

Agenda Item No: 7
Report To: Audit Committee
Date: 4 December 2012
Report Title: Internal Audit Partnership – Progress Report
Report Author: Brian Parsons – Head of Audit Partnership



Summary: The Internal Audit Partnership with Maidstone, Swale and Tunbridge Wells has been in place since April 2010.

A review has been carried out in order to identify progress to date against the original business objectives and the opportunities for further improvement and development.

Key Decision: No

Affected Wards: N/A

Recommendations: **The Audit Committee is asked to:-**

Note the progress made by the Internal Audit Partnership and the actions that are proposed to further improve and develop the service.

Policy Overview: N/A

Financial Implications: None

Risk Assessment YES

Equalities Impact Assessment NO

Other Material Implications: None

Background Papers: Report to Executive 14 January 2010 – 'Internal Audit Partnership'.

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Purpose of the Report

1. Ashford Borough Council is a partner in the shared Internal Audit service with Maidstone, Swale and Tunbridge Wells Borough Councils.
2. The partnership is regularised through a five-year collaboration agreement signed by the four parties.
3. The Internal Audit partnership is currently at the mid point of the five year agreement and this report has been prepared to make the Committee, as a key stakeholder, aware of the progress made since the partnership started in 2010 and the issues that are relevant to the future delivery of the service.

Issue to be Decided

4. The Committee is asked to note the progress made by the Internal Audit Partnership and the actions that are proposed to further improve and develop the service.

Background

5. The four-way Internal Audit Partnership between Ashford, Maidstone, Swale and Tunbridge Wells has been in place since April 2010.
6. The Audit Committee considered a report on the proposed partnership at its meeting on 15 December 2009 and recommended 'that the creation of a four-way Internal Audit Partnership between Ashford, Maidstone, Swale and Tunbridge Wells be endorsed'.
7. The Executive meeting on 14 January 2010 agreed that 'Ashford Borough Council form an Internal Audit Partnership with Maidstone, Swale and Tunbridge Wells Borough Councils in accordance with the aims and structure that are set out in the Business Case'.
8. Since that time the Internal Audit Partnership has achieved all of the objectives that were set out in the business case, which include:
 - The provision of a good quality, robust Internal Audit service tailored to the needs of each Authority but utilising best practice from the four Councils.
 - A more efficient service provided at less cost that fully meets the standards contained in the statutory Code of Practice
 - Improved Resilience
 - Introduction of consistent (best practice) approaches to audit work
 - Auditors who have a broad experience having worked for the four partner authorities and who are able to draw on good practice identified during audit work.

- Development opportunities for audit staff, within a larger audit service, providing a more attractive option for staff seeking a career in Internal Audit
- A savings of £120k across the partnership compared with the previous annual aggregate cost.

9. In addition and more specifically, during the two and a half years since the partnership was created, the shared service has:

- Reduced costs by a further £14,000 at Ashford and by £28,000 at Swale by ceasing the use of audit contractors to supplement the in-house teams.
- Implemented a common Audit IT system (Team Mate) at all four partnership sites. The system allows the sharing of work programmes, including audit briefs and reports. Enhancements to the system have allowed work to be monitored and reviewed remotely by the Audit Managers.
- Implemented a Sharepoint site, which is accessible by the four teams and provides a common library of audit information and allows the teams to be kept up-to-date on current developments in audit, as well as being aware of the work that the other auditors are carrying out.
- Implemented a brand - 'Mid Kent Audit'. The brand is used in all correspondence and in reports.
- Implemented a standard audit process with a common procedure manual.
- Implemented common performance targets and a formalised performance monitoring process.
- Improved the quality and consistency of audit reports.
- Improved the quality and coverage of audit reports to the respective Audit Committees
- Taken on the responsibility for risk management at Ashford and helped to create a Strategic Risk Register; implemented a meaningful risk management process at Swale and maintained the risk management arrangements at Maidstone and Tunbridge Wells
- Implemented quarterly partnership meetings, which includes a training element and updates on audit practice, as well as facilitating an information exchange between the auditors.
- Trained the auditors in the use of IDEA (Interactive, Data Extraction and Analysis) to facilitate the interrogation and analysis of electronic data as part of audit work.
- Provided training to Audit Committee members
- Introduced an 'Annual Audit Committee Report', which sets out the work of the Committee and allows the Chairman to provide the report to Full Council. These factual reports are initially compiled by the Audit Managers and then agreed with the Audit Committee Chairman. The reports are based on the Tunbridge Wells model, which has been in place for a number of years.

- Achieved very positive feedback from 'clients', being the respective Heads of Service, Directors and Chief Executives.

