F/T and 3 P/T staff) having been reduced from a staffing number of 14 in 1996.

In addition the team also carries out the Internal Audit of the Avon Pension Fund, all Schools (including the assessment of the Financial Management Standard in Schools) and works jointly with the audit and counter fraud service of B&NES PCT.

1.5 The gross expenditure budget for the service in 2010/11 is £434K with a net budget of £285K primarily as a result of a number of recharges which have been historically built into the budget since 1996.

1.6 In terms of benchmarking the service has, for the last ten years, participated in a national exercise co-ordinated by CIPFA (IPF).

In summary, in terms of cost, the team has consistently demonstrated a cost per day at approximately 5% - 10% lower than the Unitary average and in relation to quality, productivity and coverage it is at average levels.

1.7 During the end of 2009 the Council engaged consultancy support from PwC to carry out a Council wide diagnostic exercise to identify a range of potential solutions to its medium to long-term organisational planning. One of the areas identified for further work - amongst many others - was the Support Services block managed primarily by the Strategic Director for Resources.

1.8 Internal Audit is part of the Risk & Assurance service which is one of the smaller service blocks of the Support Services portfolio in terms of staff and budgets.

1.9 At the same time as the diagnostic exercise was being carried out, medium term service and resource plans were being prepared by each Divisional Director to indicate both priorities and objectives for the coming year and outline plans for future years.

1.10 When taking into account the indicative budget reductions being planned over the medium term at that time - at least 20% over 4 years - Internal Audit was identified as an area where further work was necessary in order to prepare itself properly to meet these tough challenges.

1.11 The key reasons identified at this time were:

a) Medium Term budget reductions would inevitably result in redundancies from 2011/12;
b) Without adequate service planning there would be a ‘tipping point’ at which the service could no longer deliver at a basic level;
c) Productivity and coverage of key risk was at average levels;
d) Skills gaps were evidenced (primarily in IT and Procurement);
e) Service Delivery was likely to be more complex in the future (less in-house provision).
f) Impacts of increasing numbers of schools becoming Academies and the potential for Adult Social Care and Health functions to form a Social Enterprise.

1.12 The independent nature of Internal Audit meant that whilst it is part of the Support Services ‘block’, options on its future, were not linked and therefore would need to be considered separately.

1.13 In the circumstances, the Divisional Director Risk and Assurance Services initiated an options appraisal review to identify an appropriate model for the future delivery of the Internal Audit Service with the intention of producing a business case to support the chosen option and a brief was prepared and presented to the Audit Committee in February 2010.

1.14 There is potential for a review of this nature to be open to a wide and varied number of models, however, five key delivery options were identified for detailed analysis - the options include;

- In-house restructuring to achieve smarter working,
- Partnership with other Local Authorities in the South West region,
- Partnership with neighbouring CUBA authorities,
- Co-sourcing with an external provider, or,
- Fully outsourcing and externalisation of the service to an external provider.

This report represents the output of work to identify the options considered.

2. Staff involvement

Throughout the project a process of dialogue and available update, led by the Divisional Director Risk and Assurance Services has been provided to both internal audit staff through Team Meetings and the Audit Committee through Committee meetings.

At Stage One of the exercise a structured team-day workshop, was held with the internal audit staff in order to fully include and engage them in discussing the current service provision and the options for future delivery.

The outcome of the day, feedback and their views were gathered in order that they could be taken into account during the options appraisal process.

In addition, a questionnaire was forwarded to all Senior Managers to canvass their views on the current and future service delivery. These were also taken into consideration.

Meetings were also held with the following significant stakeholders to obtain their views on the options reviewed and to consider their opinions in the options appraisal.

- Chief Executive Officer,
- Audit Committee Independent Member,
- Strategic Director/Cabinet Member
- External Auditor,
- O&S Scrutiny Panel.

This report outlines the findings of the review.

3. Objectives of the review

3.1 To review a range of options for the future delivery of Internal Audit services in the medium to long-term and recommend a timescale for implementation based on the chosen option.

The timescale for implementation will be dependent upon consideration of all relevant factors, including cost savings to be made, impact on the service medium to long term and the affect on staffing and resources.

The timeframe for implementation could therefore be anytime over a 2 year period between April 2011 and April 2013.

3.2 Options to be Assessed:

- In-House Model (Restructure)
- Outsourced Model (100% of service outsourced
- Co-Sourced Model (At least 50% outsourced)
- Partnership Models (i.e. Existing or New Partnerships)

3.3 Scope:

To cover the whole range of Internal Audit Services for the Council –

- Risk Based Planning
- Core Systems/Risk Based Audit
- Grant Return Audit
- FMSiS Assessments for Schools
- Specialist Audit, i.e. Pensions, IT or Procurement Audit
- Fraud & Investigation Reviews
- Policy & Procedural Guidance
- Joint working with External Auditor & Inspectorates
- Joint working on Annual Governance Review
- Joint working with PCT Internal Audit & Counter-Fraud Services
- Joint working with Audit teams within the South West region
- Reporting to Corporate Audit Committee

4. Approach and Methodology

A project team was formed and an external Project Manager appointed to manage the process and provide specific independent challenge. The individual appointed has specific experience of managing local government internal audit and of letting internal audit contracts.

4.1 Key Stages of the Review

4.1.1 Stage 1 and 2 - Planning and Research

- Agreement of project brief, identification of project resources and detailed project planning.

  The gathering of stakeholder perceptions identified in Section 3 of this report through a series of meetings, an assessment of existing in-house services current performance, a combination of an assessment of existing resources through a gap and skills analysis, benchmarking data and the involvement of internal audit staff.
- Research was also carried out on the existing external market options available through meetings with key responsible officers of interested parties, other providers and potential partnership models, including neighbouring Local Authority representatives in the case of a new local CUBA partnership proposal,
- As previously stated, there is potential for a review of this nature to be open to a wide and varied number of models, however, a brief description of the five key delivery options identified for detailed analysis are as follows;

  (a) **In-House Model**
  Delivery of service retained 100% by B&NES, i.e. limited change to existing arrangements i.e. an internal re-structure and amalgamation of similar functions;

  (b) **Partnership Model – (**Existing , i.e. **S**outh **W**est **A**udit **P**artnership**)**
  Delivery of the service to be provided through a collaboration of audit resource from neighbouring authorities in the South West region, i.e. potential transfer of staff to a separate partnership entity or one single authority;

  (c) **Partnership Model – (New, i.e. CUBA** Authorities consortia)
  Delivery of service provided through a collaboration of audit resource from CUBA neighbouring authorities.

  (d) **Co-sourced Model**
  Co-sourcing means the Council is still involved in provision of service, with transfer or allocation of a number of audit days to an external partner, i.e. 30% whereas it differentiates transfer from fully outsourced which would be 100%. i.e. Core Service reduced and remainder of provision bought in with no transfer of staff;

  (e) **Fully Outsourced Model**
  Delivery of service provided 100% by an external partner, i.e. transfer of all staff to an alternative provider; with any approach to externalisation, the local authority maintains a client role. Service delivery becomes the responsibility of an external organisation

4.1.2 Stage 3 - Options Appraisal

The results of the research fed into the development of a set of evaluation criteria for the options appraisal to identify a preferred option; these options were considered without detailed financial information, so were initially scored on a comparative basis according to their ability to meet the criteria selected.

