

Cheltenham Borough Council
Cabinet – 8th November 2016
Future Provision of Internal Audit Services

Accountable member	Councillor Roger Whyborn, Cabinet Member for Corporate Services
Accountable officer	Paul Jones, Section 151 Officer
Ward(s) affected	None directly
Significant Decision	No
Executive summary	<p>A professional, independent and objective internal audit service is one of the key elements of good governance in local government. Internal audit forms a part of the governance that provides assurance on all areas of its internal control system. This report proposes that the South West Audit Partnership (SWAP) provide the council's internal audit service from 1st April 2017. It should be noted that the counter fraud related activity is outside of scope and will remain with the Joint Committee.</p> <p>This report was considered by the Audit Committee on 21st September 2016 and agreed unanimously. In addition the 2020 Partnership Joint Committee considered a report at its meeting on the 30th September 2016. They recommended partner councils become members of SWAP, a company limited by guarantee; and also recommended to the partner councils to commission internal audit services from SWAP with effect from 1st April 2017.</p>
Recommendations	<p>Cabinet resolves to:</p> <ol style="list-style-type: none"> 1. Agrees that the South West Audit Partnership (SWAP) provide the council's internal audit service from 1st April 2017. 2. Agrees to be a member council of South West Audit Partnership Limited from 1st April, 2017. 3. Authorise the Section 151 Officer to finalise the arrangement referred to above in consultation with the relevant Cabinet Member(s) and the Borough Solicitor. 4. Appoint the chairman of the Audit Committee to the Members' Board and the Section 151 Officer to the Board of Directors.
Financial implications	<p>As detailed throughout this report.</p> <p>Contact officer: Paul Jones, paul.jones@cheltenham.gov.uk 01242 775154</p>

Legal implications	<p>SWAP is a local authority company limited by guarantee and if the council becomes a member of the company, audit services can be obtained directly from it without the need for public procurement. The current delegation of the Internal Audit service to the Joint Committee in the current Inter Authority Agreement will need to be varied to implement this decision.</p> <p>Contact officer: Peter Lewis, Peter.Lewis@tewkesbury.gov.uk, 01684 272012</p>
HR implications (including learning and organisational development)	<p>There are no direct HR implications for this Council although it should be noted that employees of Audit Cotswolds, who are employees of Cotswold District Council, will be subject to TUPE regulations.</p> <p>Contact officer: Julie McCarthy , julie.mccarthy@cheltenham.gov.uk, 01242 264355</p>
Key risks	<p>As outlined in Appendix 1.</p>
Corporate and community plan Implications	<p>None.</p>
Environmental and climate change implications	<p>None.</p>

1. Background

1.1 Internal Audit is defined by the CIPFA Guideline as:

“an independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources”.

1.2 Auditors in the public sector have a pivotal role to play in ensuring that public funds are administered properly, economically, efficiently and effectively, in the interests of the public and there is an expectation by the community that audit is protecting the public purse.

1.3 In Local Government, an internal audit service is a mandatory requirement; and all principal authorities in England and Wales are required by statute (under the Accounts and Audit Regulations and section 151 of the Local Government Act 1972), to have an adequate and effective internal audit function.

1.4 Internal Audit services are currently provided by Audit Cotswolds to Cheltenham Borough Council, Cotswold District Council and West Oxfordshire District Council. Forest of Dean District Council receives its Internal Audit Services from South West Audit Partnership (SWAP). Forest of Dean District Council is a Member of SWAP which is a company limited by guarantee and is wholly owned and controlled, as an in-house company, by its members and is a local authority controlled company for the purposes of Part V of the Local Government and Housing Act 1989. The liability of each member is limited to £1, being the amount that each member undertakes to contribute to the assets of the Company in the event of it being wound up while it is a member or within one year after it ceases to be a member.

1.5 As part of the internal audit planning process for 2016/17, several 2020 partnership services areas were identified for review in both the Audit Cotswolds and SWAP audit plans. Since 2012, the GO Shared Service areas have been jointly audited by Audit Cotswolds and SWAP with a joint protocol in place which aims to avoid service areas being audited twice. This protocol has worked well to date however as more services become shared and more are delivered by the 2020 partnership maintaining this arrangement will become increasingly difficult and this will impact on effective and efficient working.

1.6 As a result, in order to ensure effective and efficient working arrangements, it was clear it would be preferable for one internal audit provider to be commissioned to provide internal audit services for the shared services, and/or all of the Councils' services.

1.7 As SWAP is an existing local authority ('Teckal') company, the council (together with Cotswold DC and West Oxfordshire DC) could request to join SWAP as a member and the service change can be implemented without the requirement for a formal procurement exercise.

1.8 The Partnership Commissioning Group (PCG) and the Joint Committee (informally) approved an evaluation process to identify a preferred provider of Internal Audit services to the four partner councils. Bids were presented by the two current service providers South West Audit Partnership (SWAP) and Audit Cotswolds. Written submissions were received on 1st July 2016 and presentations on Thursday 7th July 2016.

