



Board Meeting (Agenda Item 4)

Date: 19 March 2025

Title: Devon Assurance Partnership (Internal Audit Arrangements) and Public Sector Audit Appointments (External Audit Arrangements)

Director: Matthew Thorpe, Chief Finance Officer

Please note that the following recommendations are subject to consideration and determination by the Combined County Authority (and confirmation under the provisions of the Constitution) before taking effect.

In order for this matter to be agreed, it requires:

- (a) The majority of members of the Constituent Councils (or their substitutes) present and voting at the meeting to be favour.
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1. Recommendation

- 1.1 That the DTCCA consents to becoming a non-voting partner of the Devon Assurance Partnership (DAP).
 - 1.2 That the Devon Assurance Partnership provides a range of internal audit services as set out in Appendix 1.
 - 1.3 That the DTCCA request to become an opted-in Authority to the Public Sector Audit Appointments (PSAA) framework for the procurement of external audit services for the current appointing period, from 2024/25 to 2027/28.
 - 1.4 That the Chief Finance Officer (Section 73 Officer) is authorised to sign and submit notice of acceptance to the PSAA on behalf of the Authority.
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2. Purpose

- 2.1 This report sets out the requirements and rationale for the DTCCA to become a non-voting partner of the DAP. It details the internal audit services that will be provided by DAP so that the DTCCA complies with its Assurance Framework.
- 2.2 The report also seeks approval to submit a notice of acceptance to the PSAA framework for procurement of external audit services for the rest of the current appointment period, from 2024/25 to 2027/28.

3. Background

- 3.1 The DTCCA has agreed an Assurance Framework setting out the arrangements in place to ensure that public money is used responsibly, openly, transparently, and accountably.
- 3.2 The Assurance Framework covers the scope and topics set out by Ministry of Housing, Communities and Local Government (MHCLG) officials and this includes arrangements for internal and external audit services. This Assurance Framework was endorsed by the DTCCA Shadow Board at its meeting on 31 January 2025 and submitted to MHCLG for approval.
- 3.3 This report seeks to formalise the arrangements for internal and external audit services as detailed below.

Internal Audit Services

- 3.4 The requirement within the Assurance Framework states that internal audit activity must be in compliance with the Public Sector Internal Audit Standards (PSIAS).
- 3.5 The DAP provides Assurance Services including Internal Audit, Risk Management and Fraud prevention and detection to both Devon County Council and Torbay Council, each of which is a founding DAP member.
- 3.6 Due to the existing membership of the Partnership of both Devon County Council and Torbay Council, a request was made to DAP to be the provider of these services for the DTCCA. This will result in increased effectiveness and efficiency in assurance services provided.
- 3.7 This request was considered by the DAP Management Board who agreed this in October 2024, with the DAP Committee ratifying the decision in November 2024. As a result, this formed part of the Assurance Framework which was endorsed by the Authority's Shadow Board on 31 January 2025. The proposed Internal Audit Service is set out at Appendix 1 and formal approval is sought from the Board for this approach.

External Audit Services

- 3.8 The STCCA is required to produce independently audited accounts. In order to appoint an auditor, the DTCCA will need to decide whether to procure its own external auditor or opt-in to the national procurement framework.

