

MAIDSTONE BOROUGH COUNCIL

CABINET MEMBER FOR CORPORATE SERVICES

[DATE]

REPORT OF MANAGEMENT TEAM

Report by Director of Change and Environmental Services

MID-KENT INTERNAL AUDIT PARTNERSHIP

- 1 Issue for Decision
 - 1.1 To agree that Maidstone Borough Council forms an Internal Audit Partnership with Ashford, Swale and Tunbridge Wells. With a further detailed report submitted to Cabinet in April 2009.
- 2 Recommendation of Director of Change and Support Services
 - 2.1 That the Cabinet Member for Corporate Services agrees that Maidstone Borough Council forms an Internal Audit Partnership with Ashford Borough Council, Swale Borough Council and Tunbridge Wells Borough Council.
 - 2.2 That the structure for the service is agreed, as set out in Appendix B.
 - 2.3 That the Cabinet Member agrees a provisional level of 36 audits per year for Maidstone equating to a total of 540 'chargeable' days audit work per annum.
 - 2.4 That delegated responsibility is given to the Director of Change and Environmental Services to put in place arrangements to cease the current Audit arrangements with Ashford BC and progress the Audit Partnership.
 - 2.5 That a further report is presented to Cabinet in April 2009, after all the boroughs have considered the proposals.

3 Reasons for Recommendation

- 3.1 Shared internal audit partnerships are now in place across several groups of authorities and this will provide greater resilience, improve the standard of the service across the area, reduce duplication in the future and reduce costs.
- 3.2 Given the governance arrangements it is vital that a decision is taken by all the boroughs in advance of finalising the operating arrangements. It is proposed that there would be a three month period during which the transformation would take place.
- 3.3 There are a range of other activities that the audit departments undertake, including risk management, governance work and serious investigations that also need to be considered in determining the service that will be provided in each of the boroughs.
- 3.4 The agreement of the structure would enable the appointment process to be progressed and for all the staff to be formally consulted on the proposed model of working.
- 3.5 At this stage an indication of the level of audit activity has been included so this can aid the planning process. It is envisaged that a similar overall level of audit work will be undertaken but that the overall duration of the audits will be shorter. This will be particularly the case in Swale where historically, fewer but longer audits have been undertaken. Depending on the development of shared services then the number of audits will reduce further in the future.
- 3.6 In establishing the four way Audit partnership the current partnership between Ashford BC and Maidstone BC will cease to exist.
- 3.7 The views of the Audit Committee have been sought in relation to the Audit Partnership and these have been included in the report.

4. Alternative Action and why not Recommended

- 4.1 The service could remain as it is currently provided; however, local authorities are under increasing financial pressure and need to be able to demonstrate improvements in efficiency.
- 4.2 Shared services are a means of making cost effective service improvements as well as providing greater service resilience and Internal Audit is a service that has been shared between authorities elsewhere in Kent.

- 4.3 The councils could also consider purchasing audit support from East Kent, Kent County Council or another supplier. However, it is felt that the eyes and ears element of the service is critical to minimising risk and this would be reduced as well as the reliance placed on internal audit work as a way of reducing external audit fees. In addition several authorities have highlighted the need for some continuity with the existing members of staff.
- 4.5 The programme of audit work could be reduced. This is possible in the future although at present there are different levels of audit activity across all the four boroughs. As more shared services are established then this should reduce the programme and although the duration of the audit work has been reduced there are no proposals to reduce the number of audits. The programme will still vary in each borough based on the audit plan and current priorities, however, it is envisaged that there will be some synergy during 2009/10.
- 4.6 There is a strong culture of change and continuous improvement which has been recognised by the external auditors. Having a comprehensive audit programme enables the organisations to place greater reliance of the data and delivery of the business as well as ensuring that officers keep a focus on the key things that matter and sound business approaches.

5. Background and Introduction

- 5.1 The Mid Kent Improvement Partnership (MKIP) between Ashford, Maidstone, Swale and Tunbridge Wells was set up in 2008 to:
- Improve the quality of service to communities;
 - Improve the resilience of service delivery;
 - Deliver efficiency savings in the procurement, management and delivery of services;
 - Explore opportunities for trading in the medium to long term; and
 - Share best practice.
- 5.2 The creation of the Mid Kent Improvement Partnership was subsequently approved by each of the four authorities, with reports to each Executive Committee and with subsequent approval at the respective Council meetings.
- 5.3 Kent County Council has now also joined the Management Board and Programme Board although no formal decision has been taken by the County Council to join the Partnership.

