



NORTH YORKSHIRE AUDIT PARTNERSHIP

Wednesday 12 January 2011 at 2.00 pm

Ryedale House, Malton

Agenda

- 1 **Emergency Evacuation Procedure**
The Chairman to inform Members of the Public of the emergency evacuation procedure.
- 2 **Apologies for absence**
- 3 **Minutes of the meeting held on 25 June 2010** (Pages 1 - 4)
- 4 **Urgent Business**
To receive notice of any urgent business which the Chairman considers should be dealt with at the meeting as a matter of urgency by virtue of Section 100B(4)(b) of the Local Government Act 1972.
- 5 **Budget 2011/12** (Pages 5 - 10)
- 6 **Service Delivery (Business) Plan** (Pages 11 - 20)
- 7 **NYAP - Post 1 April 2012** (Pages 21 - 26)
- 8 **Partnership Risk Register** (Pages 27 - 36)
- 9 **Head of Partnership Report** (Pages 37 - 42)
- 10 **Any other business that the Chairman decides is urgent.**
- 11 **Dates of the next Meetings**

Wednesday 23 March 2011
Wednesday 24 June 2011
Wednesday 7 December 2011(**Prov**)

Chaired by Richmondshire DC
Chaired by Richmondshire DC
TBC

North Yorkshire Audit Partnership

Held at Ryedale House, Malton
on Friday 25 June 2010

Present

Councillors Alderson (Richmondshire), Chatt (Scarborough), Kirk (Hambleton), Rigby (Hambleton) (Chairman), Mrs Shields (Ryedale), Ms Spetch (Selby) and Wainwright (Ryedale)

In Attendance

Mandy Burchell, Simon Copley, Paul Cresswell and James Ingham

Minutes

1 Appointment of the Chairman

The Board considered the appointment of a Chairman for the forthcoming year.

Resolved

That Councillor Rigby (Hambleton DC) be appointed as Chairman of the Board for this meeting.

That the appointment to chair the Board would be amended to run from 1st July to 30th June, thus linking the chairmanship year to the Partnership year. For the forthcoming year (2010-2011) the chairmanship would vest with Richmondshire Council.

2 Apologies for absence

Apologies for absence were received from Councillors Kenyon and Branch.

3 Minutes of the Meeting Held on 26 March 2010

The minutes of the last meeting of the North Yorkshire Audit Partnership held on 26 March 2010 were presented.

Resolved

That the minutes of the last meeting of the North Yorkshire Audit Partnership held on 26 March 2010 be approved and signed by the Chairman as a correct record, subject to an amendment to minute 23 (Additional Contribution – Hambleton District Council) to add the words, "Details of relevant additional costs were requested," at the end of the first paragraph.

4 **Urgent Business**

The Chairman reported that there was one item of urgent business to be considered:

- Number of members from each authority on the Board

5 **Financial Results 2009/10**

The Head of the Partnership circulated a report, which advised Members of the financial results for the year 2009/2010.

Resolved

- (i) That the financial report for the year 2009/2010 be received;
- (ii) That the maximum level of reserves be increased to £50,000;
- (iii) That the Statement of Accounts be approved;
- (iv) That the Annual Return and Annual Governance Statement be approved and formally signed.

6 **Annual Return & Annual Governance Statement**

The Head of the Partnership circulated a report, which presented the Annual Return and Annual Governance Statement.

Resolved

- (i) That the report be received, noted and the relevant sections of the Annual Return be completed;
- (ii) That the action of the Head of the Partnership to secure appropriate internal audit arrangements to expedite the completion of the return be approved;
- (iii) That the return be formally approved and signed by the Partnership Board.

7 **Additional Contribution - Hambleton DC**

The Head of the Partnership circulated a report, which asked the Board to determine whether to exercise clause 3.7 of the Partnership Agreement, in

accordance with clause 3.9 thereof, relating to additional contributions from partners for transferred staff.

Resolved

That clause 3.7 of the Partnership Agreement be exercised and an additional contribution of £8,713.80 be requested from Hambleton District Council.

8 Partnership Risk Register

The Head of the Partnership circulated a report, which advised Members of the arrangements for Risk Management within the Partnership.

It was suggested that the wording for the mitigation of risk 13 be revised when the risk register is next reviewed.

Resolved

That the Risk Management framework and risk register be approved.

9 Head of Partnership Report

The Head of the Partnership circulated a report, which set out the activities and performance of the Audit Partnership in 2009/10.

Resolved

That the report be received.

10 Any other business that the Chairman decides is urgent

Members of the Board discussed the number of members that each authority should have on the Board.

Resolved

That, for the remainder of the Partnership Agreement, by informal consensual agreement, the number of representatives on the Board for each authority be reduced from two to one, with substitutes allowed.

11 Dates of Next Meetings

Dates of Next Meetings:

- Wednesday 1st Dec 2010 2pm
- Wednesday 23rd March 2011(reserved date) 2pm
- Wednesday 29th June 2011 timing to be confirmed to avoid clash with Building Control Partnership meeting



Partnership Management Board
1st December 2010

Budget 2011/12; report of the Head
of Partnership

The purpose of this report is to present the Budget for the Partnership for 2011/2012.

Introduction

This budget is the Partnership budget and is set at a level to recover the costs, and if possible to achieve a modest surplus for the Partnership through its provision of Internal Audit to the Partner Councils. Equally where the Partnership provides additional services to the Partner Councils, the charges are at the normal daily rates. This work now forms an important part of the Partnership's business.

Where work is supplied to third parties then the aim is to recover not only our costs but also to generate a modest profit, which contributes to the finances of the Partnership.

Any surplus' (or deficits) are incorporated into the reserves of the Partnership, and these are owned by the Partner Councils.

Summary

The Audit Manager's proposal is that the daily rate for 2011/2012 remains at £235. There is no national pay award for April 2011, and the Partnership will absorb the anticipated increase in the employers' superannuation contribution rate of 1.00%, and other changes in the individual budget lines. The resulting daily charge out rate of £235.00 represents a change of only 2.6% over 5 years (2010/2011; & 2009/10 £235.00; 2008/09 £225.00; 2007/08 £229.00). The budget is attached at Appendix A.

Similarly the partner councils have no provision for a national pay award, and it is anticipated that they will be budgeting for an anticipated increase in the employers' superannuation contribution rate of 1.00%. As the Partnership budget is around 90% payroll, the national award, and the employers' superannuation contribution rate has an almost linear relationship to our budget. It is therefore vital that an adequate daily fee rate is approved.

When the Partnership started, one error in the initial budgeting was to assume that we would achieve 100% recovery of available time, whether planned audit or additional work. This doesn't happen. Therefore it is always an uphill battle to make a positive return, yet that is an important driver for the team, in that they can see a 'profit' in 'their' business.

Holding the rate down, does not reflect the reality of the Partnership. We are no longer a service dept where there are limited financial drivers, and we also must remember that if we have a deficit at the year end it is shared between the partners, pro-rata to the relative proportions of income invoiced for audit work. It is quite possible that in a deficit situation that tension could arise between partners, with 'profitable' vs. 'non-profitable' parts arguments arising.

It is clearly better that the daily fee rate should properly reflect costs, and if partner councils wish to hold their Internal Audit spend within specific budget limits, then the number of audit days agreed would have to be adjusted accordingly, and approved by their audit committee.

Such adjustments could be accommodated within the Partnership staffing structure as part is delivered through a contract auditor, thereby allowing flexibility and adaptability.

This budget is based on the revised structure and membership of the Partnership. Any further changes to the staffing structure of the Partnership, or grading subsequent to formal job evaluation, would, almost certainly, lead to a reappraisal of the budget for the 2011/12 year.

The majority (around 90%) of our costs are payroll costs over which we have only a limited amount of control and the proposed rate for this year reflects economies of scale in the Partnership management structure. We have provided for an expected increase in employers pension contribution, mandated by the NYCC Pension Fund.