The selected criteria are detailed in Section 7.2 of this report.

4.1.3 Stage 4 - Reporting

A summary of the detailed work carried out and the recommendation of a preferred option, to include a risk assessment of implementing the preferred option along with any impacts on staff.

4.2 Key Stages of Options Appraisal

The key stage of options appraisal was based around assessing each of the models against the following key criteria which were grouped and weighted in terms of a score.

Standards & Quality – 30%

- Audit Methodology
- Quality Control
- Leadership
- Access to Specialist Skills

Staff & Skills – 20%

- Investment in People
- Use of Audit Automation
- Terms and Conditions

Organisational – 25%

- Strategic Fit
- Track Record
- Use of Resources
- Governance & Accountability

Financial/VFM – 25%

- Cost of Implementation
- Flexibility of Future Costs
- Cost of Service

5. Conclusions

5.1 This review provides a balanced opinion of the reviewing Officer based on the information gathered, supporting documentation, interviews with staff and using an options appraisal scorecard.

All matters arising have been discussed with the Divisional Director Risk and Assurance along with suitable recommendations.

5.2 The information gathered has been collated and following conclusions formed:

- There are potential net benefits from each of the 5 options; but specifically 3 options – Both Partnership Models & the In-House Restructure - present the most sustainable and effective solution;
- Significant savings can be delivered with all 3 top options and as the savings are being front-loaded the Internal Audit budget should be protected for a sufficient period of between 3 – 5 years;
- Solutions should be phased in to maximise the advantages of any model and allow appropriate opportunity to further test existing assumptions;
- There are benefits of re-structuring the in-house service first in order to progress medium term to a potential partnership model, with Bristol City Council as an initial potential partner;
- North Somerset & South Gloucestershire Council have expressed interest but are not in a position to progress at the moment so the development work with Bristol should ensure that they could join easily within a relatively short timescale;
- Existing partnerships such as SWAP also present a strong option, however allowing a period of testing and development with a more localised partnership with Bristol will provide further opportunity of testing the assumptions made around partnership models;
- The SWAP model may therefore present an effective solution if a local partnership cannot be agreed or developed successfully in the next 12 – 24 months;
- There are significant risks of moving directly towards a fully outsourced or co-sourced arrangement and these models are not recommended.

6. Recommendations

The following recommendations are made in respect of the future service delivery for Internal Audit based on the results of this exercise and assessment.

It is recommended that the Divisional Director Risk and Assurance Services should consider the content of this report and supporting working papers with a view to the future delivery of the internal audit service for Bath and North East Somerset.

6.1 In-House Restructure

Re-structure and re-base the internal audit service by the amalgamation and integration of existing staff with internal audit experience from the risk and assurance service to provide a suitable level of assurance;

In order to achieve this, the re-structure should:

a) Implement the planned redundancies and reduce the internal audit budget based on required savings; of approximately 25% immediately.

b) Fix the revised budget and costs for internal audit for 5 years with no further reductions or cuts proposed within this period.

c) Continue in-house with remaining current staff; with the integration and amalgamation of the risk management team into one composite Internal Audit and Risk Management team; the current risk management team includes 3 FTE members of staff with previous audit experience which would readily fit into a new structure and would compensate for the loss of staff through redundancies and savings;

d) This will in effect be a cost neutral exercise and will replace the Audit Manager role and, in part, the 2 Auditor roles through existing risk management staff;

e) The proposed restructure to be finalised bringing in audit qualified staff within the division with an anticipated full implementation date of 1st April 2011.

f) Risk Management support to be reduced and replaced with a strengthened risk-based approach to audit coverage of service areas.

g) Service delivery to be maintained in-house for a period of at least 2 years pending the results of the work on the alternative partnership models.

h) Performance of the new restructured in-house team would expect to be improved by at least 10% in order to strengthen the status and performance of the team through the amalgamation of the risk assurance service; and to satisfy the external audit requirements;

i) In order to increase performance there is a need to identify new and smarter ways of working, such as, prioritising reviews to ensure adequate coverage and assurance; and; ensure that all reviews are completed within the number of days allocated (subject to issues arising which require further work);

j) Investment in staff development and the implementation of a service improvement programme which is focused on creating a quality delivery environment and culture of an Excellent Council;

k) If budget permits, potential to work in partnership with an external provider to support the in-house improvement programme in the short to medium term and to provide specialist skills or expertise to add value in the longer term ensuring service improvement is sustained;

l) Consider the growth opportunities within Academies and Social Enterprise Partnership.

6.2 New Partnership (i.e. CUBA)

6.2.1 Commence formal dialogue with Bristol City Council, as a potential partner, in carrying out joint working on specific reviews and establishing governance and management of those reviews;

- Development work with Bristol CC to be sanctioned to start in 2011/12 to investigate the detailed model for a potential internal audit partnership to cover both authorities.
- Any model should be flexible to take into account the client roles – if considered necessary - of the respective authorities and be able to add additional parties as required.
- The model is based on a single shared service to be hosted by one authority with audit teams from both organisations fully integrated.

6.2.2 A report on the full implications and detailed requirements of the new proposed partnership model to be presented to the respective audit committees by 2012/13.

6.2.3 Full implementation of the partnership model to be proposed from April 2013 for at least a 5 year period with shadow arrangements to be in place during 2012/13.

6.2.4 Continue dialogue with the other neighbouring authorities in order to establish their potential commitment and ambition to join or form a new CUBA partnership in the future to deliver an internal audit service;

6.2.5 The proposed option for a new CUBA partnership is considered to be the best option for B&NES. It is considered that it would deliver all the required outcomes at the same cost.

6.3 Existing Local Authority Partnership (i.e. SWAP)

It is recommended that the SWAP (South West Audit Partnership) should be retained as an alternative solution in the event that the decision is made that a local partnership cannot be implemented or agreed upon by April 2012.

If this is the case approval for SWAP to deliver Internal Audit for B&NES should be taken by June 2012 to enable implementation by April 2013.

An in-house restructure will build on service improvement to move towards confidence in future internal audit service delivery.

In principal there are advantages to be gained in sharing specialist skills and management, although consortia are vulnerable to the changing requirements and priorities of their members.

6.4 Co-sourced and Fully Outsourced

As a result of the evaluation it is recommended that the following options are ruled out at this stage;

- fully outsourced; and;
- co-sourced.

