



devon **audit** partnership

Internal Audit

Extension of the Devon Audit Partnership and Partnering with the Police

February 2014

Auditing for achievement

1. Introduction

- 1.1 Devon Audit Partnership (DAP) was created in April 2009; it was originally created for a period of 3 years, with the option to extend for a further 2 years. This option to extend was agreed, and the Partnership is now in its 5th year.
- 1.2 In 2009 an option appraisal was conducted as to the most effective way the three councils (Devon, Torbay and Plymouth) could deliver their internal audit function; a Partnership arrangement between Devon, Torbay and Plymouth councils was seen as the preferred option to deliver these objectives. This delivery option identified a number of key benefits which have also been secured **see appendix A.**
- 1.3 The original business case (April 2009) presented to the Partnership Committee and endorsed by the Management Board set out the objectives of the Partnership. These objectives have been achieved, with some notable added benefits. **Please see appendix B.**
- 1.4 The Partnership has proved to be most successful in meeting the original objectives. However, since 2009 the financial picture facing local authorities has seen significant change, with all local authorities facing severe financial pressures. The Partnership arrangement was challenged to make significant financial savings whilst still providing a high quality, robust, independent, assurance function.
- 1.5 The original budget that was allocated to the Partnership has been reduced; (by 5% in each of the first 3 years, and by 10% in the following 2 years) the Partnership has made these savings and has continued to provide a high quality service, partly through successfully attracting other clients from within the public sector.

2 Extending the Partnership for a further 3 years (April 2014 to March 2017)

- 2.1 It is proposed that the Partnership be extended for a further 3 years (from April 2014 to March 2017) and that a Deed of Variation (attached) be agreed between the Partners to permit this. This Deed of Variation recognises the continuing financial crisis affecting the public sector, and reflects that values paid to the Partnership will reduce by 10% in each of the next 3 years.
- 2.2 The financial targets set for the Partnership will be difficult to achieve, and can only be achieved through continued modernisation of working practices and through effective wider partnership working.

3 Extending the Partnership by admitting the Office of the Police and Crime Commissioner for Devon and Cornwall (OPCC).

- 3.1 It is recognised that the achievement of the objectives and benefits of the Partnership to the Partnership Members is strongly linked to, and driven by, an effective employee base and staff skill mix from this base. The maintenance of the size of the work base is a balance supported strongly by investment made by *external* partners; this helps maintain skill levels, supports sharing of best practice and maintains flexibility. This can be seen from the achievements and added benefits within the two appendices A and B.
- 3.2 In order to continue to achieve the objectives set, and in particular to **provide a quality audit service that is sustainable, achieving continuous improvement within the revised financial envelope offered by the Partners**, Partnership management identified that other, external partners, should be beneficial in generating income that would replace some (if not all) of the budget reductions made by the Partners. Such income generation would then allow the experienced, effective, knowledgeable and valued workforce to be retained, providing a high quality and sustainable service.
- 3.3 Devon Audit Partnership has worked with colleagues at the Police (OPCC and Devon and Cornwall Constabulary) for many years, and this has been by way of a Service Level Agreement (SLA).

Colleagues at the Police are now looking to join the partnership in a more formal way. Senior officers of the OPCC and Constabulary have met with DAP and Devon County Council officers to discuss how “partnership” working could be developed to the benefit of all. However, the current Partnership Agreement only allows for local government organisations to become partners; as a consequence a Deed of Variation has been prepared that allows “other public bodies” to join.

