

Report To:	CABINET	Date:	24 FEBRUARY 2020
Heading:	INTERNAL AUDIT PROVISION BY THE CENTRAL MIDLANDS AUDIT PARTNERSHIP – PARTNERSHIP EXTENSION		
Portfolio Holder:	COUNCILLOR DANIEL WILLIAMSON - PORTFOLIO HOLDER FOR CORPORATE COMMUNICATIONS, GOVERNANCE AND CROSS PORTFOLIO SUPPORT		
Ward/s:	NOT APPLICABLE		
Key Decision:	YES		
Subject to Call-In:	YES		

Purpose of Report

The report seeks to extend the Council's partnership arrangement for Internal Audit services with the Central Midlands Audit Partnership (CMAP) for a further 5 years.

Recommendation(s)

Cabinet is asked to:

- 1. Approve the extension of the Council's partnership arrangement for Internal Audit services with the Central Midlands Audit Partnership (CMAP) for a further 5 years;**
- 2. Grant delegated authority for the Director of Legal and Governance (Monitoring Officer) to finalise and approve the terms of a revised Partnership Agreement; and**
- 3. Grant authority for the Director of Legal and Governance (Monitoring Officer) to finalise, approve and sign an Information Management Agreement between the members of the Partnership.**

Reasons for Recommendation(s)

The Cabinet approved the Council joining CMAP commencing on 1 January 2016 for a term ending on 31 March 2020. The Partnership arrangement has proven to be a successful, resilient, sustainable and cost effective internal audit provision and the recommendation seeks to extend the Partnership for a further 5 years.

The Partnership Agreement requires some minor amendments to bring it up to date and by entering into an Information Management Agreement the Council and the Partnership will ensure compliance with data protection requirements.

Alternative Options Considered

(with reasons why not adopted)

The Cabinet approved joining CMAP in 2016 after an extended period of experiencing difficulties in internal recruitment such that an in-house team was no longer viable; the re-establishment of an in-house team remains unviable. At the time, a variety of options were explored such as shared services, outsourcing contract and other local authority audit consortia; following careful evaluation, the CMAP arrangement was considered to be the most suitable option based on the options available, capacity, resilience, cost and retained control through a partnership arrangement.

The Partnership has proven to be successful and it is therefore not recommended that the Cabinet considers other alternative options. All existing Partners intend, subject to their own approval processes, to extend their membership of CMAP.

Detailed Information

The Role of Internal Audit

The role of internal audit is to provide independent assurance that the organisation's risk management, governance and internal control processes are operating effectively.

Section 151 of the Local Government Act 1972 requires each authority (through its Responsible Financial Officer) to ensure the proper administration of the organisation's financial affairs. The work of the internal audit function supports the appointed S151 officer in this.

The Accounts and Audit Regulations 2015 set out the requirements for local authorities for internal audit:

A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

The Partnership (CMAP)

The Partnership was originally formed in January 2012 when the internal audit teams of Derby City Council and South Derbyshire District Council joined together to provide a single service. The Partnership was formed as a Joint Board under section 101 of the Local Government Act 1972 and Derby City Council was chosen to be the host authority. In April 2013, Derby Homes (Derby City Council's Housing Management Company) joined the Partnership.

At its meeting on 5 November 2015, the Cabinet approved the Council joining CMAP commencing on 1 January 2016 for a term ending on 31 March 2020 (min. CA.46 refers). At this time, CMAP expanded to also include Derbyshire Fire and Rescue and Amber Valley Borough Council in addition to Ashfield District Council.

CMAP is set up as a Public/Public "service delivery vehicle." It relies upon the "Teckal" European Court of Justice Case which established the principle that contracts between public bodies can in certain circumstances be regarded exempt from application of the EU procurement regime. This is because:

- The parent authorities will exercise control in equal rights over the Partnership which is similar to that which it currently exercises over its own departments; and
- The Partnership will continue to carry out the essential part of its activities for/with its parent authorities, (i.e. at least 80% of its function must be for the parent authorities).

CMAF is formally established through a Partnership Agreement which contractually binds the Partners. The governance arrangements for the Partnership are set out as an appendix to the Partnership Agreement. Each Partner has a representative on the Partnership Board who is either the Cabinet Member with responsibility for governance/audit or a representative from their Audit Committee; each Partner organisation has equal voting rights. The Partnership Board sets CMAF's strategy and makes key decisions regarding the governance structure, budgets and assets. It meets once a year for the Annual General Meeting (January/February) which is timed to enable the Board to set the CMAF vision, CMAF objectives and the budget for the financial year.