- 5.4 The Board comprises the respective Leaders and Chief Executives of each of the district councils as well as a cabinet member and senior officer from Kent County Council. A Programme Board comprising of a senior officer from each borough oversees the day to day issues.
- 5.5 In the broader context the development of a shared or joint services is seen to offer the additional advantages in:
- Improving value for money;
 - Improving services and standards;
 - Improving public satisfaction ratings;
 - Improving Use of Resources and Direction of Travel statements;
 - Assisting with recruitment and retention; and
 - Impacting on the Comprehensive Area Assessment.
- 5.6 An initial programme of work has been established that involves exploring the opportunities for four borough partnerships. There are already some partnerships in place between some of the boroughs both within and outside the Mid Kent Improvement Partnership area.
- 5.7 In exploring the potential for shared services between the four boroughs Audit was identified as one of the possible areas that should be considered at an early stage.
- 5.8 Although it was clearly set out at the beginning that this has involved starting from a blank sheet there have been some concerns that this represented a growing of the Ashford/Maidstone partnership and as a result the shape of the service had already been defined.
- 5.9 From the opposite perspective there were also concerns expressed that the success of the current partnership could be reduced.
- 5.10 Although it is a new start it is envisaged that the new arrangements will add to the delivery of audit in each of the four boroughs. A seminar involving all the audit staff within the four boroughs also took place on the 23 January 2009. Overall the outline proposals for a shared service were positively received in principle, although communication appeared to be an area where further work was required in some instances and further clarification was required on a number of staffing matters which are now being considered by the HR managers.
- 5.11 To ensure that progress can be made over the next few months it is vital that each authority confirms their agreement to the creation of the partnership to prevent any potentially abortive work or service disruption arising.

- 5.12 At the meeting of the MKIP Management Board on the 3 December the Leaders and Chief Executives recommended that each of the four boroughs now formally considered the establishment of an audit partnership.
- 5.13 The governance arrangements state that Board does not have any formal decision making powers. Any decision to establish a partnership will be based on agreement by each of the boroughs. However, not all the four boroughs have to be involved in a particular shared service.
- 5.14 Subject to the approval being at this stage, a final report will be provided to a meeting of the Cabinet in April 2009.

6. Internal Audit Partnerships

- 6.1 The Maidstone/Ashford Internal Audit Partnership was set up in 2005 and has been deemed to be successful by both parties to the extent that the original three year agreement was extended in 2008 for a further five years.
- 6.2 Since the creation of the Maidstone/Ashford Audit Partnership, other audit partnerships have been created in Kent, most notably the East Kent Audit Partnership which encompasses four District Councils, Shepway DC, Dover DC, Thanet DC and Canterbury CC.
- 6.3 Elsewhere in the country, an increasing number of Internal Audit partnerships have been created, most at district council level, involving two, three or four authorities.
- 6.4 The partnership between the four boroughs will require a new service approach although there is a range of knowledge from partnership working that has taken place in the past.
- 6.5 There is a need to ensure that the model is not too rigid as otherwise the focus of the audit work may not fit with the demands of each organisation. This is something that is being considered in terms of the scope of the roles and the development of the job descriptions for the senior staff. Particularly in terms of outcomes, outputs and processes along with interdependencies with other council departments.

7. Working in partnership

- 7.1 Traditionally, internal audit at district council level has been provided by relatively small teams, sometimes as small as two operational auditors, led by an Audit Manager or Head of Internal Audit.

