

**Report of the Head of Partnership on External Income and surpluses
and how this protects future audit provision.**

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

Recommendation:

- i That the Committee notes current position as set out in the accompanying report and the associated issues.
- ii That the Committee notes the small but useful contribution made through providing services to external partners and how this contribution is used to further develop the audit service to enable services to be provided efficiently and effectively.



devon **audit** partnership

Internal Audit

Benefits of External Partnering

Partnership Committee

February 2014

Auditing for achievement

Report of the Head of Partnership on External Income and surpluses and how this protects future audit provision.

1. Introduction

1.1 At the November 2013 Partnership Committee it was minuted that

(b) that the Committee receive further information on the external income and any surpluses of the Partnership and how this would protect future audit provision and reduce the investment required of the Partners.

2 DAP – Framework and Achievements

2.1 The original business case (April 2009) presented to the Partnership Committee and endorsed by the Management Board set out the objectives of the Partnership **see appendix A.**

2.2 An option appraisal was conducted, and a Partnership arrangement between Devon, Torbay and Plymouth councils was seen as the preferred option to deliver these objectives. This delivery option identified key benefits **see appendix B.**

2.3 The achievement of these objectives and benefits to the Partnership Members is strongly linked to, and driven by, an effective employee base and staff skill mix from this base. The maintenance of the size of the work base is a balance supported strongly by investment made by external partners; this helps maintain skill levels, supports sharing of best practice and maintains flexibility. This can be seen from the achievements and added benefits within the two appendices A and B.

2.4 Since the Partnership was created the Partners have required significant financial reductions in budget (5% years 1 to 3; 10% years 4 and 5, and projected 10% reduction in each of years 6,7 & 8)

2.5 In order to achieve the objectives set out above and in particular to **provide a quality audit service that is sustainable, achieving continuous improvement within the revised financial envelope offered by the Partners**, Partnership management identified that other, external partners, should be beneficial in generating income that would replace some (if not all) of the budget reductions made by the Partners. Such income generation would then allow the experienced, effective, knowledgeable and valued workforce to be retained, providing the high quality and sustainable service.

3 The DAP Model

3.1 DAP is a “not for profit” organisation. It is permissible to generate small surpluses, and these will be reinvested or distributed to the founding partners as per the partnership agreement.

3.2 Since the Partnership’s creation, we have been successful in generating new business opportunities and the amount of income generated from external partners is considerable. Please see other reports in the agenda for this Committee

3.3 However, any “surplus” that can be generated from work with external partners can and often is reinvested into the partnership. Such reinvestment is used to enable the Partnership to further develop its audit approach and techniques, enabling the required level of audit assurance to be provided within the reduced budget allocations being made by the Partners.

4. Charging Policy

- 4.1 When the Partnership was created the daily rate of each day of delivery varied between each team; DAP Management were charged with reducing this daily rate and bringing in an equitable rate.
- 4.2 In 2009, before the Partnership commenced, the daily rate varied but was up to £300 for one Partner. In the five years since 2009 there has been no uplift in our prices and we have delivered a 47% reduction in cost of delivery. In 2014 we will charge each partner at a daily rate of £245.
- 4.4 It should be noted that this is a **composite** daily rate; we charge the same rate for key financial systems work, risk based audit, ICT audits, Fraud and Irregularity work, consultancy and advice, training for members, audit planning and reporting, and attendance at Audit Committee. Maintaining the staff base thus provides greater skill level and at a very cost effective daily rate.
- 4.5 Comparison with other providers indicates that a range of daily rates is applied; this is adjusted according to the nature of the assignment and the level of personnel required to complete the review.
- 4.6 External partners - We charge each of external partners for work completed. The daily rate set will take into account a number of factors including;
- *The nature of the work (is it something that DAP has good experience of)*
 - *Who is likely to complete the assignment?*
 - *Will DAP manage and supervise or will this be the client?*
 - *Will we be charged for accommodation / phones etc?*
 - *Will we be presenting the report to a) management b) committee?*
 - *Travel issues (time and cost)*
 - *ICT issues – do we use our ICT or the partners?*
 - *What is the possibility of learning from this work assisting the partners?*
 - *Will staff be “developed” through the work?*
 - *Is it a “one-off” piece of work, or could the programme be used to inform future DAP work?*
 - *Will the piece of work generate /open up new opportunities with that client?*
 - *The implications of Teckal*
 - *The rate that other suppliers / competitors may be charging for a similar piece of work*
 - *The level of “contribution” (surplus) we consider appropriate to generate from the assignment*

4.8 As a consequence the rate charged varies from client to client and from assignment to assignment. The rates charged to clients are commercially sensitive and contain a number of factors (as set out above) that have influenced the value. A figure is not “plucked out the air” but is the value considered appropriate to charge, bearing in mind all the factors above.