6.5 Staffing & Financial Implications

6.5.1 Budget

a) In order to implement any of the proposed options it is recommended that the audit service should plan effectively for a stable future and so the equivalent of a gross 25% reduction in resources is proposed. This will then enable the future team to have some sense of certainty in the medium term by fixing the budget for future years.

b) Financially this results in a total reduction of approximately £105K in audit resources over 2 years and equates to approximately 3 members of staff.

c) The cost of redundancies and any resulting strain on the fund will be repaid by the service in accordance with the corporate requirements agreed by the Strategic Directors Group and Cabinet.

d) The revised budget and costs for internal audit should be fixed for between 3 and 5 years with no further reductions or cuts proposed within this period.

6.5.2 Redundancies

During summer 2010, an exercise was carried out to identify those staff wishing to take voluntary redundancy within Internal Audit. Two members of Internal Audit staff volunteered and have been accepted for redundancy, one of these left in November with the other leaving in March.

The integration of the risk management and internal audit teams places both posts of Audit Manager and Risk Manager at risk. Following discussion, the Audit Manager has also volunteered for redundancy and early retirement during 2011/12.

The three volunteers therefore enable a saving of 25% of the gross budget.

6.5.3 Impact of Redundancies

a) The impact of losing staff through redundancy means that the existing Risk Manager will become the new Group Manager (Audit & Risk) with responsibility for both the provision of Internal Audit and Risk Management (including all Corporate Governance functions).

b) The Corporate Governance Manager will also move across to the wider audit and risk team and be structured into an Audit Team Leader post entitled Risk & Governance to simplify the structure.

c) The previous posts of Audit Manager and Risk Manager would be deleted.

d) All other staff will remain in their existing posts with the only effective change being a new manager of the two functions.

e) The current Audit Manager will remain until August 2011 to ensure a smooth transition, to be able to work on the development of the partnership with Bristol CC and complete a number of specific outstanding one-off projects.

f) The wider impact of deleting the post of Risk Manager will mean the Business Continuity & Emergency Planning Manager reporting direct to the Divisional Director and a minor restructure required in the Information Governance team to ensure a reporting line direct to the Divisional Director.

7. Findings:

7.1 Stage 1 and 2: Planning and Research

7.1.1 In-House Model

7.1.1.1 Delivery of the service retained 100% by B&NES, i.e. limited change to existing arrangements by way of an internal re-structure or amalgamation of similar functions.

7.1.1.2 An improved in-house option is likely to follow from evidence that:

- The in-house team is already delivering economy, efficiency, and effectiveness at levels that match both local needs and external comparators;
- The in-house team has the capacity and capability to make the improvements necessary to meet ***and sustain*** performance at levels that will meet the Council's future targets; (enabling it to continue to deliver Internal Audit when resources have been reduced by 25% is only viable if it is integrated with the Risk Management function);
- The risk of failure, or the impact of failure, is so high that the Council has to maintain a high level of control over the activity. Risks are managed better within the authority;
- The activity is so central, or core, to the purpose of the Council that any other option would seriously question the Council's ability to function as an organisation;
- The potential economies of scale, scope, or for investment, offered by other options are outweighed by the transaction and process costs of implementing those options;
- The Council has, or can generate, sufficient funds to meet future investment requirements;

7.1.1.3 Additionally, the (improved) in-house approach may be seen as a temporary solution while the Council prepares for the introduction of an alternative approach such as a partnership working with local neighbouring authorities.

7.1.1.4 The strongest argument against maintaining (or developing) an in-house provision is that there is another option that can deliver services and meet the authorities objectives more economically, efficiently, and effectively.

7.1.1.5 <u>Current Performance</u>

The review exercise drew on the results of the CIPFA benchmarking exercise and an analysis of a data gathered in relation to the service in order to develop a reasonable understanding of the services offered by the Internal Audit Service; in terms of;

a) the main tasks or additional offers that the Internal Audit Service provides;
b) a collation of basic summary financial and resource information;
c) a collation of more detailed data regarding the service offers that are managed and the associated demand;
d) a skills analysis; and;
e) a workshop with the Internal Audit staff to discuss items (a) to (d).

7.1.1.6 Stakeholder perceptions

This was accomplished by way of interviews with key stakeholders identified in Section 2, and feedback from Directors and Heads of Service via a questionnaire.

7.1.1.7 Current State Assessment

The current performance and service delivery of the in-house Internal Audit Service established that, in general, service delivery meets the needs of clients and the external auditors.

7.1.1.8 Opportunities for improvement were identified as:

- In order to realise the savings identified by the Council and to have a neutral or reduced cost of provision consideration should be given to the amalgamation of the risk management team into the Internal Audit Service;

  This effectively means the creation of a joint audit and risk team and replacing the redundant auditor posts resource from the risk management team, which would equate to an extra 200 audit days;
- Improve the ability of the service to deliver the audit plan and react to ad-hoc unplanned work by streamlining the audit resource planning process and by the reduction of non-productive days;
- A stronger emphasis on risk based auditing. Whilst there will be a reduction in risk management support to services, this is envisaged to be replaced through targeted audit coverage;
- Introduce stronger management practices to control contingency items to demonstrate appropriate areas of coverage;
- As the authority will be going through a severe period of organisational change, risks of fraud and misuse of resources are much higher and so having full flexibility and control of audit resources throughout at least a 2 year period is assessed as being highly beneficial;
- The new team will give between 9% and 15% more audit coverage than the other proposed partnership models and be able to replace some of the skills gaps, i.e. procurement;
- Re-structure and formation of service teams;
- Identify skills gaps and invest in staff training;
- It may also be appropriate for internal secondments to be arranged from within the organisation on a project basis or longer term, dependant upon the nature of the review;
- The restructure would be based and operated on preparing for partnership by re-evaluating audit planning methodologies and re-prioritising investment in standards and training;
- It is therefore recommended that the in-house restructure is chosen as part of a phased approach to longer-term partnership by implementing it immediately for a period of at least 2 years.

Table 1 - Summary risk assessment of the advantages and disadvantages of this option.

Risk Assessment – In House	
Advantages ☑	**Disadvantages ☒**
The key advantages of integrating the functions are significant savings in time, cost and management capacity.	
Statutory effective internal audit coverage provided since 1996; Infrastructure already in place and adaptable.	Age profile of staff could result in potential loss of expertise and knowledge due to retirements;
Understanding of Council Services and operations and functions; Extensive Local Government experience.	Lack of training due to limited budget;
Retain relationships, rapport and goodwill with Directorates; Strong internal networks. Team has considerable experience at BANES. The team know the organisation and have knowledge of people.	Potential lack of independence Uncertainty of government Education agenda and Schools opting out of FMSiS or becoming Academy status; and the externalisation of other services may result in reduced areas of audit coverage;
Mixed skills base. Experience in certain areas; Able to offer advice to all areas of the Council; Less impact to staff and service.	Skills gap · IT, · Contracts and Procurement, · Pensions Need to train staff up in skills gap areas.
Flexible to the needs of clients; Greater control over internal audit plan, contingency and allocation of resources. The restructured team will provide sound audit coverage and can replace potential skills gaps, i.e. procurement.	Budget cuts, redundancies, cuts to all services or a reduction in Income streams could have a knock on affect to service delivery and customer perception;
Good quality service; Likelihood that staff will have faced problems before and have strategies for moving forward.	Limited expertise in certain areas;
Low cost; good value for money. The re-structure could be fully implemented in less than 3 months for no cost.	
Committed staff; · Availability, · Responsiveness, · Reliability of staff, · High integrity.	Budget cuts during 2010/11 resulting in cuts in staffing numbers and/or service provision