The net aggregate of our other costs has been kept practically at a standstill level for a number of years, however the increased emphasis on sharing skills, and developing individual specialisms, combined with changes in operational working patterns has led to an increase in travelling costs. This is now the fourth year that the non-payroll costs (excluding travel allowances) have been at a standstill, which represents a repeated cut in real terms. Clearly this is not sustainable in the longer term, as these costs are increasing annually, for example 'top drawer' training seminars are now running at around £480 to £550 per day excluding any travelling costs, an increase of around £180 since 2003/4. Currently we are absorbing these increases, principally by undertaking training at less expensive rates, using local groups and regional offices of the professional bodies. For 2011/12 travel allowances (mileage) have been increased to reflect both the change in user rates and changes in working practices. The impact of this is minimal in the overall budget, the total travel budget being around 3.5% of the total operating budget.

Employee or payroll costs are 'resource' driven and so are subject to greater year on year variation depending upon the work we have available, whereas the budget for supplies and services are largely independent of workload, with specific exceptions. Within the payroll element of the budget, which constitutes 90% of the total budget, the split between the differing levels of staff are: - Head of Partnership 14%; Audit Managers 34%; and auditors 52%. This reflects the structure of the Partnership and the need for suitably qualified and experienced staff to deliver the internal audit plan.

The current benchmark methodology expects that an internal audit team should achieve 90% of its audit plan. Our target is 95% and to achieve this requires the commitment of appropriately trained and qualified staff.

In essence, any changes to the supplies and service element of the budget will have a minimal effect on the total costs, and on the daily charge out rate.

The individual audit plan will continue to be subject to discussions with the Chief Financial Officers (S151 officers) of the Partner Councils. The plan takes account of the various factors, including the necessary work required to give adequate assurance to the Council's external auditors, following their current Code of Audit Practice. This will affect the volume of work that we undertake for the councils on the material or key financial systems. The charge to the councils will reflect the agreed number of days to be provided and the programme of work to be undertaken within the agreed outline estimated fee.

The number of audit days for each Partner is being reduced to deliver savings, and are in the process of agreement and we anticipate that they will be: -

	Days (2010/11)	Estimated Fee £ @ £235.00
Hambleton	330 (365)	77,550
Richmondshire	220 (220)	51,700
Ryedale	245 (265)	57,575
Scarborough	620 (650)	145,700
Selby	400 (425)	94,000
Additional Partner and external work *	215 (210)	50,525
Total: -	2,030 (2,135)	477,050

* The additional Partner and external work is expected to be made up of the following: -

- North Yorks. Building Control Partnership 10 days
- External client 35 days
- Additional work at Partner Councils 30 days
- Risk Management at Partner Councils 140 days

Clearly the days outlined in the table above for the councils, and the additional days, may change in the light of changing demand and also changing resource availability. Overall we will have to monitor the resource/demand equation throughout the year to ensure that our resources are 'fully utilised'.

However, the expenditure side of the draft budget is pretty certain. The income figure is a fairly solid 'best guess' at this stage and is subject to the Partnership continuing to secure additional work with the Partners, and external work. We have set ourselves a challenging target and any financial surplus for the year is contingent upon the team achieving success at that target. To help achieve this we also need to keep driving down our projected management or 'overhead' time to assist in reaching this.

Travel costs are dependent on work patterns and are based upon revised methods of working within the new management structure. Clearly this is an area where working arrangements can, and do change, therefore it is a 'best guess' figure, allowing for known work patterns, and the developing circumstances, as they are known. The established custom is for staff to claim travelling at the lower distance of 'home to site' or 'base to site'. As all staff assignments are planned there is negligible claim for meal allowances.

The proposed 2011/2012 daily rate of £235.00 is very competitive with other public bodies providing internal audit and compares favourably with the private sector, being at least 35% less and is also considerably lower than the external auditor's daily rate which we understand is around twice the Partnership rate. It should be noted, however that the external firms, and the Audit Commission are frequently using a 'fee for the audit' rather than a composited or range of daily rates. This will be an area where we may need to consider our pricing policy in the future, taking into consideration our particular form and constitution.

Recommendation

That

- 1) The budget proposals and a daily rate for 2011/2012 of £235.00 are approved.

APPENDIX A

NORTH YORKSHIRE AUDIT PARTNERSHIP BUDGET ESTIMATE 2011/2012

EXPENDITURE & INCOME

2009/10		2010/11	2011/12	
Actuals		£ Budget	£ Budget	£
	Employees			
354,911	Payroll	352,524	325,528	
89,682	Superannuation and NI	101,487	96,236	
444,593	<u>Payroll (Staffing) costs</u>	454,011		421,764
	Supplies & Services			
4,910	Training – Professional	1,500	1,500	
1,358	Professional subscription	1,250	1,250	
670	Equipment	1,500	1,500	
1,699	Miscellaneous	500	500	
	Printing	0	0	
1,592	Stationery	1000	1,000	
249	Photocopying	250	250	
942	Books and Publications	750	750	
4,699	Conference & Seminar Fees	4,500	4,500	
51	Telephones, Postage & Franking	125	100	
2,580	Software Licences	1,000	1,000	
19,475	Travel allowances	15,000	17,500	
38,225		27,825	29,850	
	Recruitment advertising	1,500	1,500	
3,834	Audit Fee (& public advertising)	2,400	2,400	
4,238	Professional Indemnity Insurance	3,500	3,500	
	Contribution to IT reserve fund	1,250	1,000	
11,703	Support Services	10,500	12,000	
19,775		19,150	20,400	
58,000	<u>Support Services</u>	46,975	50,250	50,250
502,593		500,986		472,014
	Income;			
	Daily rate; £235			
	(10/11; 09/10 £235; 08/09: £225)			
445,451	Recharge to Partners (planned audit)	452,375		426,525
80,636	Additional Contract & Partner Income	49,350		50,525
526,087		501,725		477,050
23,494	Surplus	739		5,036
		(0.2%)		(1.05%)

* additional training costs may be taken from reserves, if required.

ANALYSIS OF AUDIT DAYS

	2011/2012	
TOTAL TIME		2,946
DEDUCT:		
1. Statutory leave (Bank Hols)	96	
2. Annual leave	364	460
Gross audit days [productive time available]		2,486
Management Overheads	311	
Training - Office	46	
Training - Professional	36	
Sickness, & vacancy allowance	55	448
Total Productive Audit Days available		2,038
Productive audit days as a percentage of productive time available		82.0%
Total Audit Days to be charged at 100% completion rate		2,030

SUMMARY OF AUDIT SERVICES TO BE PROVIDED TO THE PARTNERS

	(2010/11)	<u>Audit Days</u>	<u>Estimated Fee</u>
Hambleton	(365)	330 days	£ 77,550
Richmondshire	(220)	220 days	£ 51,700
Ryedale	(265)	245 days	£ 57,575
Scarborough	(650)	620 days	£ 145,700
Selby	(425)	400 days	£ 94,000
Additional Partner & External contracts	(210)	215 days	£ 50,525
	(2135)	<u>2,030 days</u>	<u>£ 477,050</u>

The specific plan and associated fee to be agreed with each Council,
The plan details to be advised to the External Auditors of each Council.

NORTH YORKSHIRE AUDIT PARTNERSHIP
INTERNAL AUDIT SERVICES



BUSINESS PLAN
April 2011 to March 2012

Internal Audit,
November 2010

CONTENTS

Introduction and outline summary

Section

- 1 Mission Statement
- 2 Objectives and Strategy
- 3 Service Delivery
- 4 Personnel
- 5 Organisation and Management
- 6 Financial Framework

Appendix A Organisation Chart: Audit Partnership

Appendix B Organisation Charge: Partnership Management Board

BUSINESS PLAN

INTRODUCTION

North Yorkshire Audit Partnership is an independent body formed as a Joint Committee (the Partnership Management Board), providing an internal audit service to the Partner Councils and their Responsible Financial Officers and also satisfying the requirements of the Councils External Auditors.

Outline Summary

This plan sets out how the North Yorkshire Audit Partnership intends to operate during the period April 2011 to March 2012. It should be noted that this is the last year of the current Partnership Agreement.

In order to ensure that all the internal control systems of a large organisation operate both efficiently and effectively it is essential that the organisation has an Internal Audit function. Elected members will look to their Responsible Financial Officer (s151 Officer) for assurances that the authority's financial dealings meet the highest standards. Chief Officers will also look for the assurance that the audit report gives them in the operation of their activities. There are also statutory reasons for the existence of internal audit, which are as explained below.

