

DEVON AUDIT PARTNERSHIP - Arrangements post March 2017

Report of the Head of Devon Audit Partnership

(updated August 2016)

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

Recommendations:

- i. That members note the future direction of the Partnership, including a seven year partnership agreement (subject to a review after 5 years)
- ii. That members note the potential to develop of a strategic alliance with Audit West to help further develop the partnership, developing ideas and services that both partnerships will benefit from.

1 Background

- 1.1 The Partnership was created in 2009 to deliver internal audit for Plymouth, Torbay and Devon councils.
- 1.2 The Partnership is governed as a Joint Committee (under Section 20 of the Local Government Act 2000) and is attended by two Members from each of the three founding Partners, and a representative from Torridge District Council (as a non-voting member). The role of chair for the committee rotates between the three partners on an annual basis.
- 1.3 The Partnership has a Management board comprising the Directors of Finance (Section 151 Officers) from the founding Partners and Torridge DC, and the Head of Partnership.

2 A New Partnership Agreement for 2017 and beyond

- 2.1 At the previous Management Board and Partnership Committee we discussed, in general terms, the future of the partnership post 2017. The current partnership agreement “ends” in March 2017, the Management Board and Partnership Committee fully agreed that the Partnership has delivered its aims and objectives, and that partnership working should continue post March 2017.
- 2.2 *Timeframe*
 - 2.2.1 The previous agreement was for a three year period (April 2014 to March 2017). Experience has shown that considerable effort is needed to prepare an agreement, requiring the input from legal colleagues at Devon, Plymouth and Torbay councils and then the support of members services colleagues to agenda the item for senior management teams, cabinet, audit committees, partnership committee and / or mayoral approval. In addition a three year agreement only really allowed for 18 months of “business as usual” as, from 18 months in, consideration has to be given to what future arrangements would be.
 - 2.2.2 Furthermore, when tendering for opportunities, we are often asked to provide details of the partnership arrangements, and this can give rise to complications if the contract we are tendering for extends beyond the end date of our Partnership Agreement.

2.2.3 For these reasons the Management Board have agreed that the new agreement should be for a seven year period, with a review after five years. The agreement will contain release arrangements, and should DAP fail to provide a service, or meet partners expectations then the agreement can be terminated. This longer term agreement provides better stability for the Partnership, and enables it to develop staff and processes in line with the Management Board's wishes and direction.

2.3 *Funding levels*

2.3.1 One of the key elements of any agreement will be funding levels. The Partnership has successfully delivered considerable savings to the Partners since 2009. Our day rate remains below the national average; the CIPFA 2014/15 benchmark club results for unitary authorities shows that the average cost per audit day was £298; the cost of DAP was £259 per day.

2.3.2 Each Partner has benefitted considerably in terms of reduced costs of their internal audit service and all these savings add up. To date, the partners have saved £2.33m based on the former internal audit costs at each authority pre April 2009.

2.3.3 However, it is important that internal audit remains “relevant” – the need to make financial savings in previous years is recognised and has been achieved; careful consideration will be required when setting future funding levels to ensure that the service is properly financed to continue to provide professional, effective, pro-active and value added services.

2.3.4 Commitment from the Partners to support and finance their internal audit partnership at a sustainable level will ensure a service that remains viable, professional and can provide the assurance that senior managers and members require in a constantly changing landscape; organisational risks have not “gone down” and are unlikely to decrease as funding pressures and public expectations increase challenges. The level of independent assurance available is limited and its value should not be underestimated.

2.4 *Managing Costs and Daily Rate*

2.4.1 There continues to be a need for the Head of Partnership to pro-actively manage the operation, making sure efficiency gains are made in the way the service is delivered. It is also expected that the Head of Partnership will continue to carefully manage all costs (including staffing structures / levels) to ensure that the daily rate (currently £270 per day) is closely controlled and that cost gains are delivered wherever possible.

2.4.2 It is appreciated that the Partnership is likely to face pressure (with pay and price inflation costs applied as per the current contract arrangement), but the Head of Partnership is expected to seek gains wherever possible.

2.4.3 It is acknowledged that there will be pressure to reduce plan days, however this must be considered against sound risk management processes and the need to have effective and adequate independent assurance to meet Senior Management, s151 Officer and Audit Committee requirements.

2.5 *Costs to Partners*

2.5.1 The charge to Partners (partner contributions) will be based upon the number of audit days to be delivered. Each year the Head of Partnership will agree with the Partners (S151 officer, Chief Executive, Audit Committee etc.) the audit need, and this will include the expected number of delivery days.