- 3.9 Legislation requires a resolution by the Board if it wishes to opt into the national arrangement. If the DTCCA doesn't make such a decision, the legislation assumes that the DTCCA will procure its own external audit.
- 3.10 Under either option, as the client in the contract, an Authority has little influence over what it is procuring. The nature and scope of the audit are determined by Codes of Practice and guidance. The regulation of the audit market is undertaken by a third party, which was, until recently, the Financial Reporting Council. However, on 12 February 2025, this responsibility was transferred back to the MHCLG. This transfer follows the launch of the Government's strategy in December 2024 to overhaul the local audit system in England, including a commitment to establish a Local Audit Office.
- 3.11 In recent years, there has been a lack of capacity in the external audit market, exacerbated by increased requirements placed on auditors by the audit regulator. Additionally, there is a limited number of firms in the market, with too few qualified auditors available and employed by those firms.
- 3.12 The Local Government Association (LGA) believes that the national framework remains the best option for authorities to secure their external audit arrangements. There are many reasons for favouring the national arrangements, and the LGA believes these reasons have become more compelling since 2016/17, when authorities were last asked to make this choice.
- 3.13 There is general agreement that the supply side of the market needs to be expanded, which includes encouraging bids from a greater range of firms. PSAA Limited, the body nominated by the government to run the national arrangements, has suggested various ways this could be done. The LGA believes that these initiatives are much more likely to be successful if a large number of authorities sign up to the national scheme.
- 3.14 The rationale for opting into the PSAA appointment process, supported by the LGA, includes the following:
- An authority procuring its own auditor, or procuring through a joint arrangement, means setting up an Audit Panel with an independent chair to oversee the procurement and running of the contract.
 - The procurement process is an administrative burden on a very limited number of staff. Contract management is also an ongoing burden.
 - Procuring through the appointing person (PSAA) makes it easier to demonstrate independence of process.
 - The service being procured is defined by statute and by accounting and auditing codes.
 - Possible suppliers are limited to the small pool of registered firms with accredited Key Audit Partners.

- 3.15 Given the above, it is recommended that the Board endorse the approach to opt-in to the PSAA framework for the procurement external auditor services.

4. Options and alternatives

- 4.1 The DTCCA is required to have arrangements in place for internal and external audit services. It could choose to use another provider for internal audit services, but the reasons set out above this is not considered a viable alternative. The Authority's Shadow Board has previously endorsed becoming a non-voting member of DAP and this is included in the Assurance Framework submitted to MHCLG to release capacity funding for the DTCCA.
- 4.2 Similarly, the DTCCA could choose to procure directly for external audit arrangements, but given limited capacity within the market, this too is not deemed viable.

5. Financial considerations

- 5.1 Provision for internal and external audit services is included within the operating budget of the DTCCA (a separate item on this agenda). The final cost for external audit services will be unknown until conclusion of the procurement exercise that follows approval of the recommendations contained within this report.

6. Legal considerations

- 6.1 The proposal to become a non-voting member in DAP and engaging internal audit services will ensure the DTCCA is compliant with its legal obligations and its Assurance Framework.
- 6.2 The proposal approach for procuring and appointing external audit services does not in itself have any legal implications but will ensure the DTCCA is compliant with its legal and financial reporting obligations, and its Assurance Framework.

7. Environmental impact considerations

- 7.1 There are no environmental impact considerations arising from this report.

8. Equality considerations

- 8.1 There are no equality impact considerations arising from this report.

9. Engagement and consultation

- 9.1 The approach to internal and external audit services has previously been endorsed by the Authority's Shadow Board and, in relation to internal audit and becoming a non-voting member of DAP, has been approved by the DAP Board.

10. Associated risks

- 10.1 The DTCCA would not be in compliance with its statutory and legal obligations if it does not put in place arrangements to secure internal and external audit services.

11. Conclusion

- 11.1 Provision of an internal audit service will ensure that the DTCCA is subject to independent, objective assurance and consulting activity that adds value to and improves its operations. It will help the DTCCA to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 11.2 Agreement by the Board for external audit services would result in the DTCCA issuing an opt-in notice to the PSAA, who then approach the audit firms they feel appropriate to appoint. Subject to agreement in principle, the DTCCA is then consulted on the proposed appointment, and a further report will be brought to Board to ratify any appointment.
- 11.3 When proposing an auditor, consideration will be given to existing authority arrangements. Both Devon County Council and Torbay Council presently have Grant Thornton UK LLP appointed to provide external audit services and this may be a factor for consideration.

Local Government Act 1972: List of background papers

None

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Appendix 1

March 2025 – DTCCA Board Paper – Assurance Services

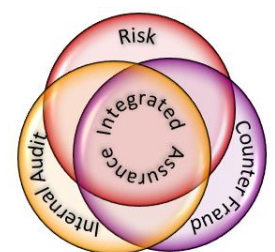
Devon & Torbay Combined County Authority (CCA) joining Devon Assurance Partnership (DAP).