4.9 The Head of Partnership uses the above factors to develop arrangements with external partners that, ultimately, enable the Partnership to develop, improve service delivery, and to continue to provide a cost effective, efficient, class leading service that makes a significant “return” to the partners; in addition the Partnership aims to deliver small operating surpluses year on year.

5 Investment in the future

- 5.1 Business generated through external partnership arrangements has significant advantages to the Partnership; a small contribution to an overall trading surplus is one of these but is by no means the only, or, indeed, the most important.
- 5.2 The extra income generated allows for future investment to take place, in the form of training / staff development / ICT developments etc; all of which contribute to maintaining and improving efficiency and quality for service provided to all partners.

5.3 Continued investment from small but useful trading surpluses, will enable DAP to develop approaches that will enable an annual audit opinion to be provided for each Partner within resources allocated.

6. Conclusion

6.1 Arrangements with external partners enable the Partnership to develop and to continue to provide a cost effective, efficient, class leading service.

6.2 Income generated does enable a small contribution to an overall trading surplus; however a surplus is by no means the only, or, indeed, the most important benefit of such arrangements.

6.3 Continued re-investment of surpluses will enable the Partnership to develop approaches that will enable an annual audit opinion to be provided for each of the Partners within the reduced level of resources that will be available in future years.

Robert Hutchins
Devon Audit Partnership
February 2014.

DAP - Service Improvement Objectives

Appendix A

On the basis of the strategic context and current state assessment, the group set a list of service improvement objectives. An extract of these objectives includes:

Objective	Achievement	Example Added benefits
<ul style="list-style-type: none"> To improve / or maintain cost effectiveness to be at least the average of CIPFA benchmarked costs; 	<p>CIPFA benchmark data shows that we are improving our number of chargeable days and just above “club average”. Our costs per chargeable day & per auditor are significantly lower than average.</p>	<p>Extended our client base with recognised low cost quality audit.</p>
<ul style="list-style-type: none"> Provision of adequate and suitable training, audit qualifications, continued professional development (CPD) and general updating of skills; 	<p>We currently maintain three staff undertaking professional Institute of Internal Auditors study. CPD is ongoing with over 30 days professional development provided to staff in the last 12 mths. A member of staff professionally trained in ICT Forensics.</p>	<p>Facilitated group training with other Internal audit Service providers that enabled more staff to be trained within budget and improved networks. Provided forensic examination services to wider client base</p>
<ul style="list-style-type: none"> Be responsive to customer needs i.e. tailored service, customer focussed; 	<p>We have year on year tailored the audit plan to meet member needs including annual reductions. Audit plans are focused to the Councils risks, agreed with Service Directors and changed for new priorities in year. Extended service delivery and additional work to all clients.</p>	<p>Other Partner Clients have extended their contracts in in both duration and service level e.g. Fire, National Parks and Police</p>
<ul style="list-style-type: none"> To continue to provide a quality audit service that is sustainable, achieving continuous improvement, in an arrangement that is at least cost-neutral to each authority; 	<p>Our productivity has achieved targets. Customer satisfaction is at 98% Customer service Excellence Accreditation Average day rate has reduced. Standard delivery through MKI audit system</p>	<p>Our audits are recognised by our clients as useful and “add value” (see customer testimonials on our web page).</p>
<ul style="list-style-type: none"> Standardisation of audit procedures; 	<p>All teams and staff work with our standard model through MKI Audit Management System.</p>	<p>Efficiencies with this system have enabled repayment of the pump prime loan to purchase the software.</p>
<ul style="list-style-type: none"> Sharing of Best Practice; 	<p>All staff work to all clients in “cross-service” delivery to share lessons. e.g. Data Protection Compliance, computer security, adult and child care services</p>	<p>Best practice identified at one partner, is shared (with permission) with other partners.</p>
<ul style="list-style-type: none"> To retain a “local” presence that will meet customer expectations; and 	<p>Maintained local offices for all members On-line presence at each Partner</p>	<p>Continuous access by customers is appreciated where regular ongoing advice is sought of Audit as an expert advisor on risk and control e.g. procurement</p>
<ul style="list-style-type: none"> Be responsive to changes in the market place e.g. outsourcing / partnership working by local authorities. 	<p>We have met service contraction requirements of Member Partners. Balanced service contraction with expansion with other Authorities and clients e.g. Torridge district Council, Southhams District Council Shared working with South West Audit Partnership</p>	<p>Development of audit programmes through shared extended network of Clients. Improvements on use of MKI audit Management systems from pooled learning.</p>