2.5.2 The audit need will reflect the risks affecting each partner, and will also need to reflect the financial challenges each partner faces – the audit plan should reflect all these issues but still provide adequate input to enable the Head of Partnership to deliver an audit opinion in line with professional (PSIAS) requirements.

2.6 *Changing our plans – being pro-active and re-active*

2.6.1 The constant change environment that public sector organisations operate in is recognised and with this comes the realisation that, in the future, the level of audit input for each Partner may need to be reassessed.

2.6.2 For example, if a service (e.g. Libraries) were to transfer out of the local authority, the responsibility for internal audit would rest with the new service provider rather than the local authority. In such instances we would aim to work with Partners in identifying an “average” level of input for such a service, with the aim of the budget for this service being “passported” over to the new organisation to obtain internal audit (we strongly encourage terms of agreement in arms length organisations to include the requirement for internal audit). We would then expect to be the preferred supplier for the new organisation, or, in other instance, tender to provide services to the new organisation.

2.6.3 The net effect of this will be to reduce the cost of internal audit to the Local Authority, but will provide the opportunity for DAP to maintain effectiveness and tender for services where required.

2.6.4 The Management Board have agreed this approach and agree that partner internal plans should be re-assessed on an annual basis taking into account changes in organisational delivery and risk. This will determine the expected level of “days” which will then be provided at the agreed daily rate.

3 **Making it better going forward.**

3.1 We are constantly aiming to improve and It is always appropriate to consider what could be done differently to further improve outputs and outcomes.

3.2 The Partnership has worked well, the benefits of partnership working are clear and we are keen to add to our partner base. However, our location, in the Devon area does bring with it challenges to further expansion.

3.3 Since the February meeting DAP have met with representatives from Audit West (AW), an audit and assurance partnership between North Somerset and Bath & North East Somerset (BANES) and hosted by BANES. Discussions between AW and DAP have indicated that

- AW have skills in areas where DAP currently does not;
- AW have people with aptitudes that DAP currently do not;
- AW have pioneered approaches in their area that have made real benefits for clients;
- DAP has resources to deliver that would be of benefit to AW;
- DAP has access to significant markets that AW and DAP could look to grow;
- DAP & AW work on similar ethos – i.e. improving services in the public sector;
- DAP & AW share similar operating models, with both using a local authority to “host” the service;
- DAP & AW wish to grow their services, make a real difference to clients, and further build on reputations for excellence and creativity in the provision and delivery of internal audit.

4 A Strategic Alliance

- 4.1 DAP management consider that there is benefit from working with AW in the form of a “strategic alliance”.
- 4.2 The purpose of the Strategic Alliance will be to aid in the development of both partnerships and to provide value added services to the wide range of clients that they both serve.
- 4.3 This will not result in a change in governance or control for either partnership but it is anticipated that the Strategic Alliance will further the sharing of best practice, expert knowledge and expertise, enabling each partnership to develop and deliver audit and assurance services that may not have been possible without the Alliance.
- 4.4 In particular the Alliance will be focussed on growth of both partnerships by widening the areas of expertise of assurance based services. Initially the following areas have been identified as “early wins” –
- Information Governance (Information Security, Data Protection, FOI, Records Management)
 - Business Continuity (Planning & Testing);
 - Financial Assessments (Viability Checks and Procurement Exercises);
 - Business Rates (Growth Opportunities and Data Integration);
 - Grant Return (Certification & Audit).
- 4.5 The Alliance will also look to exploit and develop joint working opportunities and efficiencies over the whole range of methodologies that support audit and assurance based work. This will mean that, where practicable, the two partnerships will agree a key principle that they consider working together on any activity in order to achieve mutual benefit.
- 4.6 In practical terms the Partnerships will work independently to provide assurance services to their partners and clients, but will collaborate to further develop products and services and support each other to deliver services when required.
- 4.7 The Management Board have agreed to the concept of a Strategic alliance being progressed, with a further paper coming to the next Management Board (November 2016). It is also expected that the Head of Partnership should continue to consider developments across the region and across sectors to ensure that future opportunities are identified, considered and brought to the attention of the management board and committee.

Robert Hutchins
Head of Devon Audit Partnership

Electoral Divisions: All
Local Government Act 1972

List of Background Papers

Contact for Enquiries: Robert Hutchins
Tel No: (01392) 382437 Larkbeare House

<u>Background Paper</u>	<u>Date</u>	<u>File Ref</u>
Nil		

There are no equality issues associated with this report