7.1.2 Partnership Model - Existing Consortium e.g. SWAP

7.1.2.1 Delivery of the service would be provided through a collaboration of audit resource from neighbouring authorities in the South West region, i.e. transfer of staff to a separate partnership entity or one single authority

7.1.2.2 The main types of evidence to support a move towards collaborative or partnership working are:

- Willing partners;
- Spare capacity in the potential partners;
- Benefits from pooling budgets and other resources that would not be realised if the authority was to continue acting independently;
- Shortages of specialist staff or other resources;
- Comparing evidence of the benefits of joint working for service delivery, service commissioning, or hybrid approaches.
- Shared, or similar, values and culture;
- Ground rules (agreement on the partners roles and responsibilities) from an early stage (by way of a formal contract);
- All partners must gain something from the partnership;
- All partners must contribute to the partnership;
- Achievable objectives.

7.1.2.3 ***Existing Provider – South West Audit Partnership Model (SWAP)***

The South West Audit Partnership (SWAP) is hosted from South Somerset District Council and operates in the South West region, from the boundaries of Somerset to Weymouth and Portland.

The partnership has been in existence for over 5 years and has an extensive set of governance and legal arrangements in place.

It comprises of 11 partners consisting of 9 District Councils and the County Councils of Dorset and Somerset, in addition, Dorset are currently in a 50/50 contract with Deloitte's, which has also been taken on by SWAP.

Geographically the partnership is spread over a vast distance so organisationally existing teams primarily stay serving their original authority with some minimal flexibility outside of this, in terms of working for different partners;

Such a model could be considered feasible where the Council considers that it cannot finance its own internal audit service to deliver a comprehensive range of reviews and provide adequate assurance, choosing not to fully outsource or co-source all the service.

Meetings were held with the Head of the South West Audit Partnership (SWAP) to discuss the options and benefits available to B&NES in joining the partnership.

The SWAP contract has recently been renewed with its partners and is currently in a new 5-year term. Any new partner would 'buy-in' at the time of joining for the remainder of the period. Each partner has their own 'trading agreement' to specify what is included, giving flexibility around terms of the contract.

Most service risks are transferred, including capacity and staffing issues which should lead to consistency in management and assignments. SWAP is also compliant with all CIPFA Code of Practice standards.

Each partner has an equal seat on the Partnership board - one partner one vote.

Staff from B&NES would transfer (TUPE) to the employment of the 'host' authority, (South Somerset District Council) and would be subject to TUPE arrangements and will have similar terms and conditions to B&NES.

SWAP also negotiates with each individual partner authority for the provision of free accommodation, which includes a separate broadband connection through their network.

For Bath and North East Somerset Council the partnership approach would mean that audit skills otherwise unavailable can be brought into the frame.

Experience shows that the concept has worked well in the NHS, where consortium arrangements have enabled the NHS bodies with inadequate audit resources and skills to develop effective audit regimes.

The concept is also considered to have worked well in the first 5 years of the South West Audit Partnership (SWAP).

It allows the Service to make an immediate overall cost saving and presents a level of security and certainty for staff.

7.1.2.4 Readiness/ Capability Assessment

Whilst the strengths are primarily the same as a new CUBA partnership would be, its key advantage is that it is already in existence and is successful and therefore set-up and implementation is potentially relatively short (3 - 6 months);

The existing SWAP partnership are in a good position of readiness as they have experience, a standard procedure and legal documentation in place to be able to ensure the smooth transition into the partnership.

However as a model it is not considered to be as strong as a new, more local partnership which would have lower overheads, a stronger strategic fit in terms of joint working and a more flexible operation by having a single 'hosted' team working on a variety of partners.

Additionally there would be a loss of strategic control and influence due to the number of partners within the partnership and in most cases those partners have yet to 'downsize' their audit budgets thereby creating additional risk in the medium term.

As all local authorities will be going through a period of severe organisational turbulence and change it may be advisable to delay any decision on joining SWAP until the future is clearer and the impacts on the SWAP partnership are evidenced.

It is recommended this option is kept as an alternative solution position for potential implementation in 2013/14 in case a new local CUBA partnership is not able to be implemented or delivered.

Table 2 - Summary risk assessment of the advantages and disadvantages of this option.

Risk Assessment - Existing Consortium with other Local Authorities	
Advantages ☑	**Disadvantages** ☒
Retain an in-direct control of the service; A more sustainable service; where previous absences or involvement in special investigations reduced or affected the annual audit plan or resulted in additional costs when providing adequate cover.	An unequal partnership may mean that control of resource is biased i.e. equity and delivery of service; Quality of service may deteriorate over time without fresh input.
Continuity and locally based staff; however; Audit would be seen as an independent service by Directorate staff.	Loyalties may be divided;
Costs are restricted to the direct costs of service provision (no profit element)	Lack of flexibility – usually a more formal arrangement
Cost - in terms of economies of scale	Inflexible pricing once budgets have been agreed;
Shared Knowledge – opportunities to learn from elsewhere and do cross-cutting reviews Opportunity to share costs and buy in specialist skills not otherwise available or share skills from other partner authorities such as IT or contracts.	Ancillary services (e.g. VAT, Pensions, IT) may still need to be bought in; Greater demand from all partners for a particular service i.e. computer audit or contract audit.
Efficiencies can be achieved by carrying out 'parallel' reviews at more than one partner site at a time. Themed reviews are a way to add value to all Partners;	Resource – if resources are a problem for all partners, it may just become a bigger problem;
Introduce increased flexibility through a greater number of staff able to work across all partner sites or locations; i.e. greater resilience within the partnership;	Potential lack of flexibility during very busy/quiet periods;
A good cultural fit;	Terms & Conditions – need to address disparities in pay and conditions between the partners.
Slimmer management structure;	Potential for management to be too few and managers' roles may be spread too thin.
Client role can be focused on quality;	
Access to better career development opportunities and training, gaining experience in working with other authorities should provide greater opportunities for progression.	

7.1.3 New Partnership Model - CUBA Neighbouring Authorities

7.1.3.1 Delivery of service provided through a collaboration of audit resource from neighbouring local CUBA authorities.

7.1.3.2 Evidence to support a move towards a CUBA partnership consortia working are:

- Commitment from willing partners;
- Benefits from pooling budgets and other resources that would not be realised if the authority was to continue acting independently;
- Shortages of specialist staff or other resources;
- Shared or similar, values and culture;
- Ground rules (agreement on the partners roles and responsibilities) from an early stage (by way of a formal contract);
- All partners must gain something from the partnership;
- All partners must contribute to the partnership;
- Achievable objectives.