2. Reasons for Recommendations

- 2.1** Given the various perceived conflicts of interest within the Finance Officer Group (e.g. Group Manager of GO Shared Services having line management responsibility for Audit Cotswolds and GOSS Head of Finance West being a member of the Board of Directors of SWAP), Grant Thornton were commissioned to support the evaluation process. Grant Thornton supported the process both by helping with the criteria for the evaluation and by providing an independent view upon the quality of responses by the two suppliers.
- 2.2** The proposals were evaluated using a price/quality score of 40%/60%. All of the assessors recognised and valued the work which had been put into both submissions, but SWAP scored highest in the evaluation.
- 2.3** The recommended provider has a proven track record of delivering quality internal audit services to 14 local councils, including Wiltshire, Herefordshire and the Forest of Dean on a not for profit basis. The council has a track record in looking at ways of working in partnership with other organisations to provide back office services more effectively. This proposal is a clear example of working with colleagues from other councils to achieve this.
- 2.4** The proposal from SWAP to the Council is to deliver the audit plan with 365 audit days for a fixed price of £94,020. This represents a base budget saving of £32,680. The SWAP proposal also presented the following advantages:
- Capacity and resilience (i.e. cover for sickness, vacancies and an increased ability to respond to urgent requests for support).
 - A range of skills and access from a pool of over 60 staff.
 - Increased training and development opportunities for staff.
 - Better career opportunities for staff.
 - Certainty of audit provision and cost to the council.
 - Independence of the audit function.
 - The ability to share resources across the authorities in the operational delivery of audit activity.
 - Efficiencies through the development of collaborative work programmes.
 - Access to a recognised audit management system and associated benefits from streamlining of workflow and enhanced opportunities for remote working.

3. SWAP and its Governance Model

- 3.1** The South West Audit Partnership (SWAP) was established in 2005 as a Joint Committee with two initial partners. It now has a membership including ten district, two county and two unitary council's and is present in five counties.
- 3.2** Since 1st April 2013 it has been a local authority owned "Teckal"/Public Contracts Regulations 2015 compliant company limited by guarantee, wholly controlled by its owners (partner council's). It has been assessed and found to comply with the Institute of Internal Auditors Professional Practices Framework and Public Sector Internal Audit Standards (PSIAS). The governance model for SWAP is a company limited by guarantee with two governing bodies.
- 3.3** Members' Board - Each partner council nominates a Councillor to represent them on this Board. The Councillor is the Member representative (equivalent to a Shareholder Representative in a company limited by shares like Ubico Limited) and would make all decisions relating to strategy, policy, appointment and dismissal of senior management and the admission of new partners in conjunction with the other members on the Member Board in accordance with the company's governance arrangements. It is proposed that the representative for this Council will be the Chair of the Audit Committee as the Member responsible for those charged with governance.

- 3.4 Board of Directors - The Board oversees the implementation of the strategy and policy, as well as ensuring the operational activities of the partnership are achieving the objectives set by the Members' Board. In order for Board Directors to be effective, they will need a good working understanding of internal audit and risk management. It is proposed that the representative for this Council will be the Chief Financial Officer (Section 151 Officer) or his nominated deputy as it is a function of the Chief Finance Officer to direct Internal Audit and ensure that it is adequate for the Council's purposes.
- 3.5 Provision has been made in the articles for other directors to be appointed, including some SWAP management as well as two Councillors who would normally be the Chairman and Vice-Chairman of the Members' Board.
- 3.6 Appendix 2 details the respective roles of the two Boards and SWAP Management.

4. Conclusion

- 4.1 Despite not having natural geographical boundaries with our existing GO Shared Services partner councils, the 'willingness' to work together and share best practice has already delivered success. The key objectives from the original GO Programme were cashable savings, staff retention and opportunities, service efficiencies, service resilience and enhanced reputation.
- 4.2 It is evident from the SWAP proposal that these objectives will be fulfilled and is further evidence that this Council is open-minded to the delivery of services which provides value for money for its residents

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Appendices	Appendix 1 – Risk Assessment Appendix 2 – Duties and responsibilities
Background information	2020 Partnership Joint Committee 30 th September 2016 – Exempt Report PJC.11 Internal Audit

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	I	L	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
	If effective governance of the Council is not secured and enhanced through continued robust and effective internal audit provision, those responsible and accountable for governance will be failing to support and enhance the Council's control framework.	CBC Section 151 officer	21 September	4	3	12	Reduce	<p>Enter into an agreement with SWAP to provide the Councils Internal Audit Service</p> <p>Following a robust evaluation, through the engagement of the most effective internal audit service offered combined with effective audit planning and plan delivery assurance (completeness and quality), the SWAP internal audit service will build upon the existing proactive support for, and challenge of, the Councils governance and control arrangements.</p>	1/4/2017	Lead officer for Internal Audit provision	