- 3.4 The Deed of Variation states the “OPCC shall be entitled to appoint a co-opted non-voting member to the Partnership” It is important to note that the Police will become a non- voting member of the Partnership. (For purposes of this agreement the OPCC shall act for and on behalf of the Constabulary and OPCC).
- 3.5 It is considered that the OPCC joining as a partner will enable DAP to widen horizons and become a “public sector” internal audit provider and not just deliver within local government.
- 3.6 The non-financial benefits of the arrangement should be very highly considered. The arrangement will enable audit staff to learn from the Police and to share (confidentially of course) practices that will assist the Partners.
- 3.7 Having a “flagship” organisation joining DAP will help to further develop the Partnership and, potentially, promote the provision of services to other organisations, making further financial returns. Any financial “surplus” from this work will increase the overall DAP year end surplus for use by the Partners and Partnership Committee as it sees fit.
- 3.8 The success of the arrangement will demonstrate that Local Authorities and Blue Light Services can effectively work together and could / should open the way for other such sharing arrangements. By allowing the OPCC to join the Partnership will also save on the costs of possible tendering exercises.
- 3.9 The Deed of Variation:-
 1. Permits the OPCC to join as a non-voting member of the Partnership
 2. Will help further strengthen ties, and demonstrate effective partnership working between the OPCC and Devon, Torbay and Plymouth councils;
 3. Permits the Police to attend the DAP Management board
 4. Permits the OPCC to attend the DAP Partnership Committee – this will be as a non-voting member.

4. Recommendations

That the Mayor be recommended:

- 4.1 **That each Partnership authority approve the extension of the partnership for a further 3 years (April 2014 to March 2017) and that the submitted Deed of Variation be approved;**
- 4.2 **That the membership of the Partnership be extended to include the Police and Crime Commissioner for Devon and Cornwall (OPCC).**

5 Other information

- 5.1 It may be helpful to restate the governance arrangements for DAP
 - Management Team - DAP has a Management Team that consists of the Head of Partnership, Deputy Head and 5 Audit Managers. We meet (briefly, by way of conference call) on a weekly basis to discuss operational matters. On a monthly basis we have a face to face meeting where wider issues affecting the Partnership will be considered. We discuss the pro / cons, risks / opportunities of various issues and determine if this is something that would be beneficial to the Partnership. We then provide information for the;

- Partnership Board. The Board consists of the S151 officers from Plymouth, Devon and Torbay councils plus the Head of Partnership and meets 3 times per year to discuss Partnership Performance and direction, consider new opportunities and how these will be of benefit to the Partnership. The OPCC will be invited to join this Board.
- Partnership Committee. The committee receives reports on the performance of the partnership and will be asked to consider / approve key issues, especially where these may require a change to the Partnership agreement (for example admitting a non local authority partner to the Partnership). The OPCC will be invited to join this Board as a non-voting member.

6. Conclusion

- 6.1 The Partnership has performed very well in the first 5 years of its life; a three year extension is seen as appropriate to continue with the provision of a high quality and cost effective internal audit service. The proposed Deed of Variation will enable this extension to take place.
- 6.2 The proposal for the OPCC to join the Partnership is supported and makes good “business sense” the proposed Deed of Variation will enable the OPCC to join the Partnership, but as a non-voting member.

Robert Hutchins
Devon Audit Partnership
March 2014.

DAP – Service Delivery Option Benefits

An option appraisal was conducted, and a Partnership arrangement between Devon, Torbay and Plymouth Councils was seen as the preferred option to deliver these objectives. This delivery option identified the following benefits:

Delivery Option Benefits	Achievement	Example Added benefits
<ul style="list-style-type: none"> a staff resource that can be deployed more flexibly, with better ability to cope with vacancies and / or ad hoc work; 	<p>Staff vacancies have been minimised Staff work across all sites to deliver work; specialisms developed in key areas. Irregularity investigations have been met promptly. Maintenance of “pool / contract staff” increases flexibility of working and wider skill set.</p>	<p>Staff have come forward to request change for self development. Staff loss has been reduced through flexible working. Wider skill set from pool staff has improved quality in delivery against ICT, People and Key financial systems</p>
<ul style="list-style-type: none"> enabling the risk of vacancies to be better managed; 	<p>Service contraction by Member Partners has been significantly offset by expansion of external client work. Target reduction of 10% for 2014/15 (potential loss of 4 staff) has been offset by extension of contracts from Police, Torridge, Fire and grant work. Maintenance of “pool / contract staff” reduces possible redundancy costs</p>	<p>Working practice of staff is less fearful of change because the work base is more constant.</p>
<ul style="list-style-type: none"> the opportunity to share operational knowledge to assist in the reduction of average costs per audit day; 	<p>Managers and staff work across Member Partners. Consistent Method of delivery has reduced cost of audit time. Efficiency has improved with consistent programme delivery across clients e.g. schools. Day rates have reduced significantly for some Members.</p>	<p>We remain considerably less expensive than our key private competitors.</p>
<ul style="list-style-type: none"> increasing the sharing of best practice and access to a larger pool of specialist knowledge; 	<p>Maintenance of core staff numbers through expansion of wider client base. Maintenance of “pool / contract staff” offers flexibility and employment of specialist staff in ICT, key financial systems and irregularity investigation.</p>	<p>Specialist staff are developing higher level audit programmes for delivery across all clients.</p>
<ul style="list-style-type: none"> economies of scale e.g. training, resourcing specialist skills such as IT and contract audit; 	<p>On site training delivery in for example risk management, procurement and ICT review has afforded training for key parts and sometimes the whole service rather than specific individuals.</p>	<p>Audit review and secondment of staff has been provided by DAP for areas like commissioning</p>
<ul style="list-style-type: none"> keeping unproductive time and travel costs to a minimum; 	<p>Auditor productivity is slightly above the CIPFA benchmark Club Average. Our travel budget is higher than the CIPFA benchmark average but as a rural County it is not significant. Our actual cost is lower this yr than in 2010 yet we have a wider client base.</p>	<p>Our ICT links and on-line audit management system allow cross partner working with reduced travel requirements.</p>

Delivery Option Benefits	Achievement	Example Added benefits
<ul style="list-style-type: none"> providing for flexible deployment if and when necessary, and allowing staff to build up specialist knowledge of the council(s) they are working within; 	<p>We have specialist staff. For example</p> <ul style="list-style-type: none"> 5 skilled ICT auditors, 3 procurement “experts”, dedicated schools auditors including academies, staff developing in ICT, European Grants, ICT Forensic investigation 	
<ul style="list-style-type: none"> providing better opportunities for staff to further careers within the internal audit function; 	<p>Staff loss has been low Internal promotions have been made for 5 staff in the last 18 months. We are seen by and have taken on staff from other internal audit providers as a good employer. Staff have been promoted to other internal audit providers.</p>	<p>Networks with Member Partners have strengthened. Partners are more aware of the quality of staff we have and request additional work or specific work based on that quality.</p>
<ul style="list-style-type: none"> application of common technology and methodology across all teams. 	<p>Standard methodology applies across all Teams for all client work. Our Audit Management system MKI provides consistent working practice</p>	<p>Shared audit programmes and working practice with collaborative audit partners SWAP and Hampshire Shared Audit Services.</p>

DAP – Service Improvement Objectives

On the basis of the strategic context and current state assessment, the group set a list of service improvement objectives. An extract of these objectives includes:

Objective	Achievement	Example Added benefits
<ul style="list-style-type: none"> To improve / or maintain cost effectiveness to be at least the average of CIPFA benchmarked costs; 	<p>CIPFA benchmark data shows that we are improving our number of chargeable days and just above “club average”. Our costs per chargeable day & per auditor are significantly lower than average.</p>	<p>Extended our client base with recognised low cost quality audit.</p>
<ul style="list-style-type: none"> Provision of adequate and suitable training, audit qualifications, continued professional development (CPD) and general updating of skills; 	<p>We currently maintain three staff undertaking professional Institute of Internal Auditors study. CPD is ongoing with over 30 days professional development provided to staff in the last 12 mths. A member of staff professionally trained in ICT Forensics.</p>	<p>Facilitated group training with other Internal audit Service providers that enabled more staff to be trained within budget and improved networks. Provided forensic examination services to wider client base</p>
<ul style="list-style-type: none"> Be responsive to customer needs i.e. tailored service, customer focussed; 	<p>We have year on year tailored the audit plan to meet member needs including annual reductions. Audit plans are focused to the Councils risks, agreed with Service Directors and changed for new priorities in year. Extended service delivery and additional work to all clients.</p>	<p>Other Partner Clients have extended their contracts in in both duration and service level e.g. Fire, National Parks and Police</p>
<ul style="list-style-type: none"> To continue to provide a quality audit service that is sustainable, achieving continuous improvement, in an arrangement that is at least cost-neutral to each authority; 	<p>Our productivity has achieved targets. Customer satisfaction is at 98% Customer service Excellence Accreditation Average day rate has reduced. Standard delivery through MKI audit system</p>	<p>Our audits are recognised by our clients as useful and “add value” (see customer testimonials on our web page).</p>
<ul style="list-style-type: none"> Standardisation of audit procedures; 	<p>All teams and staff work with our standard model through MKI Audit Management System.</p>	<p>Efficiencies with this system have enabled repayment of the pump prime loan to purchase the software.</p>
<ul style="list-style-type: none"> Sharing of Best Practice; 	<p>All staff work to all clients in “cross-service” delivery to share lessons. e.g. Data Protection Compliance, computer security, adult and child care services</p>	<p>Best practice identified at one partner, is shared (with permission) with other partners.</p>
<ul style="list-style-type: none"> To retain a “local” presence that will meet customer expectations; and 	<p>Maintained local offices for all members On-line presence at each Partner</p>	<p>Continuous access by customers is appreciated where regular ongoing advice is sought of Audit as an expert advisor on risk and control e.g. procurement</p>
<ul style="list-style-type: none"> Be responsive to changes in the market place e.g. outsourcing / partnership working by local authorities. 	<p>We have met service contraction requirements of Member Partners. Balanced service contraction with expansion with other Authorities and clients e.g. Torrridge District Council, Teignbridge District Council Shared working with South West Audit Partnership</p>	<p>Development of audit programmes through shared extended network of Clients. Improvements on use of MKI audit Management systems from pooled learning.</p>

THIS DEED OF VARIATION is dated

2014

PARTIES

- (1) **DEVON COUNTY COUNCIL** of County Hall, Topsham Road, Exeter, Devon EX2 4QD ("**DCC**");
 - (2) **PLYMOUTH CITY COUNCIL** of Civic Centre, Plymouth, Devon, PL1 2AA ("**PCC**");
 - (3) **TORBAY COUNCIL** of the Civic Offices, Castle Circus, Torquay, Devon, TQ1 3DR ("**TC**").
- ("the Parties").

RECITALS

- (A) The Parties entered into an agreement relating to the Devon Audit Partnership dated 10 June 2009 ("**the Partnership Agreement**") pursuant to which the Parties agreed to establish and participate in a joint committee to discharge their audit functions ("**the Functions**"). Subsequent to the Partnership Agreement the Parties entered into an agreement dated 25 April 2012 the purpose of which was to extend the duration of the Partnership Agreement to 31 March 2014 and specify the payments each of the Parties would make for the Functions for the financial years 2012/13 and 2013/14.
- (B) As the Partnership Agreement will expire on 31 March 2014 and because the Parties wish to make certain other changes to the Partnership Agreement the Parties have agreed to make the necessary changes by way of this Deed of Variation ("**Deed**").

AGREED TERMS

1 Interpretation

- 1.1 Unless otherwise stated, defined terms used herein shall have the same meaning, and the interpretation provisions shall be the same, as in the Partnership Agreement. In the event of a conflict between the terms of this Deed and the Partnership Agreement the terms of this Deed shall prevail and the Parties shall join in procuring so far as they are able that the relevant provision of the Partnership Agreement shall be waived, suspended or altered to the extent necessary to permit the Partnership Agreement to be administered in accordance with the provisions of this Deed.
- 1.2 Clause, Schedule and paragraph headings do not affect the interpretation of this Deed.