Providing Internal Audit through an independent Partnership strengthens both its profile and independence and enables a pooling of skills and resources which cannot be achieved when delivery services to only one organisation.

7.1.3.3 ***Proposed formation of a "CUBA" Partnership consortia***

Recent discussions were held individually with the Heads of Internal Audit of the neighbouring Unitary Authorities formed on the dissolution of the former Avon County Council (Bristol City Council, North Somerset Council and South Gloucestershire Council).

The meetings sought to establish their current position, the potential benefits and pitfalls of such an arrangement and their potential future appetite in considering a collaborative working partnership to deliver an internal audit service to the former Avon County geographic area.

All four Authorities are currently part of the West of England Partnership and have experience of collaborative joint working in the areas of Waste and Transport. They also agreed to work within the new Local Enterprise Partnership thereby strengthening the strategic fit of this model.

All four Authorities already work closely together and have accepted a joint partnership provides a strong long-term option.

The Heads of Internal Audit regularly meet to discuss local topics and consider the possibility of collaborative working on joint reviews.

Whilst feedback from the recent meetings indicated a lack of immediate interest in a local area consortium for internal audit from some authorities (due to the fact that budgetary pressures for savings were not as pressing in their service area), interest was expressed for a potential future arrangement with a champion for the partnership within each of the potential partner organisations.

Bristol City Council has however indicated that it is serious in working with B&NES to develop a partnership in the next 12 - 24 months.

Geographically the relatively compact size of the area also enables a more efficient organisational set-up by hosting all staff in one place but enabling them to deliver services to all partners, rather than being fixed on only one authority;

Overheads would be lower than buying into an existing partnership which is spread more geographically, i.e. SWAP Partnership works across all of Somerset, Dorset and parts of Devon.

There is no significant loss of strategic control, influence or local knowledge as the number of partners is relatively low as opposed to the main existing partnership - SWAP - which has 11.

This option, would present a suitable level of security and certainty for staff.

7.1.3.4 **Readiness/ Capability Assessment**

This option potentially represents the best alternative,

However, not all four Authorities are either ready or capable of delivering this change at the present time. Therefore, the assessment is based on the potential future delivery of the option and how B&NES and the other Authorities would move towards this as a real opportunity for all.

An initial commitment would be required from each potential partner in order to escalate the proposal forward into a solid business case with clear intentions.

At present only one Authority is in a position to work with B&NES (Bristol CC) to implement a partnership. This in itself is not particularly negative as it will speed up implementation and enable the other 2 authorities to join at a later stage much more easily.

Initially the partnership would be for B&NES and Bristol CC to form but would be set-up to allow North Somerset, South Gloucestershire and potentially other local authorities or other public sector bodies to join in future years;

The partnership would be based on a 5 or 10 year legal agreement which can be approved without the need for any procurement exercise. However it has to be formed from scratch and so set-up costs and timescales to implement are relatively long, and it is estimated it would take at least 12 – 24 months;

The rebasing of budgets before joining the partnership is critical.

B&NES Internal Audit will be reducing costs by 25% before a partnership is formed thereby providing stability for the immediate future (3 - 5 years). Other partners must also reflect on their costs before entering the partnership and decide on their own client arrangements.

In the case of B&NES this would start with the re-structure of the internal audit service to ensure that it continues to provide a suitable level of assurance to the Council in the medium term.

It would be beneficial for all participating authorities to commit to joint reviews and cross working on specific common areas to ‘pilot’ the potential for a partnership.

This would need to consider the type of governance; infrastructure and systems that could feasibly fit into a future partnership delivering an internal audit service on behalf of all the authorities.

It is recognised that such a major change programme will be delivered over the medium to long term. It would therefore be important to maintain momentum and establish an effective process to participate and commit to pre-determined timescales.

This option provides the best opportunity to maximise the use of joint reviews and to identify and possibly streamline processes and not be seen as a lack of ambition for this opportunity.

In order for this proposed option to succeed it is very important that participating Authorities express an early formal commitment and joint ambition to proceed and nominate a "champion' to promote and drive the programme, and transition process.

The scale and cost of any new infrastructure and change will be dependent on which Councils decide to proceed, but it will require significant initial investment to fund new Infrastructure and systems, and re-source the process.

Prior to proceeding and in order to minimise misinformation, it is essential that this option is fully communicated and consulted upon with all stakeholders to dispel fears and allow discussion at an early stage.

There is a wider opportunity to link together in the long-term with the SWAP partnership and other regional delivery models to provide even greater efficiency and resilience including sharing contracts and resources;

It is recommended this option is seriously considered for the medium to long-term as part of a phased implementation and an optimum time for implementation would be the 2013/14 year.

Key Issues:

People

- Need for timely harmonisation planning;
- Head of Partnership would be appointed 6 months in advance to plan change.
- All staff would transfer to the 'hosting' authority but would retain all other employment rights, i.e. local government terms and conditions and access to the pension scheme;

Process

- Focus on best practice & harmonisation of processes, single methodology and need for flexible working to be in place;

Systems

- Need for single software system to be used and IT links to partners networks.

Governance

- The partnership would be based on one authority 'hosting' the partnership, a single Head of Partnership and having a single methodology and supporting systems and software;
- The partnership would however have freedom to operate as a separate entity within this framework and would have its own 'branding' and operating name;
- The Head of Partnership would report to a Partnership or Management Board consisting of each partner. This board would sign off the budget, business plan and audit and resource plans for the partnership;
- Existing Audit Committees would remain as now for each partnership authority and the Head of Partnership would report direct to each committee on the performance of Internal Audit.

Table 3 - Summary risk assessment of the advantages and disadvantages of this option.

Risk Assessment - Proposed partnership with Neighbouring Authorities	
Advantages ☑	**Disadvantages** ☒
A good cultural fit; Fits strategically with the future model of the organisation and expectations of the new government in finding more efficient methods of service delivery.	Lack of immediate interest in an area-wide consortium for internal audit; There may potentially be a loss of reputation for the audit teams involved, and, in the event of the project failing or no agreement being reached, the wider reputation of the Council.
More localised, as fewer partners, therefore a greater degree of control; the relatively compact size of the geographic area also enables a more efficient organisational set-up by hosting all staff in one place but enabling them to deliver services to all partners, rather than being fixed on only one authority.	At present only one Authority is in a position to work with B&NES to implement a partnership. This in itself is not a negative factor as it will speed up implementation and enable other authorities to join more easily at a later stage.
Continuity and locally based staff. Staff already familiar with each other and, in general, are based locally.	There is risk in the work involved in establishing a new consortium, including dealing with staffing issues and establishing a new identity and aligning working methods. A lack of availability of current staff wanting to work in locations at the other partner sites.
Experience of working closer together in collaboration on the same topics, such as the West of England partnership Waste and Transport reviews; Best practice in many service areas in will be feedback and circulated by the auditor involved.	Alignment of working methods; The partnership would be based on one authority 'hosting' the partnership, and having a single methodology and supporting systems and software.
No procurement regime to go through as this can be done under the Local Government Act 1972.	Timeframe to deliver; there is significant work involved in establishing a new consortium; it is estimated it would take at least 12 - 24 months; The project could fall behind (not introduced to the proposed deadline) or partners may fail to agree on the detail of the audit approach or other dispute causing the project to fail.
Transfer of all in-house staff to the new partnership 'hosting' authority under TUPE arrangements, strengthening both its profile and independence. All staff would retain employment rights, i.e. local government terms and conditions and access to the pension scheme.	Terms & Conditions - need to address disparities in pay and conditions between the partners.