Introduction

- 1.1 The Devolution Deal for Devon and Torbay was announced by the Secretary of State for Levelling Up, Homes and Communities on 25 January 2024 and the CCA was subsequently formed.
- 1.2 The powers and the transfer of Government funding included in the Devolution Deal will bring greater control to Devon and Torbay to help tackle local priorities.
- 1.3 The CAA will have some dedicated staffing such as a Chief Operating Officer but will draw on both Devon and Torbay for support as needed to deliver its objectives.
- 1.4 Devon Assurance Partnership (DAP) provides Assurance Services including Internal Audit to both Devon and Torbay Councils, each of which is a founding DAP member.
- 1.5 In setting up the CCA, there was a requirement to provide an Assurance Framework that includes Internal Audit activity in compliance with the Public Sector Internal Audit Standards (PSIAS) to central government.
- 1.6 Due to the existing membership of the Partnership of both Devon and Torbay Councils a request was made to DAP to be the provider of these services. This will result in increased effectiveness and efficiency in assurance services provided to the CCA.
- 1.7 The process was commended and the DAP Management Board considered and agreed this in October 2024, with the DAP Committee ratifying the decision in November 2024.

Service Requirements

- 2.1 As a new entity there will need to be a greater level of work in years one and two. This will have a likely focus as follows in Year 1.
- 2.2 Review of Governance and initial entity creation.
- 2.3 Support for the Introduction of Risk Management, including identification and creation.
- 2.4 Assurance advice and support on a live basis as the entity begins operations.
- 2.5 Reporting to the DTCCA Leadership Team and Audit Committee.
- 2.6 Support for assurance workshops as appropriate.
- 2.7 In Year 2 the assurance coverage would transition to a risk based Internal Audit Plan, driven by the learning obtained from the year one operations.



- 2.8 Year 3 onwards would be a continuation of risk based Internal Audit, reflecting the CCA priorities, objectives and risks. There would be a small, flexible and appropriate Internal Audit Plan to support assurance requirements.
- 2.9 Where the CCA relies on either DCC or TC in delivery of its activities and its administration, the work DAP undertakes as part of the respective Internal Audit Plans will also contribute to CCA assurance, negating the need for separate work to be completed in those areas.
- 2.10 The Internal Audit plan is likely to be comprised of around 100 days (This would reduce if needed and is only a guide) in both years one and two, this would underpin the provision of the annual Head of Internal Audit Opinion in compliance with the PSIAS.
- 2.11 Years three and four would likely see a sliding reduction on the level of coverage if operations and activity are stable. Experiences to that point would inform the position on the ongoing Internal Audit Coverage required to comply with the PSIAS.
- 2.12 Each financial year around autumn, there would be engagement to determine the assurance requirements for the coming fiscal year.
- 2.13 DAP provides Assurance Services including Internal Audit to the majority of the Councils in Devon. As noted, where this crossed over with CCA activity there will be attainment of existing assurance for the CCA and its stakeholders, this will also enable end to end assurance work to be undertaken across CCA activity.

Staffing Considerations.

- 3.1 As a new entity there are no staffing or TUPE implications.

DAP Governance – CCA

- 4.1 As both Devon and Torbay are existing DAP Partners, they are represented on both the DAP Management Board and DAP Committee. Therefore, the CCA would join the partnership as a non-voting member, noting the following.
- Devon and Torbay Councils would utilise their existing Management Board representatives to contribute on behalf of the CCA at DAP Management Board meetings.
 - The CCA Audit Committee Chair and Vice Chair would be invited to join the DAP Committee as non-voting members.
 - Should these individuals already be on the DAP Committee, they will continue to hold a vote for their respective DAP Partner and contribute views and opinions for both their Partner and the CCA.

Surpluses / Deficits

The CCA will accrue any surplus / deficit resulting from the operation of DAP in line with the Partnership agreement as of its first full financial year of membership. In principle this apportionment is based on the annual value of services provided by DAP to each Partner.

Recommendation

It is recommended that the CCA ratify the decision initiated by the CCA Shadow Board to become a non-voting Partner of the Devon Assurance Partnership.