- Section 151 of the Local Government Act, 1972 requires each local authority to make arrangements for the proper administration of their financial affairs and to ensure that one of their officers is made responsible for the administration of those affairs, the Responsible Financial Officer.
- The Accounts and Audit Regulations 2003 require the statutory Authority of a body whose accounts are required to be audited in accordance with Part III of the Local Government Act, 1982, to maintain an adequate and effective internal audit.
- The Responsible Financial Officers for the Partner Councils in accordance with the above Regulations have appointed North Yorkshire Audit Partnership to carry out those responsibilities and report to them upon the financial affairs of their Councils.

1. **MISSION STATEMENT**

- To provide the Partners with the highest quality independent audit service at a competitive price.
- To give the Partners a high degree of confidence in the efficiency and effectiveness of their activities, and
- To provide imaginative and practical advice to help them develop and run their operations smoothly, successfully, and securely.

2. OBJECTIVES AND STRATEGY

- 2.1 The objectives for the period of the agreement between the councils, which identifies the ways it proposes to develop its services, are outlined below.
- 2.2 The aims of the North Yorkshire Audit Partnership are consistent with enabling management to proceed in an effective manner whilst at the same time giving the Responsible Financial Officers and members the assurances they require regarding the operation of their Councils.
- 2.3 Internal audit is carried out on behalf of the Partners but supplemented where needed to meet the demands of the Responsible Financial Officers in their statutory role.
- 2.4 The internal audit comprises a continuous review of all the functions of the Councils.
- 2.5 The North Yorkshire Audit Partnership will prepare and work to a rolling strategic plan for audit with the emphasis being given to the material financial systems and the requirements of the customer whilst ensuring that the Councils can demonstrate proper and adequate audit coverage of its operations. This plan will be reviewed annually.
- 2.6 The North Yorkshire Audit Partnership will be flexible in its approach to service delivery and consequently will be responsive to changes arising from legislation, circumstances in the Partner Councils and any changing emphasis deriving therefrom.
- 2.7 To develop other opportunities to provide Internal Audit services, to tender for the provision of Internal Audit to other appropriate bodies.

Service Objectives

- (a) To work at all times to accepted professional standards and act in a constructive manner that will enable the Partner Council's Responsible Financial Officers to have confidence in internal audit.
- (b) To use effective planning methods to provide the optimum level of audit coverage, at the minimum cost to discharge the legal obligations of the Partner Councils and their officers.
- (c) To achieve a working relationship with the Council's External Auditors which will enable them to place reliance on the work of the North Yorkshire Audit Partnership with a view to minimising costs to the Council.
- (d) To report regularly to the appropriate member forum.
- (e) To encourage managers to take prompt remedial action where control deficiencies have been identified in systems.
- (f) To encourage managers to involve the Partnership in advising them, particularly where systems changes are taking place or new systems are to be introduced.
- (g) To be an aid to management.
- (h) To respond in a timely manner to all authorised requests from officers for advice and from client officers for specific work to be carried out.
- (i) To provide specialist audit services such as computer audit, contract audit, and Corporate Governance audit et al.

NYAP Objectives: 2011/2012

- (a) Delivery of the audit plan (target 95% of the plan).
- (b) Continue to achieve at least 180 chargeable days (average per auditor excl. HoLA) against the Audit Commission standard of 175.
- (c) Extend the Partnership to include Harrogate Borough and Craven District Councils
- (d) Introduce formal individual performance appraisal assessment.
- (e) Continue with delivering a structured training programme for all the staff including continuing professional development.

3. SERVICE DELIVERY

3.1 The Planning Process

- (a) Internal Audit will plan its operations and activities to meet the contract specification, which has a requirement that the fundamental financial systems are reviewed every year.
- (b) Variations to the agreed plans will be sought with clients.
- (c) The basis for cyclical audit is:-
 - (i) Major systems audits are carried out on all fundamental financial systems at least once during the strategic audit plan.
 - (ii) Minor systems audits are carried out in the alternate years on fundamental systems.
 - (iii) Regularity audits and systems based audits (non-fundamental systems) are carried out during the strategic audit plan in accordance with the risk analysis.
 - (iv) An individual plan has been developed for each Council to take account of total needs and circumstances.
 - (v) The audit plans are agreed with the external auditors for each year in order that maximum efficiency is obtained for both organisations based on the managed audit approach.
 - (vi) The annual plan is agreed with the Client Officer. Each audit is allocated to an appropriate team/person for that audit. This is believed to be the most economic and efficient way of working.
 - (vii) The annual plan will be reviewed each year in Quarter 3 after the first half year, and revised if necessary.

3.2 Monitoring

- (a) Regular reports are prepared during the year, and end of year reviewing the work done during the period and the year to date. These are presented to members at the Audit Committees of each Partner Council.
- (b) An annual report is prepared reviewing the service during the year.
- (c) Regular reports are taken to Client Officers for each partner. These reflect the annual achievements against pre-determined targets.
- (d) The CIPFA Code of Practice for Internal Audit in Local Authorities has been formally adopted by the Partnership for the performance of internal audit.

3.3 Services Provided

- (a) *Internal Audit Services*
The services provided are scheduled in the Partnership Agreement.
- (b) *Audit Reporting*

- Good and timely communication is a key aspect of the auditor's work. The majority of the reporting to clients needs to be made in the form of written reports which are well structured, identify easily the key areas, the risks and are presented to the client within an agreed timescale.
- Whilst good reporting is the foundation of success, without active support by the Client Officer local management will not ensure the implementation of their agreed recommendations.

4. **PERSONNEL**

4.1 **Staffing**

- (a) The staff includes qualified accountants (CIPFA; & ACCA), AAT qualified auditors, and other staff with a range of qualifications and experience.
- (b) The staff are employed by the host Council on the career grade, salary structure, terms and conditions of service as approved by the Partnership Management Board.
- (c) It is vital for the North Yorkshire Audit Partnership to be seen to be independent in the opinions it expresses and to maintain confidentiality between its clients. The possible development of additional services will require a flexible approach and the use of agency staff is a realistic option. Other new approaches to staffing will need to be examined to enable the service to continue to respond to client needs. In addition the service may need the ability to hire temporary specialist staff when required.
- (d) It is imperative that the Partnership is allowed to respond in a flexible manner to the need to supplement resources when required

4.2 **Training & Development**

- (a) Modern Auditing requires high standards of work and a training policy is in force to achieve this.
- (b) In order to ensure that the service's staff are able to operate at the high standard expected and are up to date with current topics, training is provided to each member of staff each year.
- (c) The training is provided through a combination of in-house workshops, external courses, Cipfa and other student's society, and associates seminars and the reading of appropriate journals.

5. **ORGANISATION AND MANAGEMENT**

5.1 **Organisation & management**

- (a) The structures showing the current organisation of the Audit Partnership and the relationship of the Partner Councils and the Partnership Management Board are shown in the appendices.
- (b) The Audit Manager is responsible for both the financial and operational aspects, and reports to the Partnership Management Board. The duties include:-
 - The implementation of overall policy and any reviews in the operation of the Audit Partnership.
 - For management liaison with all Partner Councils.

5.3 **Accommodation**

The Audit Partnership is located in offices provided by and within the Partner Councils.

6. FINANCIAL FRAMEWORK

6.1 Charging

- (a) Each Partner will be provided with a number of audit days within the annual plan agreed between the Council's Responsible Financial Officer (s151 Officer), the Audit Manager and the Council's External Auditors.
- (b) The charging structure is that scheduled work will be charged at plan values for all completed audits (work completed to draft report stage and draft report issued), planned support and advice work to be charged at the greater of planned or actual values, and unscheduled work at agreed actual days.
- (c) Additional audit days or work provided to the Councils outside the agreed plan will be charged at an appropriate rate necessary to cover the additional costs to the North Yorkshire Audit Partnership.
- (d) Work provided to third parties will be tendered for or priced at a rate to cover the North Yorkshire Audit Partnership costs plus a reasonable profit margin.