Risk Assessment - Proposed partnership with Neighbouring Authorities	
Advantages ☑	**Disadvantages ☒**
Fixed term agreement; and integrated audit plan with local variations based on existing internal audit resources and partner requirements.	Failure to deliver the current level of audit coverage to the partner Councils involved and at the same time not achieving any efficiency gains.
Local Internal Audit Manager could be responsible for more than one team; and reports to Audit Committee.	Insufficient Management structure resulting in the Manager role being spread too thin.
Clear identification of the efficiency gains for each partner. Cost reductions through common areas of spend, such as CIPFA, periodicals, training etc.	
Overheads would be lower than buying into an existing partnership which is spread more geographically, i.e. SWAP Partnership works across all of Somerset, Dorset and parts of Devon.	
Pooling of skills and resources. Integrating resources through partnership strengthens standards and improves opportunities for staff and career development and ultimately provides greater resilience for the future.	
Wider long-term opportunity to link with the SWAP partnership and other regional delivery models to provide even greater efficiency and resilience including sharing contracts and resources.	

7.1.4 Co-sourced Model

In theory both the co-sourced and outsource models should work well, with the ability to replace skills gaps and invest in areas of highest risk.

7.1.4.1 Discussions were held with external providers to gain an understanding of the options available by way of a co-sourced arrangement.

7.1.4.2 Evidence to support a move towards a co-sourced option is:

- Where the current internal arrangements and shortages of specialist staff or other resources are considered to be inadequate in terms of ability to deliver a range of services;
- Commitment from Senior Management to provide financial capacity to procure additional resources to assist the in-house service;
- Spare capacity in the potential provider;
- Achievable objectives.

7.1.4.3 *Option – Co-sourced*

Co-sourcing is the procurement of core or additional specialist skills as a fixed term contract, secondment or as an ad-hoc arrangement, and is an attempt to address and rectify issues experienced such as short term resource problems e.g. sickness, unplanned work or difficulty in recruiting.

Co-sourcing involves an external provider working alongside the in-house function to provide valuable skilled support when required with an agreement on roles and responsibilities by way of a formal contract;

The extent to which co-sourcing is required depends on the specific audit or review being carried out, but access to the relevant specialists enhances the level of internal audit provision.

Occasional secondment of specialists to enhance the in-house role can be particularly useful for reviews of;

- Information Technology;
- Contracts and procurement;
- Taxation;
- Pensions.

This may be particularly relevant for contract or Information Technology audit reviews and will almost certainly be a cheaper option than external specialists. However, independence could possibly be compromised.

Delivery of the audit plan is shared between the chosen provider and the Council. It is common practice for the external provider to complete reviews that may be considered 'specialist' or are more cost effective to outsource. This eliminates the need for the Council to recruit expertise that is difficult and sometimes relatively expensive to retain and maintain.

The major disadvantage of co-sourcing is the cost of procuring specialists and it is recommended that an assessment of risk and value for money is carried out before proceeding with this option.

Whenever services are bought in, experience shows that it is essential that the contractual conditions are unambiguous and understandable to both parties.

The co-sourcing option does not allow the Council to make an overall cost saving as funding for the arrangement is from existing budget or increased savings.

Additional compulsory redundancies would be required to further reduce the audit function by at least 25%. This reduction would be both costly (and unaffordable) and would not replace the skills being lost with anything that was discernibly different.

The option presents a high level of security and certainty for staff that have been retained.

Implementation would take at least six months and involve a significant amount of management capacity. The value of this exercise was not considered beneficial.

7.1.4.4 **Readiness/ Capability Assessment**

The co-sourcing option does not allow the Council to make an overall cost saving as funding for the arrangement is from existing budget or increased savings.

It is estimated that if this option was chosen the process would take between 1 and 6 months to implement dependent upon the value of the contract and compliance to the Council's Financial Standing Orders and procurement process.

The option presents a high level of security and certainty for retained staff.

Table 4 - Summary risk assessment of advantages and disadvantages.

Risk Assessment - Co-sourced arrangement	
Advantages ☑	**Disadvantages** ☒
Independence from the organisation.	Quality of delivery - the reliability of management information is vital to assess the quality.
No staff administration and training requirements and costs and Council can potentially have access to private sector training opportunities.	Potential loss of control of quality of staff provision.
Cross-fertilisation of ideas gained from other sources/sectors.	Cultural fit – differences in culture and approach can potentially lead to problems and staff may not have the detailed knowledge of the Authority.
Flexible resources and availability – can specify term and level of provision.	Staff may not always be available on site. Continuity of staff may be less certain. In addition, the loss of any real flexibility of the audit resource through a time of severe organisational change is not considered advantageous.
	Potential damage to in-house reputation; Research identified that the co-sourced model has, in general, been ineffective in relatively small audit functions in terms of standards, management and having different methodologies employed.
Full access to technical expertise, specialist resource and ancillary services.	Cost of procuring specialists may be high at a premium.
A flexible contract – the Council can specify term and level of provision and only pays for what is provided.	Contract restraints - you only get what is specified and agreed to pay for in your contract. Unforeseen changes to plan may incur extra cost.
Ability for provider to 'second' a member of staff to the in-house team.	If a secondment is considered, care must be taken to manage any potential conflict of interest, confidentiality or compromise the independence of internal audit.
In the short-term there could be cost advantages.	Costs - the private sector supplier will have significantly higher daily rates
Penalty clauses can be written into the contract to deal with delays in delivering the Annual Audit Plan.	Potential financial exposure if the co-sourcing fails. This could be of particular concern where the Council may have established in in-house resources on delivering and achieving all of the outputs.

7.1.5 Fully Outsourced Model

7.1.5.1 There is a well developed market for local authority internal audit services.

Delivery of service is provided 100% by an external provider. i.e. transfer of all staff to an outsourced external provider to deliver an annual risk-focused internal audit plan. A designated contact acts as a liaison reporting to the in-house responsible client officer and the Audit Committee.

7.1.5.2 Evidence to support a move towards a fully outsourced are:

- the organisation is too small to justify an in-house team,
- the organisation is unable to attract and retain suitably qualified internal auditors, or;
- requirement for specialist skills which are not available within the in-house internal audit team and;
- a benefit may be gained from a 'leading edge methodology' and wider experience of best practice.