- 7.2 The size of the teams meant a lack of service resilience, for example the work plan would be substantially disrupted where there was long term sickness or if a member of the team left.
- 7.3 Furthermore, the size of the teams meant that there was little opportunity to create any specialisms and potentially a lack of development opportunities and a limited career structure. In terms of recruitment, a career in internal audit at district council level was not necessarily an attractive option, particularly for ambitious auditors who wished to pursue a professional career. As a result, in some authorities Internal Audit assumed a relatively low profile, leading to limited effectiveness.
- 7.4 Over recent years there have been increasing expectations placed on of Internal Audit, with the service being in a position to make a significant contribution to the change/improvement agenda. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom states that internal audit should aspire to 'be seen as a catalyst for change at the heart of the organization'.
- 7.5 Internal Audit is now expected to be more professional and more dynamic. The CIPFA Code of Practice sets high standards for the provision of the internal audit service.
- 7.6 Increasingly the external auditors expect a high quality of internal audit to be in place in order that they can place reliance on the work of Internal Audit. Where this is not the case the external auditors will undertake more work with a subsequent increase in the annual external audit fee.
- 7.7 Internal Audit is expected to seek out best practice in terms of the provision of the service, acknowledging the professional guidance from the professional bodies (the Chartered Institute of Public Finance and Accountancy, and the Institute of Internal Auditors), and to be aware of the alternative approaches to the delivery of the service at other local authorities.
- 7.8 The creation of a partnership for Internal Audit provides the opportunity to create a forward thinking, progressive internal audit service which provides an improved service to each of the four partner authorities and a more vibrant environment for the internal audit staff.
- 7.9 In changing the approach to the audit delivery there could also be some disadvantages. For example less focus for the staff on non audit work, a more challenging role could be more difficult for some people and working across several sites could lead to more non productive time.

- 7.10 A summary of the advantages and disadvantages that have been identified as a result of a four borough internal audit partnership are shown in a table at Appendix A.
- 7.11 In September 2008 the Mid Kent Improvement Partnership agreed that the potential for developing a shared audit service would be explored.
- 7.12 The Programme Board identified a lead officer to take this forward and it was agreed that this would initially be the Head of the joint Ashford/Maidstone Audit Team as he was best placed to set out the issues that would need to be considered.
- 7.13 Regular reports have subsequently been provided to the Programme Board and Management Board. This culminated in a report to the Management Board on the 3 December where it was agreed that the development of a shared audit service should be recommended to each of the four councils.
- 7.14 The remainder of the report looks at key aspects of the service, operational arrangements and the further phases of work that could be undertaken.
- 7.15 It has also been suggested that a post implementation review should be undertaken after a year of operation.
8. Internal Audit in the context of the Mid Kent Improvement Partnership
- 8.1 The Mid Kent Improvement Partnership envisages a position where the majority of the operational systems/services will be shared between the four authorities at some future point.
- 8.2 This will inevitably change the approach that Internal Audit will need to take to the audit of those systems and services. In the longer term if Internal Audit was not delivered through a partnership it could be necessary for four different audit teams to audit a single shared service.
- 8.3 Each of the boroughs also has strengths and weaknesses associated with the current internal audit arrangements, for example as referenced by the scores on Internal Control as part of the Use of Resources Assessment.
- 8.4 In addition the Audit Commission has identified some notable practice in this area. This includes quality measures on follow up to look at the level of control assurance and the impact of the audit in terms of

- improvement. The Commission has also confirmed that the service is fully compliant with the standards prescribed in the Code of Practice.
- 8.5 The qualitative elements of the internal audit section will also be important in terms of feedback from the service areas in terms of the approach to the audit, outcomes and the value in improving service standards and delivery.
- 8.6 Although there are similarities in the programme of audit activity for the four boroughs over a three year period there are also differences in the way that the audit work is approached.
- 8.7 There is already some duplication in the work programmes and this will increase as more shared services are developed. Potentially to a point that four individual audit teams could be assessing a single shared service.
- 8.8 Therefore, there is a compelling argument for the Internal Audit service to be one of the first shared services to be considered under the MKIP agenda.
9. The potential shape of the service and the delivery arrangements
- 9.1 The meeting of the Mid Kent Improvement Partnership Board on the 3 December 2008 received a report setting out a range of staffing structures for the joint service. The structure with a Head of Internal Audit, two Audit Managers and two geographical (twinned) teams was seen to be the most resilient and practical model. The Board agreed the structure in principle subject to further work being done on the potential cost of the model compared with the existing arrangements. The model is shown at Appendix B.
- 9.2 The model shows a Head of Internal Audit Partnership, supported by two Audit Managers who would each take responsibility for the operational management of two teams. The individual teams would remain based at their current site, but the auditors would be required to carry out a proportion of their audit work at other sites.
- 9.3 This would enable the relationships and knowledge that has been built up by local staff to be retained whilst developing the overall service.
- 9.4 Logistical issues suggest that the pairings should be Maidstone and Tunbridge Wells; Ashford and Swale. This takes account of the distance between the main offices for each authority and should help to limit the time that the auditors spend travelling from their base office (or from their home) to the other site.