There is also an Operational Group which consists of a Senior Officer from each Partner organisation and meets at least twice a year (although in practice usually quarterly). The Director of Legal and Governance (Monitoring Officer) represents the Council on the Operational Group. The members of the Operational Group also attend the Board meetings.

CMAF operates in accordance with standards of best practice applicable to Internal Audit (in particular, the Public Sector Internal Audit Standards (PSIAS) which took effect from 1 April 2013 and revised in 2017). CMAF also adheres to its Internal Audit Charter. The Charter is taken to each Partner's Audit Committee (or equivalent) with the annual internal audit plan for approval.

Derby City Council (as Host Authority) provides all support services to the Partnership. CMAF cannot enter into contractual arrangements with any third parties in its own right; all such arrangements must be through the Host Authority.

CMAF Vision, Objectives and Performance

CMAF's Vision (subject to any changes at the next Partnership Board) is:

To bring about improvements in the control, governance and risk management arrangements of our Partners by providing cost effective, high quality internal audit services.

CMAF's Objectives (subject to any changes at the next Partnership Board) are to:

- Constantly strive to improve the quality of the services we provide to ensure customer satisfaction.
- Comply with the relevant Standards.
- Be cost effective for each partner organisation.
- Ensure that the partnership is appropriately resourced, suitably experienced, and has the skills to deliver the partnership objectives.
- Maintain ongoing effective relationships with key stakeholders.
- Work in a positive manner alongside partners and clients, supporting them in the effective management of risk and service delivery.
- Seek to add value to each of the organisations we serve by improving their governance, risk management and controls.
- Contribute to the development and maintenance of an effective counter fraud culture

within each organisation.

- Contribute to the development and maintenance of an effective cyber security risk management culture within each organisation.

CMAP's Audit Charter

CMAP has produced an Audit Charter which formally defines the purpose, authority and responsibilities of the Partnership. It has been developed in accordance with Public Sector Internal Audit Standards (PSIAS) and demonstrates that the Partnership is consistent with this Code. The PSIAS came into force to create consistent standards for the practice of internal audit across the public sector and establish the basis for its quality assurance. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. The standards are periodically self-assessed. The results of these self-assessments are reported to the Partnership Board and each organisation's Audit Committee. An external assessment is required at least every 5 years. The Partnership Board determines when and how such an external assessment is undertaken. CMAP was subject to an external assessment in 2017. The next external assessment will be required by November 2022 at the latest.

Performance - Balanced Scorecard

To assess the performance and effectiveness of the service provided by CMAP, a balanced scorecard approach has been developed which looks at four different perspectives:

1. Financial - The following financial aspects of the Partnership are measured:

- Cost per Audit Day - The cost per audit day is calculated by taking the net cost of the Partnership divided by the number of productive days. This cost can also be compared with competitive day rates from the external market.
- Operational Surplus/Deficit - This measure looks at the trading position of the Partnership and determines whether its operations result in a year-end surplus or deficit to carry forward into the following year.

2. Business Process - The following business processes of the Partnership are measured:

- Service Delivery - Plan Completion - This is calculated by determining how complete each audit assignment is, in the revised plan. Each audit assignment is weighted in accordance with the number of days allocated. The target plan completion at the year-end is 90%.
- Productive Percentage - The number of productive days expressed as a percentage of the overall days available. This measure compares the number of days spent on audit assignments, advice etc. compared with the number of days spent on administrative and managerial tasks.

3. Customer - The following customer focused measures of the Partnership are produced:

- Customer Satisfaction - customer satisfaction questionnaires are issued at the end of the vast majority of CMAP's audit assignments. These surveys elicit the auditee's opinion on the service provided and provide an opportunity for them to pass comment. CMAP aims to achieve an average score of at least 44 out of 55 on all the Customer Satisfaction Surveys returned in the last 12 months.

- Days from Fieldwork Complete to Draft Report Issued - this measure aims to establish the average length of time it takes to produce, review and issue the draft audit report from completing all the fieldwork with the auditee.

4. Innovation & Growth - The following measures are produced as an indication of the innovation and growth of the Partnership:

- Staff Qualifications & Experience - This measure will look at how CMAP has fared against the previous year. This measure will look at qualifications and experience combined. This will provide management with an indication of the direction of travel and give them an opportunity to question any variation from the previous year's performance.
- Process Improvements - This is a measure of the process and service developments that have been introduced into the Partnership during the year. These are identified in the development objectives found in the Partnership's Business Plan and also in individual officer's personal objectives as part of the Host Authority's "Great Performance Conversation" process.