2 AMENDMENTS TO THE PARTNERSHIP AGREEMENT

- 2.1 Sub-clause 1.2 of the Partnership Agreement shall be amended by adding after the words "Members of the Partnership" the following words:-

"and between them one representative of the Office of the Police and Crime Commissioner and such other representatives from other councils or public

bodies as may, from time to time, be approved in accordance with clause 23”.

- 2.2 Sub-clause 1.3 of the Partnership Agreement shall be amended by adding, in the third line, after the words “(or a duly authorised senior financial representative)” the following words:-

“one representative of the Office of the Police and Crime Commissioner and such other representatives from other councils or public bodies as may, from time to time, be approved in accordance with clause 23”.

- 2.3 For the purposes of clause 8 of the Partnership Agreement the provisions set out in Schedule 1 to this Deed shall apply in respect of the payment contributions by the Councils towards the fees and charges of the Partnership for discharging the Audit Functions for each Council for the financial years 2014/15, 2015/16 and 2016/17. For the avoidance of doubt the provisions of sub-clause 8.6 of the Partnership Agreement shall apply at all times to the sums referred to in paragraphs 4 to 9 inclusive in Schedule 1.

- 2.4 Sub-clause 10.6 shall be amended by deleting, in the third line, the words “by the Audit Commission in their role”.

- 2.5 Sub-clause 15.1 shall be amended by deleting, in the second line, “2012” and inserting “2017”.

- 2.6 Sub-clause 15.5 shall be amended by deleting, in the second line, “2012” and inserting “2017”.

- 2.7 Clause 23 shall be deleted in its entirety and replaced by the following wording:-

“23. Additional Councils and other public bodies joining the Partnership

23.1 Other councils may be invited to join the Partnership and other public bodies may be invited to participate in the Partnership subject in both cases to i) the prior agreement of the Management Board and the Partnership and ii) entering into an agreement with the Partnership containing such terms and conditions as the Partnership shall decide.

23.2 The decision to allow another council to join or other public body to participate in the Partnership shall require the unanimous approval of DCC, PCC and TC both on the Management Board and the Partnership.

23.3 As at 1 April 2014 the Office of the Police and Crime Commissioner shall be entitled to appoint a co-opted non-voting member to the Partnership.

- 2.8 Schedule 1, Part 1, paragraph 2, shall be amended by deleting, in the second line, the word “August” and inserting the word “June”, and in lines 3 and 4 deleting the words “in November or December every” and inserting “prior to March each”.

- 2.9 Schedule 1, Part 1, paragraph 7, shall be amended by inserting after the first sentence a new sentence as follows:-
- “The representative of the Office of Police and Crime Commissioner shall be entitled to speak but not vote at meetings of the Partnership Joint Committee”.
- 2.10 Schedule 1, Part 3, paragraph 1, shall be amended by adding, in line 3, after the word “representative” the words “one representative of the Office of the Police and Crime Commissioner and such other representatives from other councils or public bodies as may, from time to time, be approved in accordance with clause 23”.
- 2.11 Schedule 1, Part 3, paragraph 2, shall be amended by deleting, in line 1, the word “quarterly” and inserting the words “three times per annum”.
- 2.12 Schedule 1, Part 3, paragraph 3, shall be amended by deleting the word “Each” and adding the following words at the beginning of the first sentence “Subject always to paragraph 4 below each”.
- 2.13 Schedule 1, Part 3, in paragraph 4, shall be amended by deleting, in line 2, the words “or annual audit plans are” and insert the word “is”; in lines 2 and 3 by deleting the words “or approval is sought for amendments to either”, and by adding a new sentence “Only the DCC, PCC and TC Board members are entitled to vote on the budget”.
- 2.14 Schedule 1, Part 3, paragraph 6, shall be amended by deleting, in line 1, “[14]” and inserting “7”.
- 2.15 Schedule 1, Part 3, paragraph 7, shall be amended by deleting, in lines 2 and 3, the words “3 with at least one member from each Council” and inserting “2, with those two members to be from any two of the three Councils”.
- 2.16 Schedule 1, Part 4, shall be amended by deleting the following words contained in bullet point 4, “Recommending the audit plans for submission for approval to individual audit committees” and the following words contained in bullet point 5, “Agreeing changes to audit plans that impact upon the Partnership”.
- 2.17 Schedule 2, paragraph 4, shall be amended by deleting, in lines 2 and 3 the words “the CIPFA Code of Practice for Internal Audit in Local Government and the UK” and inserting the words “Public Sector Internal Audit Standards”.