- 9.5 In addition it would mean that the officers with experience of working across more than one borough would be shared across both of the new Audit teams.
- 9.6 Irrespective of the pairings, the auditors would need to be prepared to work on any of the four sites where appropriate, based on their skills and experience and in the interests of the service. The frequency of such movement would be a management decision for the Head of the Internal Audit Partnership. However, it is anticipated that, other than at the paired sites, such movement would be occasional.
- 9.7 The Audit Managers would assume responsibility for the majority of operational matters relating to the respective teams. This would include the issue of briefs for planned work, the review of audit working papers and reports, and the day to day management and supervision of the audit teams. The Audit Managers would deputise for the Head of Internal Audit where necessary.
- 9.7. It has been assumed at this stage that the Audit Managers would operate at a level which is higher than the current level of Team Leader but below that of a Head of Service.
- 9.8 The operational auditors would continue to be primarily based at their 'home' site in order to ensure continuity for clients and also to act as the 'eyes and ears' of the partnership at ground level. However, the auditors would work on any other site as required by the Head of Internal Audit (subject to the emphasis on 'pairings' as previously stated). It is anticipated that one member of each team would act as 'Senior Auditor' on each site.
- 9.9 The model is similar to the one adopted by the East Kent Audit Partnership, where it has been proven to be workable and effective.
10. Costs, performance and specific issues for each authority
- 10.1 The cost of the existing Internal Audit services at each of the four authorities is shown at Appendix C. The costs shown are the budgets for the financial year 2008/09.
- 10.2 The budgets shown do not include the internal recharges made within each authority to the internal audit budget. The internal recharges at each authority vary substantially and reflect each authority's policy for accounting for internal service costs. These costs are, to an extent, outside of the direct control of the Head of Internal Audit. Furthermore, the internal recharges will continue at a similar level whether the partnership proceeds or not. Therefore internal recharges have been ignored in Appendix C.

- 10.3 The budgets shown at Appendix C have been adjusted to reflect the 'non-audit' work which is carried out by the respective Head of Internal Audit/Audit Manager where this has been quantified. Principally this relates to work relating to risk management. This aspect will be subject to further clarification and review.
- 10.4 At this stage it has not been possible to show the cost of the new partnership structure. This is because the cost will reflect the final staffing position and the level of audit (the number of audit days) required by each authority. The staffing requirements and the respective grades will become more evident as the more senior posts are appointed to the shadow partnership.
- 10.5 Consideration has been given to a provisional figure for the number of audits and total audit days in each authority and these figures are set out in Appendix E. A fully costed model will be included in an exempt appendix to the final report to Cabinet.
- 10.6 Performance, in terms of output (audits completed/reports issued) is shown at Appendix D. The figures are based on performance in 2007/08, which is the most recent full year available.
- 10.7 The creation of a four-authority internal audit partnership will affect all four authorities as each will have a number of specific issues to address. Appendix F sets out the current operational issues for each authority.
- 10.8 Overall the aim will be to establish a model based on an average of 15 days per audit. It is proposed that this volume is agreed for a three year period (as all the authorities have a three year programme). Any alteration to the volume of activity would be looked at on an annual basis. This is felt to be the optimal level to provide value for money from the process and enable resources to be effectively deployed.
- 10.9 In undertaking this programme of work across the Mid Kent Area it is envisaged that officers will continue to work closely with the audit team to make the most effective use of the resources.
- 10.10 This report has been presented to a special meeting of the Audit Committee in February for the committee to consider the proposal.
- 10.11 If a decision is taken to develop the partnership then formal consultation will be undertaken with the staff involved in all four boroughs. In addition consideration will need to be given to whether a report is presented to the Joint Consultative Committee or similar group of members. Further details are set out in the staffing section of the report.