6.2 Budget, and Financial Targets

- (a) A draft budget for 2011/2012 is reported elsewhere in the Board agenda (1/12/2010).
- (b) The aim of the North Yorkshire Audit is to break even, and where possible, to create a modest, sustainable surplus.

6.3 Resources

- (a) The current staffing of the service has been translated in the report elsewhere in the Board agenda (1/12/2010) into a statement showing the productive audit days available. After allowing for annual leave, a provision for sickness, training, vacancies and other non-productive time the net time available for productive work as a percentage of total staff time is around 80%. This assumes all productive time available will be recharged or 'sold'.

6.4 Support Services

- (a) The Audit Partnership receives support services from the partners.
 - Financial services
 - IT services
 - Administrative services
 - Legal services
 - Personnel services
- (b) The Audit Partnership, through the Partnership Agreement will have its principal support services provided through Ryedale District Council who have agreed to be the Host Council.

These services will be provided and charged through the Agreement that exists between Ryedale District Council and the Partnership.

Similarly the Agreement between the Partnership, and Partnership Councils will cover the charges to be made to the Partnership for specific support services provided and for support services relevant to the office accommodation provided.

HEAD OF PARTNERSHIP

**AUDIT MANAGER
(WEST)**

Hambleton; Richmondshire;
Selby Councils

**PRINCIPAL AUDITOR
(ICT & Projects)**

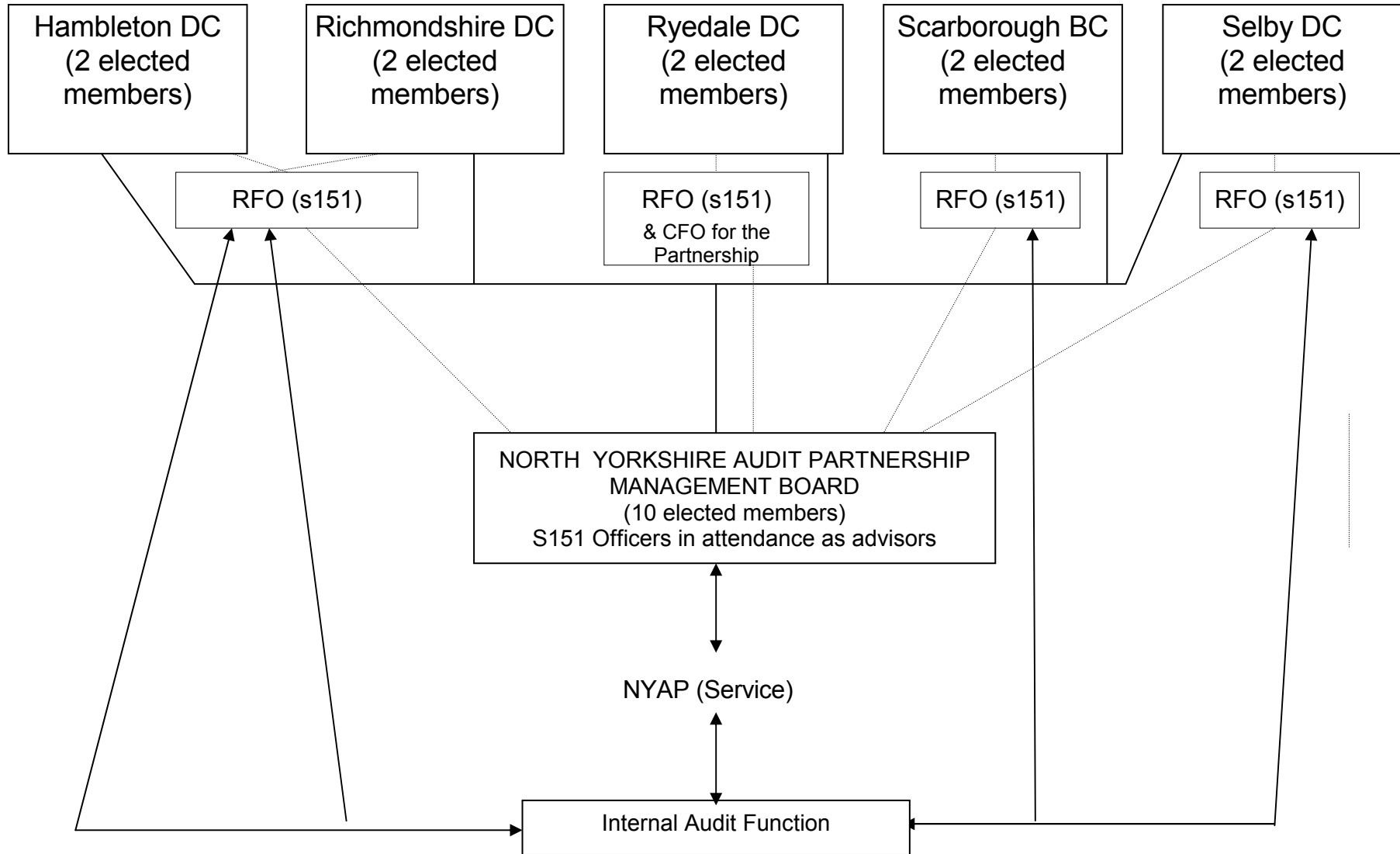
**AUDIT MANAGER
(EAST)**

Ryedale; Scarborough Councils

Audit Team
c. 4 fte

Audit Team
c. 3.5 fte

NORTH YORKSHIRE AUDIT PARTNERSHIP





Partnership Management Board 1st December 2010

NYAP ~ post 1st April 2012; report of
the Head of Partnership

Purpose

The purpose of this report is to set out a synopsis of the proposal for the future of Internal Audit provision at Partner Councils and of NYAP itself. It is proposed that NYAP merges with Veritau at the end of the current Partnership Agreement. This proposal has many merits, and resolves the twin dilemma of continuing to provide a high quality internal audit service with fewer staff, consequent to reductions in IA service demand by the Partner Councils as a result of cuts in the current economic retrenchment and developing an effective succession plan to prepare for the inevitable retirement of the current Head of Partnership.

Background

- 1 The North Yorkshire Audit Partnership (NYAP) was formed in February 1999. The partnership originally consisted of Scarborough Borough, Selby and Ryedale District Councils. Richmondshire and Hambleton District Councils joined the partnership in May 2008. The partnership is based on a joint committee model with Ryedale District Council acting as the host or lead authority.
- 2 The existing partnership agreement ends on 31 March 2012.
- 3 NYAP currently employs 12 FTE staff and provides internal audit, corporate fraud investigation, and risk management services to the five partner councils. The staff are employed by Ryedale DC. The service is delivered via satellite offices at each council.
- 4 Veritau Limited was originally formed on 19 January 2009. On 1 April 2009, North Yorkshire County Council (NYCC) and the City of York Council (CYC) transferred their internal audit, counter fraud and information governance services to the new company. From this date, Veritau has been contracted to provide these services to the two Councils together with a number of other public sector bodies. The company is wholly owned by NYCC and CYC, with each holding 50% of the share capital.
- 5 Veritau currently employs approximately 35 staff, organised into five teams. In addition, both NYCC and CYC second staff to the company in support of their own professional training programmes (normally CIPFA or AAT). The company operates from two offices, one at each council.

Drivers for Change

- 6 The NYAP Directors approached Veritau in November 2009 to discuss potential options for future collaboration. These discussions showed that there was a high level of interest in the possibility of the existing services provided by NYAP being transferred to Veritau.
- 7 The main drivers for this are: -
 - the need to deliver efficiencies and cost savings for each council across

the full spectrum of services, including internal audit;

- the need to ensure future service resilience and capacity so as to be able to maintain an effective and professional internal audit function in the face of potential problems in covering key staff vacancies and difficulties in being able to respond to changing priorities and increasing workload demands;
- the need to retain skilled and experienced staff by creating greater critical mass and providing more opportunities for career development and specialism;
- the need to make best use of the scarce professional audit expertise available (particularly in contract and IT audit), given the difficulty in building sufficient capacity in-house;
- the need to further enhance the professional standards of the audit function so as to comply with current and future legislative, professional and regulatory requirements;
- the need to establish an effective succession plan and to reduce the existing reliance on certain key staff for service continuity.