7.1.5.3 External Providers

Discussions were held with external providers to gain an understanding of the options available for a fully outsourced arrangement.

The engagement of an external provider would assist or replace the in-house team and the Council would benefit from the greater independence and flexibility afforded by an external resource.

However, external providers are increasingly reluctant to take on local authority staff under TUPE transfer and would prefer to work in partnership or as a co-sourced arrangement.

In this respect this option would be likely to limit the market response, presenting a high risk that the procurement process will not deliver best value for money.

This option presents significant uncertainty for staff.

Option – Fully outsource

Immediate, short and long terms cost savings, with an internal audit service sufficiently staffed and up to date with the relevant skills or experience to consistently deliver a service.

7.1.5.4 Readiness/ Capability Assessment

It is estimated that if this option was chosen the process would take between 6 and 9 months to implement dependent upon the value of the contract and compliance to the Council's Financial Standing Orders and procurement process. The OJEU procurement timetable takes a minimum of 6 months. Procurement via competitive tendering carries related advertising and staff costs.

External providers are in a position of readiness to take on an internal audit service as they too have experience, procedures and legal documentation already in place to be able to ensure the smooth transition into the agreement.

Existing staff would transfer to the external provider under TUPE arrangements.

However, external providers are increasingly reluctant to take on local authority staff under TUPE transfer and would prefer to work in partnership or as a co-sourced arrangement.

The market advised that they would prefer to use their own staff and not TUPE existing staff into their own organisation. The relative size of the service was not therefore attractive enough to make it a viable proposition.

In this respect this option would be likely to limit the market response, presenting a high risk that the procurement process will not deliver best value for money.

In the short-term there could be cost advantages but these were countered by little in the way of any track record of positive service delivery and an uncertain future for staff transferred. Indeed there was no history of a sustainable and quality service being delivered by an external firm for a Unitary Authority

If the Council were to enter into a fully outsourced arrangement, operational risk may increase as there is potential for the arrangement to be terminated suddenly, if this happens, the Council should have a contingency plan to mitigate any significant gap in audit coverage, particularly for high-risk areas.

In its planning, the Council should consider possible alternatives to determine what it will do if an auditor with specialised knowledge or skills is unable to complete reviews of high risk areas, or if an outsourcing arrangement is terminated.

This option presents significant uncertainty for staff.

Implementation would take at least six months and involve a significant amount of management capacity. The value of this exercise was not considered beneficial.

Table 5 - Summary of the advantages and disadvantages of buying in the service.

Risk Assessment – Fully Outsourced arrangement	
Advantages ☑	**Disadvantages** ☒
Independence from the organisation. Audit would be seen as an independent service by Directorate staff.	Continuity of staff may be less certain. Significant uncertainty for current B&NES staff. Providers prefer to use their own staff and not TUPE existing staff into their organisation.
No staff administration and training costs. Large external provider is more likely to invest significantly in training, development and best practice techniques. Council can potentially have access to private sector training opportunities.	Staff may not always be available on site.
Client role can be focused on quality. Staff recruitment and retention issues no longer a problem	Potential loss of control of quality of staff provision.
Cross-fertilisation of ideas gained from other sources/sectors.	
Flexible resources and availability – can specify term and level of provision.	Cost - the external provider will potentially higher daily rates

Risk Assessment – Fully Outsourced arrangement	
Advantages ☑	**Disadvantages ☒**
In the short-term there could be cost advantages.	Long term costs - the external provider will potentially higher daily rates
Full access to technical expertise, specialist resource and ancillary services.	
A flexible contract – the Council only pays for what is provided.	Contract restraints – you only get what you have specified in the contract and agreed to pay for.
All service risks transferred to external provider, including capacity and staffing issues – resulting in consistency in management and assignments	Cultural fit – differences in culture and approach can potentially lead to problems Private sector staff won't have the detailed knowledge of the Authority
The outsourced provider works jointly with the internal audit manager in reporting significant findings to the audit committee.	Would be difficult to reverse the decision at a later date if the service were to be brought back in-house

7.2 Stage 3 and 4: Option Development

7.2.1 The feedback from the interviews held and results of the questionnaire fed into the development of a set of evaluation criteria for the options appraisal under a number of main headings;

These options were grouped and weighted in terms of scoring and were considered without detailed financial information, being scored on a comparative basis according to their ability to meet the criteria selected.

7.2.2 The following criteria were subsequently confirmed (not in any priority order):

a) **Standard and Quality - 30%** - Ability to develop audit strategy and risk-based plan consistent with the Council's corporate vision, strategy and priorities

- Quality Control - Ability to deliver core audit requirements – including compliance with CIPFA code of practice and satisfying the External Auditor's requirements,
- Leadership - Ability to deliver significant and sustainable improvements in the quality and productivity of the internal audit service – consistent with an excellent rating,
- Access to specialist skills - Ability to contribute to broader work including upstream advice on new developments, best value, efficiency, performance improvement and modernisation.

b) **Staff & Skills - 20%** - Delivering improved value for money within existing cost parameters - comparable with or better than other similar local authorities.

- Investment in People - Improving profile and standing of internal audit within the organisation, so that the function commands the confidence of the organisation and is perceived as adding real value.
- Use of Automation - Impact on staff – providing a quick resolution to current uncertainty, improve morale and provide a more satisfying working experience for existing internal audit staff
- Terms and Conditions - Track record and cultural readiness for change

c) **Financial / VFM – 25%**

- Cost of Implementation issues: ability to deliver benefits quickly & risks to authority
- Flexibility on future costs – ability to control number of days procured.
- Cost of service – in comparison to alternative options, specialists, day rate, ad-hoc.

d) **Organisational – 25%**

- Strategic Fit - Consistent with Council's vision, mission, values & strategic aims and corporate objectives and supports the organisation
- Track record – financial stability and quality of service.
- Use of resources – adaptability to change.
- Governance and accountability – Strategic role of Head of Audit; outcomes, accountability and responsibilities are properly discharged.

7.3 Required Financial Savings: Option Development

A savings target of 20% - 25% of gross spend (approx £105k) of the total Internal Audit Service budget was the parameter over the next 4 years.

Savings of £105,257 have been identified, and will be realised, as a result of voluntary in-house redundancies of 3 members of staff. (Equivalent to 29.4% of staff budget, 24.3% of overall gross budget, 36% of net budget)

The effect of these redundancies is to reduce the gross number of audit days to 1,423 which include a number of days as a contingency allowance for unplanned project and investigation work.

Whilst it is possible to achieve these savings it also means that delivery of the Internal Audit Service in its present structure will be difficult to sustain.

