

Meeting Date	19 December 2012
Report Title	Internal Audit Partnership – Progress Report
Portfolio Holder	Cllr Dewar-Whalley - Finance
SMT Lead	Mark Radford – Director of Corporate Services
Head of Service	Brian Parsons – Head of Audit Partnership
Lead Officer	Brian Parsons – Head of Audit Partnership
Key Decision	No
Classification	Open

Recommendation	That the Committee note the progress made by the Internal Audit Partnership and the actions that are proposed to further improve and develop the service.
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Purpose of Report and Executive Summary

- 1.1 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.
- 1.2 The partnership has achieved all of the objectives that were set out in the original business case. Action is being taken to continue to improve the service.

2 Background

- 2.1 The Audit Committee meeting on 17 March 2009 resolved that ‘Officers proceed expediently with the suggested partnership approach and model...’
- 2.2 The Executive meeting on the 17 March 2009 agreed ‘that the Council forms an Internal Audit Partnership with Ashford Borough Council, Maidstone Borough Council and Tunbridge Wells Borough Council.’ The final approval to proceed was given at the Executive meeting on 10 February 2010.
- 2.3 The four-way partnership was implemented on 1 April 2010.
- 2.4 The partnership is regularised through a five-year collaboration agreement signed by the four parties.

3 Proposal

- 3.1 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 and the issues that are relevant to the future delivery of the service.
- 3.2 Since the 1 April 2010, 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. (The savings for Swale were circa £44,000)
- 3.3 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 more effective 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

- 3.4 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.
- 3.5 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.
- 3.6 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.

3.7 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.

3.8 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.

4 Alternative Options

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

5 Consultation Undertaken or Proposed

5.1 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. Each of the four Audit Committees has been provided with a copy of this report.

6 Implications

Issue	Implications
Corporate Plan	Internal Audit's role is to evaluate the adequacy of controls over the risks associated with the Council's strategic and operational objectives. Inevitably this includes all of the objectives shown within the Corporate Plan.
Financial, Resource and Property	The audit partnership has already demonstrated value for money. Further improvements to the service can be achieved without further cost. Any proposal that could have negative cost implications would be the subject of a rigorous business case before any decision was taken to proceed.

Legal and Statutory	<p>There is a formal collaboration agreement in place between the four partner Councils. The agreement is for five years, which commenced on 1 April 2010.</p> <p>Internal Audit is a statutory requirement in accordance with the Accounts and Audit Regulations 2011.</p>
Crime and Disorder	None identified at this stage.
Risk Management and Health and Safety	<p>The role of Internal Audit is to evaluate the adequacy or the arrangements that management has put in place to control the risks to the delivery of the Council's strategic and operational objectives.</p> <p>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 its efficiency and effectiveness.</p>
Equality and Diversity	None identified at this stage.
Sustainability	None identified at this stage.

7 Appendices

7.1 None

8 Background Papers

8.1 None