Partner Contributions & Reserves

The Partnership is responsible for its own budget and reports to the Partnership Board. All Partners make a contribution to the budget of the Partnership which is based on the number of annual audit plan days each Partner requires. Ashfield's contribution in 2019/2020 is £100,293; the 2020/2021 contributions will be agreed at the Partnership Board on 25 February 2020.

The Partnership maintains and manages a revenue reserve that is used to hold annual surpluses and meet any deficits. The reserve policy is to use a risk based approach to ensure that the Partnership builds up sufficient reserves to meet any unforeseen costs and contingencies, without requiring additional funding from each Partner. If a circumstance arises where additional funding is required by the Partnership and there are insufficient reserves to cover it, the additional cost will be shared as per the proportion of the overall contribution made.

Partnership Extension

The operational working relationship with CMAP's officers is excellent, functioning with a true partnership approach. The Audit Manager and Group Auditor meet formally at least monthly with the Director of Legal and Governance to monitor delivery of the Audit Plan and discuss audit work outcomes and recommendations. CMAP Officers are present in the Council Offices, generally on a daily basis. CMAP Officers meet regularly with Council Officers, Corporate Leadership Team and the Chairman of Audit Committee. CMAP provides training to Officers and Members as part of the Partnership offer.

The Partnership arrangement has proven to be a successful, resilient, sustainable and cost effective internal audit provision and it is recommended that the Partnership arrangement is extended for a further 5 years. Amendments are required to the Partnership Agreement to ensure it is up to date, together with the introduction of an Information Management Agreement; it is recommended that finalisation of these formal documents is delegated to the Director of Legal and Governance.

Implications

Corporate Plan:

Corporate governance is part of the overall control framework and contributes to the Council's robust governance arrangements.

Good corporate governance ensures organisations are doing the right things in the correct manner in an open, honest, inclusive and accountable way. Good governance leads to good management, performance and outcomes. It ensures the Council delivers the visions and priorities set out in its Corporate Plan.

The role of internal audit (in this case via CMAP) is to provide independent assurance that the organisation's risk management, governance and internal control processes are operating effectively.

Legal:

Section 151 of the Local Government Act 1972 requires each authority (through its Responsible Financial Officer) to ensure the proper administration of the organisation's financial affairs. The work of the internal audit function supports the appointed S151 officer in this.

The Accounts and Audit Regulations 2015 set out the requirements for local authorities for internal audit:

A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

The Partnership is set up as a Public/Public "service delivery vehicle." It relies upon the "Teckal" European Court of Justice Case which established the principle that contracts between public bodies can in certain circumstances be regarded exempt from application of the EU procurement regime as set out above.

The Partnership is established in exercise of local authority powers under Sections 101, 102, 103, 111 and 113 of the Local Government Act 1972 and Section 20 of the Local Government Act 2000.

CMAP is formally established through a Partnership Agreement which contractually binds the Partners. The governance arrangements for the Partnership are set out as an appendix to the Partnership Agreement. As part of the extension of the Partnership arrangement, the Agreement will be refreshed to ensure it is up to date, in particular with new Data Protection legislation.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	No additional cost implication. Cost of the Internal Audit service provision via CMAP is budgeted annually.
General Fund – Capital Programme	N/A
Housing Revenue Account – Revenue Budget	No additional cost implication. Cost of the Internal Audit service provision via CMAP is budgeted annually.

Housing Revenue Account – Capital Programme	N/A
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Risk:

Risk	Mitigation
<p>Failure to extend the Partnership Agreement. The Council would be unable to meet its legal and financial obligations without putting in place alternative internal audit arrangements. As set out in the report, alternative arrangements are not viable or cost effective.</p> <p>Failure to update the formal Partnership Agreement or enter into an Information Management Agreement would put the Council at risk of out of date provisions or failing to comply with new legislation.</p>	<p>To extend the Partnership arrangement.</p> <p>To authorise the Director of Legal and Governance to finalise and approve a revised Partnership Agreement and Information Management Agreement.</p>

Human Resources:

CMAP Officers are employed by Derby City Council and are subject to that Council’s HR policies and procedures.

Equalities:

There are no equalities implications associated with the recommendation in this report.

Environmental/Sustainability

There are no Environmental/Sustainability implications associated with the recommendation in this report.

Other Implications:

None.

Background Papers

None.

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