Project Benefits

- 8 The key benefits to both the District Councils and Veritau of the proposal are that it:
- will help to deliver cost savings to the District Councils and Veritau's existing shareholders, NYCC and CYC. These cost savings will be achieved by sharing overheads, reducing unproductive time and greater economies of scale;
 - will further enhance the focus on service delivery, professionalism and quality;
 - further increases the opportunity for staff to specialise as well as enhancing career opportunities, resulting in greater staff satisfaction and retention;
 - provides further scope to develop specialist audit skills and reduce the reliance on bought-in services;
 - will further reduce reliance on key members of staff for service continuity. helps achieve greater critical mass and hence provides scope to further improve the resilience and capacity of the existing internal audit and potential to incorporate the wider range of counter fraud services, including Housing Benefit Fraud Investigations;

Key project points

- 9 It is proposed that the services currently provided by NYAP to the 5 district councils and potentially, subject to further discussion, together with some or all of the benefit fraud services are transferred to Veritau on 1 April 2012. Staff currently employed in, or carrying out, the services would transfer to Veritau in accordance with the Transfer of Undertakings (Protection of Employment) Regulations (TUPE).
- 10 Whilst the detailed legal, financial, staffing and operational implications of the transfer will need to be explored further before a final decision can be taken, it is proposed that:

- Veritau forms a subsidiary company to deliver the additional services. The subsidiary company will be limited by shares with Veritau holding 51% of the share capital and each District Council holding 9.8%
- The subsidiary company will have a board of directors comprising an officer from each District Council and two directors appointed by Veritau;
- The creation and future operating arrangements of the subsidiary company would be governed by a formal Shared Service Agreement. The Agreement will set out the rights and obligations of the shareholders and the ongoing relationship between each Council and Veritau as participants in the venture;
- The services to be provided to each District Council will be specified in separate Service Agreements, identical or similar to the existing Service Agreements which Veritau currently has with NYCC and CYC;
- The length of the new Service Agreements would be coterminous with Veritau's existing Service Agreements;
- Each District Council would retain the right to terminate its Service Agreement by providing written notice;
- Each District Council will nominate a client officer to oversee the delivery of services under its Service Agreement with the subsidiary company;
- Veritau will seek to ensure that the transferring staff are included in their Local Government Pension Scheme (administered by NYCC);
- Staff to be given the option of transferring from their existing terms and conditions to those of Veritau.

Project Board

- 11 A project board will be established to oversee the integration process, coordinate and support the work of the Project Implementation Team, monitor achievement of the key milestones and provide appropriate challenge. It is proposed that the Project Board will consist of Paul Cresswell (Ryedale/NYAP), John Moore (NYCC/Veritau), James Ingham (NYAP) and Max Thomas (Veritau). The Project Board will meet at least every six weeks and report on progress to both the NYAP directors and the chair of Veritau.

Legal Implications

- 12 The new arrangement must comply with the EU public procurement regime and the Public Contract Regulations 2006. Specific case law (including Teckal and Carbotermo SpA) has established that if a local authority wishes to award a contract to supply services, to a company set up by that local authority, then the authority does not need to carry out a competitive tender exercise before awarding such a contract provided that the following principles apply:
- the authority must exercise a similar degree of control over the company to that which it exercises over its own departments;
 - the exercise must be 'a power of decisive influence over both the strategic objects and significant decisions of the company';
 - the essential part of the company's activities must be carried out on behalf of the controlling authority. Any activities undertaken for bodies other than the controlling authority can be of no more than marginal significance.

The exemption also applies to companies controlled by more than one authority, providing the principles set out above are complied with.

- 13 Section 95 of the Local Government Act 2003 provides a general power to local authorities to trade in function related activities. This general power is however limited by the Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009 which states that before exercising the power, each authority must prepare a business case in support of the proposal and approve that business case. The Order also requires the local authority to recover the costs of any accommodation, goods, services, staff or any other thing that it supplies to the company. Each District Council must therefore arrange for the business case to be considered and approved by their executive (or an appropriate Member decision making committee).
- 14 Business cases are being drafted for formal approval by the NYAP Partner Councils in the spring of 2011 (planned to be completed by 1/4/2011)
- 15 Section 95 also defines the type of company that an authority can use for trading activities. The Section states that the company must be a company regulated by Part V of the Local Government and Housing Act 1989, which limits the proposed structure to:
 - companies limited by share;
 - companies limited by guarantee with or without share capital;
 - unlimited companies;
 - societies registered under the Industrial and Provident Societies Act.
- 16 The company would be funded from the public sector so its own procurement activities would be bound by the Public Contract Regulations.
- 17 The subsidiary company's primary objective will be to provide a high quality and effective service to the five District Councils. The company will also seek to provide services to other local authorities and public sector bodies in the region where it is possible to generate an appropriate level of profit and there is no potential conflict of interest. However, to demonstrate compliance with the Teckal principles, it is proposed that the provision of services to external customers will be limited to no more than 10% of the subsidiary company's total activities.
- 18 An external customer is defined as anyone who is not a shareholder of either the company itself or its parent company. As noted above, any fees to external customers will be calculated so as to recover the full economic cost of providing the service plus an element of profit. Work would not be undertaken where there was considered to be an unacceptable level of risk to either the company or the services provided to the five District Councils. Where services are provided to third parties then these would be undertaken on a contractual basis.
- 19 The services to be provided to each District Council will be specified in separate Service Agreements. If Housing Benefit Fraud Investigation services are included, each District Council will need to authorise the new subsidiary company (and its agents) to carry out functions relating to housing benefit and council tax benefit, using s70 of the Deregulation and Contracting Out Act 1994 and the Contracting Out (Functions of Local Authorities: Income-Related Benefits) Order 2002. The Councils will then be able to authorise employees of the company (or its parent company) to conduct investigations under s110A (3) to (7) of the Social Security Administration Act 1992.
- 20 The proposed transfer of staff will be regulated by the Transfer of Undertakings (Protection of Employment) Regulations 2006 which guarantee that there will

be equivalence of terms and conditions of employment. In addition, because this is a public sector TUPE transfer there would also be equality of pensions involving a “buy in” to the North Yorkshire Pension Fund.

- 21 A formal Shared Service Agreement is required to govern the rights and obligations of the shareholders of Veritau - North Yorkshire Limited and the continuing relationships between the five District Councils and Veritau Limited as participants in the venture. The main issues which the Shared Service Agreement will deal with are as follows:
- the shareholders’ voting rights;
 - the arrangements for allowing any future changes in the company’s membership;
 - the arrangement for appointing and removing Directors;
 - the arrangements for board meetings, including their frequency and quorum;
 - the appointment of the company secretary;
 - future profit sharing arrangements;
 - the arrangements for resolving disputes;
 - the exit arrangements for one or more shareholders;
 - the information which the company will be required to supply to each shareholder.
- 22 It is proposed that the company will continue to use the existing office accommodation provided by each Council on a 'like for like' basis and that the cost of such accommodation will not be passed on to Veritau – North Yorkshire Limited but will be met by each Council (as a client responsibility).

Governance Arrangements

- 23 To ensure effective communication between the two boards of directors, it is proposed that copies of agendas and minutes of meetings will be circulated between each. In addition, at least one of the directors appointed to the board of Veritau - North Yorkshire will also be a director of the holding company.

Service Contract Management Arrangements

- 24 It is proposed that each District Council will have a named client officer to oversee and monitor the delivery of the services under its Service Agreement with Veritau – North Yorkshire Limited. To avoid possible conflicts of interest, this client officer and the person nominated to be the director of the company should not be the same.
- 25 The Audit Committee (or equivalent) at each District Council will be responsible for overseeing the effectiveness of the services delivered by Veritau – North Yorkshire as part of their wider responsibility for providing independent assurance on the adequacy of the control environment and associated counter fraud arrangements at each Council. Each Council’s Audit Committee Terms of Reference will be reviewed and, if necessary, updated to reflect the new service delivery arrangements.
- 26 The Board of Directors of Veritau – North Yorkshire will be responsible for monitoring business performance, as well as strategic decision making and policy development. Operational decisions will be taken by company management in accordance with an agreed scheme of delegation and governance framework (similar to the one adopted by Veritau Limited). It is proposed that the chair of each District Council’s Audit Committee will have the

right to receive copies of all Board meeting agendas and minutes.