3 Miscellaneous

- 3.1 The Partnership Agreement shall remain fully effective as amended by this Deed.
- 3.2 This Deed may be executed in any number of counterparts, each of which is an original and which together have the same effect as if each party had signed the same document.

3.3 No term of this Deed shall be enforceable under the Contracts (Rights of Third Parties) Act 1999 by a third party but this does not affect any right or remedy of a third party which exists or is available apart from under that Act.

4 Governing law

4.1 This Deed and any dispute or claim arising out of or in connection with it or its subject matter or formation (including non-contractual disputes or claims) shall be governed by and construed in accordance with the English law.

IN WITNESS whereof the Councils have caused their respective Common Seals to be hereunto affixed the day and year first before written.

Schedule 1

- 1) For the discharge of the Functions for PCC for the period from the 1st April 2014 until 31st March 2015 PCC shall pay to the Host Council the sum of three hundred and sixty two thousand six hundred pounds (£362,600).
- 2) For the discharge of the functions for TC for the period from the 1st April 2014 until 31st March 2015 TC shall pay to the Host Council the sum of two hundred and seventy thousand four hundred pounds (£270,400).
- 3) For the discharge of the functions for DCC for the period from the 1st April 2014 until 31st March 2015 DCC shall provide funds to the Partnership in the sum of three hundred and fourteen thousand two hundred pounds (£314,200).
- 4) For the discharge of the Functions for PCC for the period from the 1st April 2015 until 31st March 2016 PCC shall pay to the Host Council the sum of three hundred and twenty six thousand three hundred pounds (£326,300).
- 5) For the discharge of the functions for TC for the period from the 1st April 2015 until 31st March 2016 TC shall pay to the Host Council the sum of two hundred and forty three thousand four hundred pounds (£243,400).
- 6) For the discharge of the functions for DCC for the period from the 1st April 2015 until 31st March 2016 DCC shall provide funds to the Partnership in the sum of two hundred and eighty two thousand eight hundred pounds (£282,800).
- 7) For the discharge of the Functions for PCC for the period from the 1st April 2016 until 31st March 2017 PCC shall pay to the Host Council the sum of two hundred and ninety three thousand seven hundred pounds (£293,700).
- 8) For the discharge of the functions for TC for the period from the 1st April 2016 until 31st March 2017 TC shall pay to the Host Council the sum of two hundred and nineteen thousand one hundred pounds (£219,100).
- 9) For the discharge of the functions for DCC for the period from the 1st April 2016 until 31st March 2017 DCC shall provide funds to the Partnership in the sum of two hundred and fifty four thousand five hundred pounds (£254,500).

The provisions of sub-clause 8.6 of the Partnership Agreement shall apply at all times to the sums referred to in paragraphs 4 to 9 inclusive of this Schedule 1.

**THE COMMON SEAL of
DEVON COUNTY COUNCIL**
was hereunto affixed in the presence
of:

.....
Authorised Signatory

**THE COMMON SEAL of
PLYMOUTH CITY COUNCIL**
was hereunto affixed in the presence
of:

.....
Authorised Signatory

**THE COMMON SEAL of
TORBAY COUNCIL**
was hereunto affixed in the presence
of:

.....
Authorised Signatory