

**AUDIT COMMITTEE
24 JANUARY 2017**

REPORT ON INTERNAL AUDIT OPTIONS FROM 2017/18

Cabinet Member Cllr Peter Hare-Scott
Responsible Officer Audit Team Leader, Catherine Yandle

Reason for Report:

This report summarises the options MDDC has for Internal Audit provision going forwards.

RECOMMENDATION(S): That the Audit Committee resolves which option for future Internal Audit provision it believes will be best for MDDC going forward and makes this recommendation to Full Council.

Relationship to Corporate Plan: Effective Internal Audit plays a fundamental role in assisting the Council to deliver its corporate plan.

Financial Implications: The Council's budget for Internal Audit in its current form is £124,380 the primary objective here is not to save money but to obtain a potentially more effective services provision.

Legal Implications:

1. It is a statutory requirement that the Annual Governance Statement is signed off by the Chief Executive (as most senior officer) and the Leader of the Council (as most senior member), along with the Report and Accounts once they have been approved by the Audit Committee
2. Depending on which option is chosen MDDC may have to enter into a financial agreement with an external supplier for the provision of services. The form of agreement will depend upon which option is chosen.

Risk Assessment: There is no immediate risk to the Council; however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.

1.0 Introduction

- 1.1 In common with all other services of the Council management must consider whether the current model for the service provided is the most efficient one and also the best value for money too.
- 1.2 To this end the Internal Audit Team Leader has considered alternative approaches to service provision in the past but it was not felt at that time that changes would necessarily achieve either of these aims so no alternatives were presented to this Committee before now.

- 1.3 However as a knock on effect of changes made in other areas of the service Internal Audit is part of it has been decided by the Leadership Team that the present Internal Audit Team Leader is the person in the Council best placed to take on responsibility for Governance, the Annual Governance Statement, The Code of corporate Governance and other functions which were previously the responsibility of the Head of Communities and Governance (who has now left MDDC).
- 1.4 As a result of this change there is not only too much work for one person to do but there are potential impairments to the Internal Audit Team Leader's independence which is a fundamental requirement of the International Auditing Standards and the Public Sector Internal Audit Standards by which MDDC operates.
- 1.5 This is the first report on this matter, once the initial decision has been made as to the preferred approach further negotiations with the potential supplier(s) will be necessary and more detailed costings agreed and further reports will be presented to the Committee to keep the Committee apprised of progress made.

2.0 The Options

2.1 Do Nothing

This is not really a viable option for the reasons alluded to in 1.4 above. The Internal Audit Team Leader has concluded that even if capacity was created by buying in additional Audit days there would still be the issue of the reduction in independence due to the Audit Team Leader's line manager being the line manager for a lot of other services.

2.2 Procure Audit management via a Service Level Agreement (SLA) or Enter into Partnership Arrangements with an External Provider

- 2.2.1 There are 2 organisations that provide internal audit services to a large number of public bodies on a not for profit basis, these are South West Audit Partnership and Devon Audit Partnership. There is a brief comparison between them at Appendix 1 and also further information included as background papers.
- 2.2.2 Both organisations offer benefits to MDDC as they can provide specialist audit advice which is fairly difficult to obtain economically at present. Both organisations also offer improved career progression opportunities and training for the 2 Auditors who would, most likely, be TUPEd across. Unison has been consulted.
- 2.2.3 Both organisations have a local presence, one with offices in Exeter the other Taunton. But in both cases the staff would continue to be based here at Phoenix House. Both have capacity and would like to work with us.
- 2.2.4 Both organisations are willing to manage only via an SLA, although DAP is more willing to do this on a longer term basis (as they did with Torridge).

- 2.2.5 Other aspects are covered in the background papers. There is some indication of the cost included at Appendix 2, these arrangements would not actually save money, the costs would be very similar to the present arrangements, but the resultant service should be even more effective and efficient than at present.
- 2.2.6 The Internal Audit Team Leader would be freed up to perform these other functions.

2.3 Tender for Internal Audit Services from External providers.

- 2.3.1 Firms such as Grant Thornton, KPMG etc. offer internal audit services to clients in the private and public sector on a commercial basis. Locally North Devon has an arrangement like this. This option would have the disadvantage of a lengthy and expensive tender process but the service benefits would be similar to the above for MDDC. However for the staff this would be a more difficult choice.

3.0 Conclusion and Next Steps

- 3.1 Members need to decide which option they would like to recommend to Full Council for their meeting on 22 February.
- 3.2 Further work would then be undertaken to agree the detailed timetable and budget with the party MDDC decide to work with. However transitional audit management provision will be needed and arrangements to co-ordinate software, training etc. will be necessary, this process will take about 3 months.

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Circulation of the Report: Management Team and Cllr Peter Hare-Scott

List of Background Papers: Response to queries raised 15 December 2016 SWAP, Questions for Potential Partners DAP, Questions with regard to TUPE DAP, SWAP Annual Report 201516, Devon Audit Partnership – info as at Oct 2016