Service Provision

- 27 It is proposed that each District Council will enter into a separate Service Agreements with Veritau – North Yorkshire. The Agreements will be for the same duration and, as far as possible, contain standard terms and conditions. It is also proposed that the Service Agreements will be identical or similar to those which Veritau currently has with NYCC and CYC
- 28 The length of the new Service Agreements will be coterminous with Veritau’s existing Service Agreements (i.e. they will run for 7 years from 1 April 2012). There will also be an option for each District Council to extend their Agreement for a further period of 5 years.
- 29 Each Service Agreement will include an option for the relevant Council to terminate the arrangement, subject to providing written notice. The notice period will be a minimum of 12 months.
- 30 As well as providing the core services of internal audit, risk management, counter fraud and, where agreed, Housing Benefit Fraud Investigation services, Veritau – North Yorkshire will provide other financial support services on request. Whilst any contract would be with Veritau – North Yorkshire, the actual services may be delivered by staff employed within both the parent and subsidiary company. Any additional work will be charged at the standard daily rate for additional work specified in the relevant Service Agreement.

Support Services

- 31 It is proposed that Veritau – North Yorkshire will use the same HR, payroll, finance and IT support services as the holding company. The company will use the support services of each District Council in respect of specific audit or counter fraud related matters.
- 32 The support services currently provided to Veritau are as follows:

Support Service¹

	<i>Provider</i>
HR and payroll services	NYCC
Finance and accountancy (including insurance)	CYC
IT – to host the Galileo and Incase applications, and website	CYC
Legal services – to provide specific advice to the company	NYCC

Recommendation

That the proposal to merge with Veritau is endorsed.



Partnership Management Board
1st Dec 2010

Partnership Risk Management;
report of the Head of Partnership

Purpose of the report:

This report is to advise members of the arrangements for Risk Management within the Partnership.

- 1) The Partnership was formed under the provisions of the 1972 Local Government Act, and is a joint committee delivering internal audit services to the Partner Councils.
- 2) There is a requirement from the Audit Commission, as we are classed as a 'smaller body' to complete an Annual Return, and this return has to be discussed by the Board with the governance component signed off by the Board. That governance component includes an expectation that the Partnership has its own Risk Management process. The Partnership also prepares a separate AGS which is a formal document extending the governance component of the Annual Return.
- 3) In the Annual Return there is also an Internal Audit component, which will be completed by our internal auditors (Veritau). Part of the work done by the internal auditors is to examine the Partnership's risk management arrangements, and therefore we need to maintain some formal mechanism to record and monitor our perceived risks.
- 4) This report sets out the risk management framework, and the risk register (attached as appendix 1), which identifies our principal risks and any steps that are being taken to manage those risks.
- 5) As a framework we have adopted the format that is broadly consistent with the style used for Risk Management across the councils. In essence the process is to identify material risks to the achievement of the partnerships objectives, what the consequences would be if the risk materialises, and what steps, or mitigation, is in place now, and planned to reduce that risk, either the likelihood, or the impact, or both.

- 6) Risk is usually measured on a scale to identify the likelihood of the risk occurring and the impact to the organisation if it does so. The matrix included shows the standard 5 x 5 table, and the associated descriptors.

Impact	5					
	4					
	3					
	2					
	1					
		A	B	C	D	E
	Likelihood					

Likelihood:
 A = Very Low
 B = Not Likely
 C = Likely
 D = Very Likely
 E = Almost Certain

Impact:
 1 = Low
 2 = Minor
 3 = Medium
 4 = Major
 5 = Disaster

- 7) It is difficult to associate values with the impact scale, but given that the total turnover of the Partnership is around £500,000 that gives some reference to the scales.
- 8) The risk register has been drawn up and moderated subsequent to a series of discussions with the Audit Managers to ascertain their view of the risks that have been identified.
- 9) At the end of the register is a copy of the scoring matrix showing where each risk is placed in the table.

Recommendation

It is recommended

- 1) That the Risk Management framework and risk register be approved.

Risk Register: reviewed November 2010

No.	Risk	Consequences	Current Risk Score (Former scores)	Mitigation <i>(Italicised items are actions to undertake.)</i> (✓ means the action has been undertaken)	Target Score/ Action Plan	By whom
1	Failure to recruit and retain appropriate staff. (Not making the best of staff)	<ul style="list-style-type: none"> • Turnover of staff may result in unprofessional service and poor quality work. • Low staff morale • Failure to meet obligations or objectives/targets • Partnership (Council) not recognised as a good employer • Qualified and experienced staff do not wish to work for NYAP 	A2 (B3) (C3)	<ul style="list-style-type: none"> • Remuneration package need to be in line with market trends • Flexible HR policies including the promotion of work/life balance • Regular team meetings and systems to inform the staff. • Performance Management used to identify training and development needs to further develop staff. ✓ • Ensure that there is sufficient staff at each level, taking cognisance of the changes arising from the revised structure of the Partnership. ✓ • Prepare for known retirements, and probable departures in 2010/2011; and at the end of 2011/2012 at merger with Veritau. ✓ 	A2	PMB; HoP; Dir
2	Risk of loss of <ul style="list-style-type: none"> • Head of Partnership; • Audit Managers, & • key staff, Either permanently or long term absence. <u>See risk 15 also</u>	<ul style="list-style-type: none"> • Replacement Head of Partnership not professionally qualified. (Cipfa CoP) • Loss of key component in service (e.g. ICT Audit, access control at SBC) • Agreed and approved IA plans not completed 	B2 (B3) (B3) (C3)	<ul style="list-style-type: none"> • Training programme for all staff. • Succession planning [HoP will be 60 in June 2011] ~ options now under consideration ✓ • Contingency planning ~ done so far as is required: no longer applicable ✓ • <i>Issue will be resolved, assuming that Councils approve the merger of NYAP into Veritau effective 1/4/2012 immediately following the end of the present Partnership Agreement which is 31/3/2012.</i> 	B2	PMB; Dir; HoP

No.	Risk	Consequences	Current Risk Score (Former scores)	<u>Mitigation</u> <i>(Italicised items are actions to undertake.)</i> (✓ means the action has been undertaken)	Target Score/ Action Plan	By whom
4	Health & Safety legislation and issues associated with diverse sites and staff. Small size may lead to demand for lone working.	<ul style="list-style-type: none"> Injury, vehicle accident or breakdown etc Staff 'stuck' without adequate support. Possible low staff morale Failure to meet statutory obligations. 	B3 (B3) (B3)	<ul style="list-style-type: none"> Take account of staff working arrangements and review & monitor H&S aspects for all sites ✓ Ensure staff are aware of personal responsibility, and have sufficient awareness training. ✓ Ensure staff have access to mobile phones ✓ Minimise travelling where practicable. ~ Difficult with shared service across several councils, action is to minimise unnecessary travel. ✓ <i>Use video conferencing where available and possible. ~ still in its infancy.</i> <i>Consider 'Business Breakdown Cover' for vehicles of relevant travelling staff.</i> 	A3	HoP AM AM AM
5	Failure to achieve satisfactory completion rates for audit plans.	<ul style="list-style-type: none"> Poor image at partner councils Risk of adverse comment from external auditors to partner councils. 	B2 (B2)	<ul style="list-style-type: none"> Relevant training is made available to all staff ✓ Briefings for staff on progress against plans ✓ Audit Managers undertake 1-2-1's with staff. ✓ Ensure that requests for supplementary work are taken into audit planning and that the core business is not reduced. Need to monitor and manage the increasing demands from the partner council's external auditors. ✓ ~ established good links with the external auditors. ✓ 	A1	HoP AM
8	Increased joint working by partner councils leads to reduced audit plans. N.B. Changes in policy too, move to Commissioning	<ul style="list-style-type: none"> Risk of surplus staff, and so redundancy. Most able staff may leave. 	B2 (C3) (C3)	<ul style="list-style-type: none"> Keep staff informed. ✓ Monitor demand, and ensure natural wastage is used to avoid redundancy. ✓ Workforce planning is intrinsic to the operation, especially with a small team. ✓ <i>Monitor the national and local situation.</i> With the reductions in IA service required by Clients, review workforce and re-structure to reflect reduced demand, ✓ 	B2	Dir; HoP

