

REPORT TO: GOVERNANCE COMMITTEE

Date: 5 November 2019

TOPIC: PROVISION OF INTERNAL AUDIT SERVICES

REPORT BY: HEAD OF RESOURCES

1 INTRODUCTION

- 1.1 There are two principal pieces of legislation that impact upon internal audit in local authorities.
- 1.2 Section 5 of the Accounts and Audit Regulations (England) Regulations 2015 states that “a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”
- 1.3 Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of its financial affairs.
- 1.4 This report updates members on the current arrangements for the provision of internal audit services and makes recommendations for the future provision from April 2020 onwards.

2 RECOMMENDATIONS

- 2.1 That members approve that North Devon Council join the Devon Audit Partnership (DAP) as a partner from 1st April 2020 onwards, for the provision of internal audit services.
- 2.2 That the Head of Resources work with the Head of Devon Audit Partnership (DAP) and respective Legal, Human Resources and Finance teams to prepare and sign contracts to enable the above partnership to take place.

3 REASONS FOR RECOMMENDATIONS

- 3.1 To enable a continued, effective internal audit provision for North Devon Council.

- 3.2 For those responsible with governance to ensure the authority has an internal audit service which evaluates the effectiveness of risk management, control and governance processes.

4 REPORT

- 4.1 The internal audit provision for North Devon Council is currently delivered by Mazars, a mainly London based firm as part of a “3 year plus 2” contract. The first three years of the contract ended on 31 March 2019, and it was agreed to extend for a further one year for the 2019/20 financial year.
- 4.2 Service delivery is mainly via an individual auditor who is located in Devon; this officer works 3 days per week and completes the majority of the Internal Audit plan, with support from other Mazars colleagues. The individual has indicated to Mazars (and NDC) that she will retire at the end of March 2020; Mazars have relayed to the Head of Resources that, due to the geographical challenges of servicing the contract in North Devon, they would prefer not to extend the current contract into the 2020/21 financial year (year 5).
- 4.3 As a result North Devon Council need to seek alternative delivery arrangements for Internal Audit for the 2020/21 financial year and beyond.
- 4.4 We are aware that the internal audit provision for close neighbours (e.g. Torridge and Mid Devon Councils) is provided by Devon Audit Partnership. The Partnership is governed by a management board and partnership committee made up of the Partners; it is structured as what is known as a “Teckal compliant” organisation, hosted by the County Council.
- 4.5 Being “Teckal compliant” means that the Partners can discharge their statutory need for internal audit via the Devon Audit Partnership without the need for entering into procurement and tendering arrangements; in effect the Partners have control over the partnership, much in the way that they control their other in-house teams (e.g. finance, HR etc)
- 4.6 The Partnership has grown steadily over the years, built on a reputation for providing high quality services whilst maintaining value for money.
- 4.7 The Head of Resources has had initial conversations with the Head of Devon Audit Partnership (DAP) about the possibility of North Devon Council joining as a partner. This will be based upon a service need of 200 days per year, with NDC retaining a small contingency budget to enable further “call off” of services as and when needed.
- 4.8 The Head of Devon Audit Partnership (DAP) has explained that each year (around late November / early December) DAP would require initial indications for NDC of the internal audit requirements for the coming year; it is recognised that this can go up or down, depending upon activity, risk and how the internal audit function can support the Council. To aid management in planning and resourcing delivery it is expected that annual fluctuations will be limited to around 10% of the total plan.

- 4.9 As mentioned above, the employee currently working with Mazars has indicated that she will be looking to retire in March 2020. If this is the case then Devon Audit Partnership (DAP) will use its current staff to deliver the contract for North Devon Council. The staff are located around the county and are very experienced in meeting Partners needs for example at Torridge and Mid Devon.
- 4.10 However, if this were not the case and the individual does not retire, then the individual would be expected to meet TUPE regulations and would transfer to Devon Audit Partnership (DAP). They have recent experience of such transfers following Mid Devon joining and the Head of Devon Audit Partnership (DAP) has stated that this would not be a barrier to North Devon Council joining.
- 4.11 The Head of Devon Audit Partnership (DAP) has also indicated that they do look to work flexibly with all employees, and so a range of options would be available for the employee; these range from continuing in their role via TUPE transfer to working with the partnership on a temporary or longer term arrangement to suit their individual needs. Such conversations would need to take place between the individual and Devon Audit Partnership (DAP).
- 4.12 Devon Audit Partnership (DAP) have indicated that their reporting (assignment and summary) styles are similar to what North Devon Council currently receive and will work with the Head of Resources to ensure reports meet the Council requirements.
- 4.13 If the recommendations are approved then in late November / early December 2019 the Head of Resources and Head of Devon Audit Partnership (DAP) will meet to set out the expected internal audit input for the forthcoming year.
- 4.14 Appendix A to this report sets out some background information on the Devon Audit Partnership (DAP), the governance arrangements in place and who the partnership provide services to currently.

5 RESOURCE IMPLICATIONS

- 5.1 The current contract with Mazars is for 220 days per year at a cost of £69,300, resulting in a daily rate of £315. The contract includes 20 days of contingency, resulting in a “delivery plan” of 200 days @ £315 = £63,000
- 5.2 Devon Audit Partnership (DAP) currently charge a day rate of £292 to its partners; this day rate is strongly influenced by pay and price inflation and so a pay award for staff from April 2020 will have an impact on this rate. Based on 2019/20 prices, a contract to deliver 200 days of internal audit at a rate of £292 totalling £58,400 would be expected.
- 5.3 This would result in a saving in internal audit costs of £4,600 and NDC would retain a “contingency budget” (to be determined) that we would control.

6 EQUALITIES ASSESSMENT

6.1 There are no equalities implications anticipated as a result of this report.

7 CONSTITUTIONAL CONTEXT

Article and paragraph	Referred or delegated power?
Part 4 Financial Procedure Rules Section 3.0 Audit	Delegated to the Chief Financial Officer

8 STATEMENT OF CONFIDENTIALITY

8.1 This report contains no confidential information or exempt information under the provisions of Schedule 12A of 1972 Act.

9 BACKGROUND PAPERS

9.1 The background papers are available for inspection and kept by the author of the report.

10 STATEMENT OF INTERNAL ADVICE

10.1 The author (below) confirms that advice has been taken from all appropriate Councillors and Officers.

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Date: 03 October 2019