DAP - Service Delivery Option Benefits

Appendix B

An option appraisal was conducted, and a Partnership arrangement between Devon, Torbay and Plymouth Councils was seen as the preferred option to deliver these objectives. This delivery option identified the following benefits:

Delivery Option Benefits	Achievement	Example Added benefits
<ul style="list-style-type: none"> a staff resource that can be deployed more flexibly, with better ability to cope with vacancies and / or ad hoc work; 	<p>Staff vacancies have been minimised Staff work across all sites to deliver the clients work and additional work as specialists in key areas. Irregularity investigations have been met promptly. Maintenance of “pool / contract staff” increases flexibility of working and wider skill set.</p>	<p>Staff have come forward to request change for self development. Staff loss has been reduced through flexible working. Wider skill set from pool staff has improved quality in delivery against ICT, People and Key financial systems</p>
<ul style="list-style-type: none"> enabling the risk of vacancies to be better managed; 	<p>Service contraction by Member Partners has been significantly offset by expansion of external client work. Target reduction of 10% for 2014/15 (loss of 4 staff) has been offset by extension of contracts from Police, Torridge, Fire and grant work. Maintenance of “pool / contract staff” reduces possible redundancy costs</p>	<p>Working practice of staff is less fearful of change because the work base is more constant.</p>
<ul style="list-style-type: none"> the opportunity to share operational knowledge to assist in the reduction of average costs per audit day; 	<p>Managers and staff work across Member Partners. Consistent Method of delivery has reduced cost of audit time. Efficiency has improved with consistent programme delivery across clients e.g. schools. Day rates have reduced significantly for some Members.</p>	<p>We remain considerably less expensive than our key private competitors.</p>
<ul style="list-style-type: none"> increasing the sharing of best practice and access to a larger pool of specialist knowledge; 	<p>Maintenance of core staff numbers through expansion of wider client base. Maintenance of “pool / contract staff” offers flexibility and employment of specialist staff in ICT, key financial systems and irregularity investigation.</p>	<p>Specialist staff are developing higher level audit programmes for delivery across all clients.</p>
<ul style="list-style-type: none"> economies of scale e.g. training, resourcing specialist skills such as IT and contract audit; 	<p>On site training delivery in for example risk management, procurement and ICT review has afforded training for key parts and sometimes the whole service rather than specific individuals.</p>	<p>Audit review and secondment of staff has been provided by DAP for areas like commissioning</p>
<ul style="list-style-type: none"> keeping unproductive time and travel costs to a minimum; 	<p>Auditor productivity is slightly above the CIPFA benchmark Club Average. Our travel budget is higher than the CIPFA benchmark average but as a rural County it is not significant. Our actual cost is lower this yr than in</p>	<p>Our ICT links and on-line audit management system allow cross partner working with reduced travel requirements.</p>

DAP - Service Delivery Option Benefits

Appendix B

Delivery Option Benefits	Achievement	Example Added benefits
<ul style="list-style-type: none"> providing for flexible deployment if and when necessary, and allowing staff to build up specialist knowledge of the council(s) they are working within; 	<p>2010 yet we have a wider client base.</p> <p>We have 5 skilled ICT auditors, 3 in procurement, dedicated schools auditors including academies, staff developing in ICT, European Grants, ICT Forensic investigation</p>	
<ul style="list-style-type: none"> providing better opportunities for staff to further careers within the internal audit function; 	<p>Staff loss has been low</p> <p>Internal promotions have been made for 5 staff in the last 18 months.</p> <p>We are seen by and have taken on staff from other internal audit providers as a good employer.</p> <p>Staff have been promoted to other internal audit providers.</p>	<p>Networks with Member Partners have strengthened. Partners are more aware of the quality of staff we have and request additional work or specific work based on that quality.</p>
<ul style="list-style-type: none"> application of common technology and methodology across all teams. 	<p>Standard methodology applies across all Teams for all client work. Our Audit Management system MKI provides consistent working practice</p>	<p>Shared audit programmes and working practice with collaborative audit partners SWAP and Hampshire ?</p>