No.	Risk	Consequences	Current Risk Score (Former scores)	<u>Mitigation</u> <i>(Italicised items are actions to undertake.)</i> (✓ means the action has been undertaken)	Target Score/ Action Plan	By whom
	ethos, which may also lead to reduced audit plans. Change in Government and the perceived need to cut LG spend will also change the demand for IA.			<ul style="list-style-type: none"> • <i>Ensure that IA is active in the Partner Councils debate on changes in service provision and delivery.</i> • <i>Engage with senior management team(s) to ensure they understand the role that IA can provide in the current economically stringent atmosphere.</i> • <i>Review opportunities for other external work, supporting other IA teams in the region with Fraud, ICT audits etc.</i> 		
9	Not maintaining development of risk management may lead to the role being allocated elsewhere.	<ul style="list-style-type: none"> • Reduced demand for IA services • Reduction in staff. 	B2 (C3)	<ul style="list-style-type: none"> • Ensure that Risk Management is seen as a natural aspect of the Partnership's portfolio. ✓ • Take an active role in each council. [Of the Partners, SBC is most likely to move the work elsewhere.] ✓ • Ensure continuing involvement with those councils that are moving to proprietary software. ✓ • It is increasing evident that Risk management (facilitation) will migrate to the Councils as they introduce and embed performance management (risk management) software. IA role will therefore need to change to more conventional auditing of the risk management system and process. We are now incorporating these changes into the Council IA plans 	B2	HoP AM

No.	Risk	Consequences	Current Risk Score (Former scores)	Mitigation (<i>Italicised items are actions to undertake.</i>) (✓ means the action has been undertaken)	Target Score/ Action Plan	By whom
10	Confidentiality of work may be compromised by the use of open plan offices	<ul style="list-style-type: none"> Relevant at Ryedale & Richmondshire only [N.B. potentially may apply if and when SBC move to its new Town Hall] Loss of information Reputation as secure confidant damaged 	A2 (A2)	<ul style="list-style-type: none"> Ensure staff are aware of issue and that where necessary, confidential work is undertaken in suitable locations. <i>Discuss with Selby Council client this issue in respect of their forthcoming move into new open plan premise. No fully satisfactory outcome; still being required to work 'open plan' ~ will try to use the external audit office as much as possible.</i> 	A2	HoP AM
11	Loss of ICT systems, and data from USB 'sticks'	<ul style="list-style-type: none"> Loss of information and work leading to audit reports. Exposure of confidential and sensitive information. 	A2 (A2)	<ul style="list-style-type: none"> Systems are all linked into the systems of the 'host' council, so reliance is on their systems for back up and recovery. These are subject to audit by the ICT auditor. Staff need to be aware of risks associated with Data storage media (USB sticks) and vigilant that they are protected. ✓ ~ Encrypted 'sticks' are now available and in use. ✓ Risk from Data Sticks is now minimised. ✓ Use of secure e-mail through GCSX facilities. ✓ 	A2	HoP AM Team
12	Risk that the increased size may lead to a bid from the private sector for the partnership.	<ul style="list-style-type: none"> Loss of direct control by the Partner Councils, as it will move to a contracting arrangement (& therefore subject to EU procurement rules). 	A2 (B3) (C4)	<ul style="list-style-type: none"> Consider future possible option of joining with Veritau (the City/County Audit Partnership) [N.B. However this may make an even more attractive package]. ✓ This is now being considered for the Partnership. ✓ Ensure 'decision makers' are kept informed. ✓ Ensure good quality IA service ✓ The potential merger with Veritau, if concluded will move this risk into the Veritau risk register. Low risk, given current business strategy and philosophical approach of Veritau. ✓ 	A1 A3	Dir HoP AM

No.	Risk	Consequences	Current Risk Score (Former scores)	Mitigation (<i>Italicised items are actions to undertake.</i>) (✓ means the action has been undertaken)	Target Score/ Action Plan	By whom
				<ul style="list-style-type: none"> The implementation plan envisages a company approach that will allow the District Councils a full voice within the Veritau 'family' 		
13	Risk that the Board will not agree a 'proper' charging mechanism and charge out rate.	<ul style="list-style-type: none"> Impossible to meet so imposed efficiency and performance Therefore unlikely to meet financial targets. May adversely affects motivation of Audit Managers, and staff. Arrangement almost certain to cause a deficit in the accounts, which could lead to inter-partner tension. 	D4 (D4)	<ul style="list-style-type: none"> <i>Set a proper and fair rate which will deliver reasonable outcomes, both performance and financial. ~ The argument has not been won.</i> <i>Directors need to understand and accept (and the PMB approve) that it is not realistically possible to increase productivity and so performance any further. Secondly that as the partnership's cost base is virtually all payroll, any changes in pay have a direct linear relationship to the cost base.</i> 	B2	PMB; Dir HoP
14	Risk that the Partnership will make a significant loss through either an inadequate charge out rate or through poor performance	<ul style="list-style-type: none"> Deficit will reduce Partnership reserves Poor image within the partner Councils Reduced morale of staff who perceive the partnership as "their" business. 	B2 (B3)	<ul style="list-style-type: none"> Ensure reserves are considered when the budget and charge out rate is set. ✓ Monitor service performance ✓ Ensure any overruns are either managed or that clients agree to additional fees (or other audits deleted). ✓ 	A2	HoP PMB Dir
15 New	Risk of loss of staff through their external interests and activities.	<ul style="list-style-type: none"> We have staff who are individuals, and have what insurers may consider 'risky' activities. E.g. horse-riding; motorcycling; surfing; holidaying in 	C3	<ul style="list-style-type: none"> <i>Discuss with staff and monitor level of risk</i> <i>Prepare contingency plans in case of long term ill health (accident) absence, or death.</i> 	C2	HoP Dir.

No.	Risk	Consequences	Current Risk Score (Former scores)	Mitigation (<i>Italicised items are actions to undertake.</i>) (✓ means the action has been undertaken)	Target Score/ Action Plan	By whom
		high risk countries.				
16 New	Risk of low staff morale during the present period of uncertainty, with the economic circumstances allied to the proposed merger with Veritau.	<ul style="list-style-type: none"> • Work quality may suffer. • Staff may consider leaving the Partnership before or at merger. • Best staff may believe their future lies elsewhere. • Increased levels of short term absence. • Agreed and approved IA plans not completed. 	B2	<ul style="list-style-type: none"> • <i>Regular news and involvement with IA planning for the economic changes. ✓</i> • <i>Full knowledge of the impact on individuals and discussion with specific staff to discuss their personal concerns.</i> • <i>Managing the impact of the recession and the merger empathetically.</i> • <i>Wide circularisation of Chief's Briefs etc to all staff. ✓</i> • <i>Full involvement with the merger process. ✓</i> • <i>Regular 1-2-1 discussions by managers with their teams. ✓</i> 	A1	HoP AM
		•		•		

Key

PMB Partnership Management Board
Dir Directors (S 151 Officers)
HoP Head of Partnership
AM Audit Managers
Team all staff

Current risk scores mapped to scoring matrix

Impact:

- 1 = Low
- 2 = Minor
- 3 = Medium
- 4 = Major
- 5 = Disaster

Likelihood:

- A = Very Low
- B = Not Likely
- C = Likely
- D = Very Likely
- E = Almost Certain

Impact	5					
	4				13,	
	3		4,	15		
	2	1,10, 11,12	2,5,8, 9,14,16			
	1					
		A	B	C	D	E
Likelihood						

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Partnership Management Board
1st December 2010

Report of the Head of Partnership

The purpose of this report is to report on the activities and performance of the Audit Partnership in 2010/11.

Introduction

This report covers the year 2010/11. The Management Board meeting in June 2010 received a report on activities for 2009/10.