Mid Term Review

10. Earlier this year, following the two year anniversary of the commencement of the audit partnership, the Head of Partnership was asked to prepare proposals for the 'future shape of the partnership'; for the continuing improvement and development of the service to ensure that the partnership remains robust and well placed to meet future challenges.
11. A discussion document was provided to a meeting of the 'key clients' for the audit service at the four Councils on 6 July 2012. The 'key clients' characterise a board for the service in accordance with the collaboration agreement. The members of the officer board are the chief officers who the Head of Audit Partnership reports to at each Council; being Paul Naylor (Deputy Chief Executive) for Ashford, Alison Broom (Chief Executive) for Maidstone, Mark Radford (Director for Corporate Services) for Swale and Lee Colyer (Head of Finance and Governance) for Tunbridge Wells.
12. The officer board commented positively on the achievements of the Partnership in meeting the objectives that were set out in the original business case and in delivering a range of improvements since the partnership came into being. All confirmed that they are very happy with the partnership and keen to support its future development. It was agreed that the need to continue to provide a good quality internal audit service is the basis for the partnership and this must remain the core objective but that there are opportunities to develop the service further in relation to:

Risk Management

The officer board considered that, generally, risks for the four authorities are increasing. In terms of the respective roles for internal audit/risk management, it was considered that risk (and governance) expertise needs to be developed further within the partnership. The Head of Audit Partnership should give further consideration to the arrangements for risk management to establish how resources can best be used to support the risk management role.

Counter Fraud

It was agreed that Internal Audit is the natural future home for counter fraud activity; with the majority of the existing Benefit Fraud staff due to transfer at some point to the Department of Work and Pensions under the government's welfare reforms. Further work will be carried out by the Head of Audit Partnership to establish the 'business case' for the retention of some fraud staff to deal with counter fraud work, particularly in relation to Council Tax evasion.

Value for Money

It was agreed that Internal Audit should develop a methodology for adding a consistent 'value for money element' to the standard audit approach. The Head of Audit Partnership will therefore research and identify an appropriate method/system. This may require some financial investment and some training for the auditors in the chosen methodology. The expectation is that this will allow Internal Audit, as part of its regular, routine audit work, to identify aspects/areas for a more in depth review (by others) where appropriate.

Business Model for the delivery of the service

The reasons for implementing the current business model and structure (four teams – four employers) in 2010 were acknowledged by the board; however the majority of the partnerships that have been created since that time have been based on the 'one employer – one team' model. It was agreed that the 'one employer' model contains a number of advantages over the current partnership structure and that further work needs to be done in order to quantify the cost advantages/disadvantages and the potential efficiency improvements. The Head of Audit Partnership will therefore carry out further research, including contacting other Heads of Audit Partnership to establish alternative models. He will then be required to prepare a report setting out the options for creating a 'one employer' partnership. It was agreed that, as the partnership is not 'trading', an Arms Length Company model was not a suitable option at the present time but that it may be appropriate to give further attention to that model if and when the partnership has developed a suitably large customer base.

13. The Head of Partnership is currently working on these potential service developments and will report back to the officer board in January 2013. Any proposed changes to the structure or cost of the service will be subject to the agreement of each Council. The respective Audit Committees will be consulted and kept fully informed.
14. Members are asked to note the progress made by the Internal Audit Partnership and the actions that have been agreed to further improve and develop the service.

Risk Assessment

15. The role of Internal Audit is to evaluate the adequacy of the arrangements that management has put in place to control the risks to the delivery of the Council's strategic and operational objectives.
16. The Internal Audit service needs to remain relevant, focused, professional and effective in order to fulfil its role. The ongoing development of the service provides the means for managing those risks to the service.

Equalities Impact Assessment

17. Not applicable.

Other Options Considered

18. The report is provided in order to make the Committee aware of the development of the service. As key stakeholders this is essential and no other option could be recommended.

Consultation

19. The appropriate Chief Officers from each of the partner Councils have discussed and agreed the direction of the service. All staff within the audit partnership have been kept informed of the discussions and the agreed actions.

Implications Assessment

20. There are no implications arising from the report at this stage. Any subsequent proposed changes to the structure or cost of the service will require the agreement of each Council. The respective Audit Committees will be consulted and kept fully informed.

Conclusion

21. The four-way Internal Audit Partnership between Ashford, Maidstone, Swale and Tunbridge Wells has now been in place for more than two and a half years. It has achieved all of the objectives that were set out in the business case, which Members considered in late 2009 and early 2010. Since that time, the service has continued to be improved.
22. In difficult, challenging times the service needs to continue to develop to ensure that it remains robust and well placed to meet future challenges.

Portfolio Holder's Views

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