



CABINET

16TH FEBRUARY 2017

AGENDA ITEM (11)

INTERNAL AUDIT SUPPLIER

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| Accountable Member | Councillor C Hancock Cabinet Member for Enterprise and Partnerships |
| Accountable Officer | Jenny Poole Chief Finance Officer 01285 623313 jenny.poole@cotswold.gov.uk |

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| Purpose of Report | To provide Cabinet with details of an evaluation exercise carried out to recommend a supplier of internal audit services from 1 st April 2017. |
| Recommendation(s) | <p>That Cabinet considers the information contained within the report and recommends to Council that:</p> <ul style="list-style-type: none"> (a) Cotswold District Council becomes a Member of the South West Audit Partnership; (b) the Chairman of the Audit Committee is nominated as the Council representative on the Members' Board of the South West Audit Partnership; (c) that the Group Manager GO Shared Services (in her role as S.151 Officer) is nominated as the Council's representative on the South West Audit Partnership Board of Directors; (d) that delegated authority is given to the Group Manager GO Shared Services (in her role as S.151 Officer) to enter into the legal agreements - Agreement for the Provision of Audit Services and Deed of Adherence - in consultation with the Cabinet Member for Enterprise and Partnerships, the Shared Strategic Director and Head of Paid Service, and the Group Manager (Land, Legal and Property). |
| Reason(s) for Recommendation(s) | To support the Council in considering the recommendation to commission internal audit services from the South West Audit Partnership. |

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| Ward(s) Affected | Not applicable |
| Key Decision | No |
| Recommendation to Council | Yes |

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| Financial Implications | If Council agrees to the recommendation, it will deliver annual savings of £72,225. |
| Legal and Human Rights Implications | The South West Audit Partnership is a local authority company limited by guarantee and if the Council becomes a member of the company, internal 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 the South West Audit Partnership 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 121s with Officers from the South West Audit Partnership. |
| Equalities Impact Assessment | Not Required |

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| 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 | Appendix 'A' - SWAP - Duties and Responsibilities |

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| Performance Management Follow Up | (i) Report any recommendation(s) to the Council. (ii) If approved, 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 | |
| 1. <u>General</u> | |
| 1.1 Internal Audit services are currently provided by the Council's in-house team, Audit Cotswolds. The team operate 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). | |
| 1.2 As part of the internal audit planning process for 2016/17, several shared services areas (e.g. ICT and Public Protection) 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 becoming 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.

1.3 During the summer, 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 South West Audit Partnership (SWAP) and Audit Cotswolds. Written submissions were received on 1st July 2016 and presentations 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.

1.4 The 2020 Joint Committee has considered the outcome of the evaluation process and is recommending that SWAP is 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. Both Audit Cotswold clients have approved the change of supplier.

1.5 The Audit Committee, meeting on 24th January 2017, considered the proposal to move internal audit services to SWAP and supported the proposal.

2. Reasons for the Recommendation

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.

2.3 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.

2.4 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. 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.

2.5 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 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.
- Access to a recognised audit management system and associated benefits from streamlining of workflow.

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 As SWAP is an existing local authority ('Teckal') company, Cotswold District 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.

3.4 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 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 Chairman of the Audit Committee would be appointed to the Members' Board.

3.5 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 Group Manager GO Shared Services (in her role as Section 151 Officer to the Council) be appointed to the Board of Directors.

3.6 The duties and responsibilities of the Member's Board, the Board of Directors and SWAP Management are set out in **Appendix A**.

4. Conclusion

4.1 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.

4.2 The Council's Audit Committee are supportive of the proposed transfer of internal audit service provision from Audit Cotswolds to SWAP.

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