



AUDIT COMMITTEE

24TH JANUARY 2017

AGENDA ITEM (11)

INTERNAL AUDIT SUPPLIER

Accountable Member	Audit Committee
Accountable Officer	Jenny Poole Chief Finance Officer 01285 623313 jenny.poole@cotswold.gov.uk

Purpose of Report	To provide the Committee with details of an evaluation exercise carried out to recommend a supplier of internal audit services with effect from 1 st April 2017.
Recommendation(s)	That the Committee considers the information contained within the report and provides its views on the recommend change of internal audit provider to the Cabinet and the Council
Reason(s) for Recommendation(s)	To support the Council in considering the recommendation to commission internal audit services from the South West Audit Partnership (SWAP).

Ward(s) Affected	N/A
Key Decision	No
Recommendation to Council	Yes - via the Cabinet

Financial Implications	If the Council agrees to the recommendation, it will deliver annual savings of £72,225.
Legal and Human Rights Implications	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.
Environmental and Sustainability Implications	None
Human Resource Implications	The Officers within the Audit Cotswolds service will transfer under TUPE arrangements to the employment of SWAP with effect from 1 st April 2017.

Key Risks	The key risk is that Officers within the Audit Cotswolds service are concerned over the transfer of employment to SWAP and that there is a resulting reduction in performance. The risk will be mitigated by engagement with the team including one-to-one interviews with Officers from SWAP.
Equalities Impact Assessment	Not Required

Related Decisions	30 th September 2016 - Recommendation from the 2020 Joint Committee for SWAP to become the internal audit service provider.
Background Documents	None
Appendices	None

Performance Management Follow Up	The Group Manager GO Shared Services will oversee the transfer of service provision to SWAP.
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Options for Joint Working	Subject of the report.
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Background Information

- Internal Audit services are currently provided by the Council's in-house team, Audit Cotswolds. The team operates as a shared service and provide services to: Cheltenham Borough Council, West Oxfordshire District Council, Cheltenham Borough Homes Ltd. and Ubico Ltd. Forest of Dean District Council receives its Internal Audit Services from South West Audit Partnership (SWAP).
- As part of the internal audit planning process for 2016/17, several shared services areas (for example, ICT and Public Protection) were identified for review in both the Audit and SWAP audit plans. Since 2012, 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 through the 2020 Partnership, maintaining this arrangement will become increasingly difficult, and this will impact on effective and efficient working. It would be preferable for one internal audit provider to be commissioned to provide internal audit services.
- This is not a very efficient arrangement, and it would be preferable for one internal audit provider to be commissioned to provide internal audit services.
- During the summer of 2016, the 2020 Partnership Commissioning Group (PCG) and the 2020 Joint Committee (informally) approved an evaluation process to identify a preferred provider of Internal Audit services to the four Partner Councils, Cheltenham Borough Homes Ltd. and Ubico Ltd. Bids were presented by the two current service providers, SWAP and Audit Cotswolds. Written submissions were received on 1st July 2016 and presentations were made on Thursday 7th July 2016. Representatives from Cheltenham Borough Homes Ltd. and Ubico Ltd. attended the presentations and provided input to the evaluation process. The two proposals were evaluated by the Chief Finance Officer representatives from all of the 2020 Partner Councils.
- The 2020 Joint Committee has considered the outcome of the evaluation process and is recommending that SWAP be commissioned to provide internal audit services from April 2017. The existing contractual arrangements with Cheltenham Borough Homes Ltd. and Ubico Ltd. require the clients to approve any change of service provider, and both Audit Cotswold clients have approved the change of supplier.

5. The Audit Committee is being asked to provide its views on the proposal to move internal audit services to SWAP to the Cabinet and the Council.

6. Reasons for the Recommendation

6.1 Given the various perceived conflicts of interest within the Finance Officer Group (for example, the Group Manager of GO Shared Services having line management responsibility for Audit Cotswolds and the 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 on the quality of responses by the two suppliers.

6.2 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.

6.3 There was unanimous agreement in that SWAP scored highest in the evaluation. Some of the key reasons for this were:-

- SWAP has access to specialist skills and experience within its own resources, Audit Cotswolds proposed to buy-in specialist skills which might prove difficult to resource and will be expensive;
- SWAP was able to demonstrate itself as a leader in terms of regional/national developments in internal audit, and has access to networks of contacts enabling the sharing of intelligence;
- there will be greater resilience from SWAP as it has a larger pool of resources and is able to move resources around the Partnership to provide cover when necessary.

6.4 SWAP, the recommended provider has a proven track record of delivering quality internal audit services to fourteen Councils, including Wiltshire, Herefordshire and the Forest of Dean on a 'not for profit' basis. SWAP represented the best value for money bid, providing greatest resilience as well as the option to be flexible going forward if client requirements change.

6.5 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 sixty 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;
- access to a recognised audit management system and associated benefits from streamlining of workflow.

7. SWAP and its Governance Model

7.1 SWAP was established in 2005 as a Joint Committee with two initial Partners. It now has a membership including ten District Councils, two County Councils, and two Unitary Authorities, and is present in five Counties.

7.2 Since 1st April 2013, it has been a local authority owned 'Teckal'/Public Contracts Regulations 2015 compliant company, limited by guarantee and wholly controlled by its owners (the Partner Councils). 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.

7.3 As SWAP is an existing local authority 'Teckal' company, this Council as the employer of Audit Cotswolds staff is able to request to join SWAP as a member, and the service change can be implemented without the requirement for a formal procurement exercise.

8. Members' Board

Each Partner Council nominates a Councillor to represent it on the Members' Board. The Councillor is the Member representative (equivalent to a shareholder representative in a company limited by shares) 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 suggested that the Chairman of the Audit Committee be appointed to represent this Council on the Members' Board.

9. Board of Directors

The Board of Directors 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 the Board Directors to be effective, it will need a good working understanding of internal audit and risk management. It is suggested that the Group Manager GO Shared Services (in her role as Section 151 Officer to the Council) be appointed to the Board of Directors.

10. The duties and responsibilities of the Members' Board, the Board of Directors and SWAP Management are detailed at **Appendix 'A'**.

11. Conclusion

11.1 The Finance Officer Group consider that a move to SWAP will provide an efficient internal audit service, increased capacity and resilience from a larger pool of resources, and access to specialist audit resources. Service provision can also be tailored to fit the changing requirements of the 2020 Partnership Company model of service provision.

11.2 The Audit Committee is requested to consider the proposed transfer of Internal Audit service provision from Audit Cotswolds to SWAP with effect from 1st April 2017, and to provide views thereon for consideration by the Cabinet and the Council.

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