11 Outsourcing the Service

- 11.1 Outsourcing Internal Audit in local government is relatively rare and tends to occur when there is a failing Internal Audit Service or through difficulties in being able to recruit to small teams. On occasions, a very adverse external audit assessment has also led to outsourcing. For example, the external auditors at a London Borough stated that they could not place reliance on Internal Audit work and the Council then had to outsource the service.
- 11.2 The private sector, or at least the big firms, has not seen much profit to be made from local authority internal audit contracts. If these have been progressed then it has tended to be alongside more lucrative consultancy work and covered larger authorities such as the London Boroughs.
- 11.3 Whilst using the private sector enables access to potentially a wider range of individuals there have also been criticisms over the flexibility in the service that is procured. If additional work is required then a rate has to be agreed and the audit work also tends to be based around the more straightforward audit subjects, for example the financial systems such as payroll or payment of creditors, etc. The firms have much more difficulty in being able to carry out more Council specific audits, e.g. Section 106 Agreements, Licensing, Waste Collection.
- 11.4 In addition when the private sector has been engaged, there is usually a need to continue to employ an in-house officer to manage the contract on the Council's behalf. Because of the specialist nature of the job, the officer has tended to be the Chief Internal Auditor who acts as the in-house quality control, reviewing the work of the private sector team before reports are issued within the organisation. The monitoring officer then has to manage the internal relationships, which is not necessarily the most efficient arrangement.
- 11.5 The other main criticism of using the private sector is the use of junior auditors. Quite often when the contracts are being sought the partners within the firm are very visible, however, afterwards the main on-site presence is junior or trainee auditors.
- 11.6 It has been difficult to obtain costs for an outsourced audit service however, day rate figures (excluding VAT) have been obtained for one potential provider, these are as follows:

- Senior Internal Auditor - £475;

- Junior Internal Auditor - £400;
- IT Auditor - £850; and
- Risk Management Specialist - £750.

11.7 This compares with the costs that have already been calculated in respect of the existing four internal audit teams, which work out at an average daily rate of around £300 per day (excluding internal recharges).

11.8 There will be instances when external specialist advice is required, in the first instance this may need to be procured, however, as the partnership arrangement is developed opportunities to expand the skills in the team will be explored.

12 Conclusion

12.1 The creation of an Internal Audit Partnership between Ashford, Maidstone, Swale and Tunbridge Wells would provide an opportunity to create an improved, more cost effective and stronger internal audit service.

12.2 Approval in principle at this stage would allow a structure to be developed, which in turn will allow final costings to be prepared and work methodologies to be created.

12.3 Impact on Corporate Objectives

12.4 Each of the four authorities is committed to the Mid Kent Improvement Partnership, with the objective of creating suitable shared service partnerships.

12.5 Internal Audit is a key contributor to the Council's governance arrangements, providing an independent appraisal function to assess the adequacy of the controls that have been put in place to manage the risk to the successful delivery of corporate and service objectives.

13 Risk Management

13.1 There are a range of risks that may arise from the creation of a four-way Internal Audit Partnership. A comprehensive risk assessment will be carried out and will be available to the Cabinet in order to assist the final decision.

14 Other Implications

14.1

1.	Financial	X
1.	Staffing	X
2.	Legal	X
3.	Social Inclusion	
4.	Environmental/Sustainable Development	
5.	Community Safety	
6.	Human Rights Act	
7.	Procurement	
8.	Asset Management	

14.2 Financial - The financial implications of the partnership will be explored in detail and reported to Cabinet in April. An initial analysis is set out in the attached Appendix. However, it is envisaged that the Council will make an efficiency saving in the region of 15% in the medium term. However, for some of the boroughs there may be some additional costs during the first year of operation.

14.3 Financial - It may be necessary to consider the creation of a 'pot' drawn from the savings that can be achieved over a three year period in order that a percentage contribution could be made to help minimize any staffing costs that one or more of the authorities could incur as a result of the creation of the partnership.

14.4 Staffing - All staff who are currently employed to provide the Internal Audit service at the four MKIP authorities will be affected by the creation of the partnership. Formal consultation will need to be undertaken on the proposed model.

14.5 Staffing - It is anticipated that the Head of Service post and the Audit Managers posts will be subject to interview, whereas the remaining posts will be assimilated wherever possible.

14.6 Staffing - Initial discussions have taken place with a range of officers in putting together this proposals and separate briefings/meetings

have also been held with audit staff across all four boroughs to discuss the potential for developing a shared service and the key issues.

- 14.7 Legal - An agreement will be prepared and agreed between the four Councils setting out the legal obligations of each partner authority. This will be agreed by representatives of the Programme Board.

15 Background Documents

15.1 The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

15.2 The report on the creation of the Mid Kent Improvement Partnership.

NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED

Is this a Key Decision? Yes No

If yes, when did it appear in the Forward Plan? _____

Is this an Urgent Key Decision? Yes No

Reason for Urgency

[State why the decision is urgent and cannot wait until the next issue of the forward plan.]