Overall Summary of Options		%	WEIGHTING	In House Restructure	Co-Source	Existing Partnership (i.e. SWAP)	New Partnership (i.e. CUBA)	Fully Outsourced
Standard & Quality	**TOTAL SCORE**	**29%**	**10**	**33**	**32**	**36**	**37**	**34**
Audit Methodology			3	9	9	9	9	9
Quality Control			3	12	9	9	12	9
Leadership			2	8	6	8	8	6
Access to specialist skills			2	4	8	10	8	10
Staff	**TOTAL SCORE**	**20%**	**7**	**22**	**22**	**28**	**25**	**19**
Investment in People			3	9	9	12	12	9
Use of audit automation			1	4	4	4	4	4
Terms and Conditions			3	9	9	12	9	6
Financial / VFM	**TOTAL SCORE**	**26%**	**9**	**36**	**21**	**27**	**27**	**21**
Cost of Implementation			3	15	6	9	3	6
Flexibility of Future Costs			3	6	9	9	12	9
Cost of Service			3	15	6	9	12	6
Organisational	**TOTAL SCORE**	**26%**	**9**	**33**	**30**	**32**	**37**	**27**
Strategic fit			3	9	12	12	15	9
Track Record			2	6	4	6	6	6
Use of resources			2	10	8	6	8	6
Governance and Accountability			2	8	6	8	8	6
	TOTAL SCORE	100%	35	124	105	123	126	101

APPENDIX A

Analysis of Top 3 Options	In House	Existing Partnership (i.e. SWAP)	New Partnership (i.e. CUBA)	Explanation of Scoring
Standard & Quality	**33**	**36**	**37**	
Audit Methodology	9	9	9	Equal score for each option
Quality Control	12	9	12	The SWAP model was assessed as having less direct management resource than could be provided in the future through an in-house restructure or new CUBA partnership. The potential implication of this would directly affect quality control.
Leadership	8	8	8	Equal score for each option
Access to specialist skills	4	10	8	SWAP currently have access to a broader range of specialist skills via a mix of internal skills but moreover, an external contractor. A new CUBA Partnership could mirror a similar arrangement, whilst the in-house option could not match either model.
Staff	**22**	**28**	**25**	
Investment in People	9	12	12	Economies of scale allow both SWAP and a new CUBA partnership to invest more in staff in terms of professional training and career development. This area is currently a particular strength of the SWAP model.
Use of audit automation	4	4	4	Equal score for each option
Terms and Conditions	9	12	9	Although not in every case, the SWAP model is able to offer the potential for improved pay for staff.
Financial / VFM	**36**	**27**	**27**	
Cost of Implementation	15	9	3	The In-house model would be almost cost neutral and achieved in a very short timescale. The SWAP Model would take longer but has the benefit of a tried and trusted approach with its existing partners, thereby saving time and cost. A new CUBA Partnership has to be built from scratch and will therefore take the longest to implement, although SWAP have offered to assist in the implementation process.
Flexibility of Future Costs	6	9	12	Very significant savings are being delivered upfront. Due to the very nature of the models, the in-house option then has very limited to no scope to deliver further savings in the next 3-5 years. Due to their size and scale, the partnership models have more opportunity to achieve efficiencies. The new CUBA model is considered to have the greatest long-term opportunity due to the way the model would be constructed.
Cost of Service	15	9	12	All the models deliver less audit days than currently. The in-house restructure delivers the most coverage in terms of audit days as it is replacing lost resource with new skilled staff from the risk management function. SWAP delivers a reasonable return on its cost per day but it was assessed that a new CUBA model could deliver approx 5% more coverage due to the way the model could be structured and potential for lower overheads.

Analysis of Top 3 Options	In House	Existing Partnership (i.e. SWAP)	New Partnership (i.e. CUBA)	Explanation of Scoring
Organisational	**33**	**32**	**37**	
Strategic fit	9	12	15	The partnership options score well but the new CUBA model provides a perfect fit in terms of the future council model and the direction of travel of support services in general through public/private sector partnership.
Track Record	6	6	6	Equal score for each option
Use of resources	10	6	8	An in-house service offers total (100%) control and flexibility over the audit resource which enables it to score highest. This flexibility is considered important in the short term (2 years) whilst the overall organisation is changing significantly. The new CUBA model scores slightly better than the SWAP model based on the way it was assessed that the resource would be set up and allocated.
Governance and Accountability	8	8	8	Equal score for each option
	124	**123**	**126**	

	2011/12			2012/13			2013/14			2014/15		
	In-house	SWAP	CUBA	In-house	SWAP	CUBA	In-house	SWAP	CUBA	In-house	SWAP	CUBA
Proposed Annual Savings (Cumulative in Brackets)	£45K	£45K	£45K	£60K (£105K)	£60K (£105K	£60K (£105K)	-	-	-	-	-	-
Proposed Savings as % of Gross/Net Expenditure	10% (Gross) 16% (Net)	-	-	15% (Gross) 25% (Net)	-	-	-	-	-	-	-	-
One-Off Set-up Costs	-	-	£10K	-	£15K	£10K	-	-	-	-	-	-
Set-up Timeframe	Implemented by April 2011	No Work in 11/12	All of 11/12 (12 Mths)	-	Oct – Mar (3 - 6 Mths)	All of 12/13 (Up to 12 Months)	-	-	-	-	-	-
Set-up Complexity	Implemented (V. Low)	-	High	-	Med	High	-	-	-	-	-	-
Estimated Audit Days (Currently 1609)	1423	-	-	1423	-	-	1423	1235	1310	1423	1235	1310
Transfer of Risk for Service Delivery	None	-	-	None	-	-	None	Yes	Yes	None	Yes	Yes

Suggested Timetable and Implementation Plan

APPENDIX B

New Partnership (CUBA)		2010 -2011		2011- 2012				2012 - 2013				2013-14
		Dec	Jan - Mar	Apr – Jun	Jul – Sept	Oct – Dec	Jan - Mar	Apr – Jun	Jul – Sept	Oct – Dec	Jan - Mar	Apr – Jun
New (CUBA) Partnership Option	Options Appraisal Report											
	In-House restructure											
	Dialogue with potential CUBA partner											
	Pilot collaborative audit work planning											
	Pilot collaborative working											
	Progress report on pilot collaborative working											
	If decision is to proceed with New (CUBA) partnership											
	CUBA implementation process											
	Detailed scope of partnership											
	Go 'live' implementation of new partnership											
SWAP Option	If decision is NOT to proceed with CUBA partnership											
	Formal decision to join SWAP											
	SWAP Implementation process											
	Go 'live' implementation of SWAP partnership											
SWAP Partnership		2010 -2011		2011- 2012				2012 - 2013				2013-14
		Dec	Jan - Mar	Apr – Jun	Jul – Sept	Oct – Dec	Jan - Mar	Apr – Jun	Jul – Sept	Oct – Dec	Jan - Mar	Apr – Jun

In House Training Needs Analysis
In House Invest in training to address skills gap
In House Restructure teams
In House Smarter Working Initiatives

- Audit Planning Process
- Improve time management of reviews (by Auditor and Manager)
- Management reporting
- Performance reporting

In House Dialogue with potential partner to address

- Joint working on specific reviews
- Establish governance and management of reviews
- Consistent approach to audit automation