Staffing

We have now appointed Katie Barnard to replace Paul Jenkinson, who was our auditor in Richmondshire. She has come from another internal audit shared service in the Rutland area, so brings experience of the principles and practices of delivering audit across several councils. Based in Northallerton she will undertake audits at both Hambleton & Richmondshire Councils. We have covered the interregnum by using our freelance auditor and staff from other offices for specific audits. She will be continuing with her professional qualifications with us, currently commencing the final part of the Accounting Technician qualification.

Alex Buchanan, at the Scarborough Office continues to thrive at her MSc in Audit & Consultancy at Birmingham City University, passing all her exams, and concurrently through this route passing the IIA examinations. The course runs for a further year followed by a dissertation, and I would anticipate that in all probability she will have full IIA qualification in June 2011.

We continue to encourage attendance at seminars etc to ensure staff are as up to date with current issues, and modern audit practice as possible.

To this end we continue to support staff and their attendance on seminars and weekend schools including: -

- *CIPFA Seminars*
- *CIPFA (North West North Wales) weekend school*
- *IIA regional seminars*
- *Data management*
- *ICT and Chief Auditor groups*

Attendance levels have now risen since last reporting to 99.3% (from 95.6% for 2009/10). Sickness levels continue to be below average at 0.7% overall. This reflects the voluntary severance of the one individual, who had some 69 days absence in 2009/10. The average absence now per member of staff is 0.75 days (year to date ~ end Oct 2010).

Unfortunately still not quite at the full year comparable figure for 2008/09 of 99.7%.

Operational

This year we have been reasonably on target in the achievement of the planned audits. Across the five councils the average completion of the audit plan is running to schedule. The shortage of staff at the start of the year has meant that we have had to 'catch up' which, now fully staffed we are making headway with.

Planned Audit: time taken for completed scheduled audits (Cyclical Audits) compared to planned time

- Measure of the time spent compared to the time planned for the audit, a measure of the time provision and audit assignment time management. The target must be to complete the audit in the time planned or less, i.e. at, or less than 100%.

	2010/11	2009/10	2008/09	2007/08	2006/07	2005/06	2004/05
Hambleton	104%	90%	94%	N/A			
Richmondshire	92%	97%	110%	N/A			
Ryedale	96%	115%	108%	95%	96%	114%	102%
Scarborough	97%	90%	94%	106%	86%	92%	91%
Selby	96%	95%	114%	106%	103%	119%	92%
Average	97%	98%	104%	102%	95%	108%	95%

- Target 2010/2011 less than or equal to 100%
- The target percentage has just been achieved in this year to date.
- The rate are varied for a variety of reasons, however, the site with the least favourable ratio is Hambleton. At this point in the year, this is neither significant, nor a cause of concern.
- We have continued to provide exceptional support to one council with their new General Ledger system, and the budgeted amount of time has been used up. We are therefore discussing options to accommodate the additional time required, which may result in one or more audits being deferred to 2011/2012.
- However, the commitment of the team continues, and their work and that of our contract staff during the year continues to provide good audit reports.

During the year to date we have undertaken a number of special investigations, and have been able to capitalise on the 'investment' of training one of the Audit Managers to CCIP (Cipfa Certificate in Investigative Practice) standard, as our professionalism has drawn praise from client managers and HR professionals alike. Investigations have included: -

- Investigations into budget overspending.
- Internet usage
- Senior and middle staff abuse of position.
- Abuse of the procurement process and misappropriation of income.

We have been involved in the preparation and delivery of FAT (Fraud Awareness Training) sessions to all staff in Selby, and are rolling this out to staff at the other Partner Councils. This is linked to the former Use of Resources assessments and expectations from the Audit Commission in their Annual Return required from Councils on their Counter Fraud activities. Their recent publication "protecting the Public Purse" reiterates their view that continuous FAT is beneficial. We have seen a small increase in referrals subsequent to the delivery of the FAT package to Heads of Service, managers, and staff.

The most significant change we are facing is the consequences arising from the Comprehensive Spending Review (CSR) published in October. It, as we know, is forecasting major reductions in council spending over the forthcoming few years. Internal Audit cannot expect to be exempt from this process, and we are being required by the partners to reduce audit plan days by around 5% per annum for the forthcoming years. Fortunately this is one occasion when the age profile of the Partnership staff is beneficial, as there is likely to be sufficient natural change to accommodate this.

There is a case to be made for increased IA plans to watch over and advise on the revised and reduced internal control framework that may arise from staff cuts by the councils. However, the pragmatist knows that this isn't going to happen, so we are now looking to use the audit plan time we have in a more imaginative, flexible, and ultimately more effective way. To achieve this we will be reviewing the planning process to allow the Partnership to continue to deliver effective IA services.

Partnership issues

The principal issue at the moment is taking forward the proposed integration of NYAP with Veritau. This recognises the opportunity for merging the two partnerships to deliver improved audit services to all the councils involved, more detailed discussions are taking place to explore the potential for such a merger. The benefits would lie in reduced costs arising from sharing overheads over a larger base, access to a computerised audit management system, streamlined structures, reduced down time in travelling and associated costs, plus improved career prospects, particularly for the NYAP staff through being part of a larger group.

It has been discussed extensively with staff, and whilst, initially, there were some concerns the changing wider economic climate, the recognition that sharing 'back office services' will become the norm, rather than the exception has shifted perceptions and generally staff have few qualms now about the merger.

We have undertaken an initial joint 'awayday' with Veritau staff and that allowed the two sets of staff to mingle and discuss their joint future. We plan to have a series of these as part of the integration process during 2011

Risk Management (RMgt)

This continues to be significant and forms an important part of our work. The audit industry certainly sees the future of audit planning being closely linked to the risk management process. However I consider that we cannot overlook the need for basic assurance audit and the need for specific fraud detection and investigation audits from time to time.

At Hambleton, Richmondshire, and Selby, proprietary Performance Management software has been procured and it includes Risk Management as a module. We are now being closely involved as risk professional in the implementation of the systems at these councils.

This move to software enabled Risk Management systems, which, by their nature, will be populated, and reviewed/ revised by the risk owners rather than internal audit acting as facilitators will lead to a diminution of our risk management work. Therefore we will turn to the more purist, conventional internal audit approach of auditing the process and extending our current activities of looking critically at risks, especially the action plans to be able to provide senior management with an independent, objective assurance statement about the implementation of planned risk mitigation activities.

Therefore the style and content of our risk management work will change but we will continue to provide an active role in their Risk Management processes.

Audit Planning

Audit plans for 2011/12 are starting to be prepared for approval by the audit committee for each council. We know that changes in operating arrangements, and the increased expectation of continuing financial savings, have led to reductions in the number of audit days provided in future years in the individual audit plans.

The Partners have required cuts of around 5% for 2011/12 and subsequent years, but I consider that with the increasing pressure on councils to cut costs and seek alternative working methodologies that this may be the tip of the iceberg. This will be particularly important as our Partner Councils embrace Commissioning as a philosophy, and work ever more closely together in joint service provision.

External Work

It is impossible to see where else we can make significant progress in securing additional partners, as the remaining two North Yorkshire district councils show no real interest in becoming a part of the Partnership. Indeed they have now starting to work closely together in a number of areas, in a similar fashion to Hambleton and Richmondshire. The areas of joint working include internal audit where one provides internal audit through a contract to the other.

We continue to court their involvement and inclusion. Indeed we have held meetings with them to that effect, and it must be said that there is a chink of light as they accept that the world is changing, so we will be ensuring that the future integration of NYAP with Veritau includes an option for the two recalcitrant councils to join, preferably at the same time, and if not then, then as soon as they may wish.

We are looking at providing some ICT audit resource to our colleagues in Hull City Council to enable them to more fully utilise the Data Interrogation software they have, which is the one we use and have an established position of eminence with. Our presence would give much needed independence and fresh critical thought.

We anticipate doing a similar piece of work for East Coast Audit (the health audit consortium) using specifically ICT data analysis skills and an audit associated with those skills.

The outlook

In general, I am satisfied with the progress of the Partnership, though the year has certainly presented its fair share of problems. However, I believe that we had a successful year in 2010/2011, and look forward to repeating this in 2011/2012.

Recommendation

That

- a) The report is received.

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