

Report To:	CABINET
Date:	20 JANUARY 2025
Heading:	CENTRAL MIDLANDS AUDIT PARTNERSHIP – PARTNERSHIP EXTENSION
Executive Lead Member:	COUNCILLOR VICKI HESLOP, EXECUTIVE LEAD MEMBER FOR GOVERNANCE
Ward/s:	NOT APPLICABLE
Key Decision:	YES
Subject to Call-In:	YES

Purpose of Report

The report seeks to extend the Council's partnership arrangement for Internal Audit services with the Central Midlands Audit Partnership (CMAP) for a further 5 years.

Recommendation(s)

Cabinet is asked to:

- 1. Approve the extension of the Council's partnership arrangement for Internal Audit services with the Central Midlands Audit Partnership (CMAP) for a further 5 years;**
- 2. Grant delegated authority for the Executive Director of Governance (Monitoring Officer) in consultation with the Executive Lead Member for Governance to finalise and approve the terms of a revised Partnership Agreement; and**
- 3. Grant authority for the Executive Director of Governance (Monitoring Officer) to finalise, approve and sign an Information Management Agreement and Data Sharing Agreement (as required) between the members of the Partnership.**

Reasons for Recommendation(s)

The Cabinet approved the Council joining CMAP commencing on 1 January 2016 for a term ending on 31 March 2020. The partnership provision was extended in April 2020 following a Cabinet decision (24 February 2020, min. ref. CA.54) for a further 5 years ending on 31 March 2025.

The Partnership arrangement has proven to be a successful, resilient, sustainable and cost-effective internal audit provision and the recommendation seeks to extend the Partnership for a further 5 years.

The Partnership Agreement requires some minor amendments to bring it up to date and by entering into an Information Management Agreement and/or Data Sharing Agreement the Council and the Partnership will ensure compliance with data protection requirements.

Alternative Options Considered

The Cabinet approved joining CMAP in 2016 after an extended period of experiencing difficulties in internal recruitment such that an in-house team was no longer viable; the re-establishment of an in-house team remains unviable.

At the time, a variety of options were explored such as shared services, outsourcing contract and other local authority audit consortia; following careful evaluation, the CMAP arrangement was considered to be the most suitable option based on the options available, capacity, resilience, cost and retained control through a partnership arrangement.

The Partnership has proven to be successful and it is therefore not recommended that the Cabinet considers other alternative options. All existing Partners intend, subject to their own approval processes, to extend their membership of CMAP.

Detailed Information

The Role of Internal Audit

The role of internal audit is to provide independent assurance that the organisation's risk management, governance and internal control processes are operating effectively. Section 151 of the Local Government Act 1972 requires each authority (through its Responsible Financial Officer) to ensure the proper administration of the organisation's financial affairs. The work of the internal audit function supports the appointed S151 officer in this.

The Accounts and Audit Regulations 2015 set out the requirements for local authorities for internal audit: A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

The Partnership – Central Midlands Audit Partnership (CMAP)

The Partnership was originally formed in January 2012 when the internal audit teams of Derby City Council and South Derbyshire District Council joined together to provide a single service. The Partnership was formed as a Joint Board under section 101 of the Local Government Act 1972 and Derby City Council was chosen to be the host authority. In April 2013, Derby Homes (Derby City Council's Housing Management Company) joined the Partnership.

At its meeting on 5 November 2015, the Cabinet approved the Council joining CMAP commencing on 1 January 2016 for a term ending on 31 March 2020 (min. CA.46 refers). At this time, CMAP expanded to also include Derbyshire Fire and Rescue and Amber Valley Borough Council in addition to Ashfield District Council. With effect from April 2024, Nuneaton & Bedworth Borough Council joined the partnership. CMAP also undertakes additional work for non-partners including

North Warwickshire Borough Council, Erewash Borough Council and East Midlands Combined County Authority which is set to generate around £150k income during this financial year.

CMAP is set up as a Public/Public “service delivery vehicle.” It relies upon the “Teckal” European Court of Justice Case which established the principle that contracts between public bodies can in certain circumstances be regarded exempt from application of the EU procurement regime. This is because:

- The parent authorities will exercise control in equal rights over the Partnership which is similar to that which it currently exercises over its own departments; and
- The Partnership will continue to carry out the essential part of its activities for/with its parent authorities, (i.e. at least 80% of its function must be for the parent authorities).

CMAP is formally established through a Partnership Agreement which contractually binds the Partners. The governance arrangements for the Partnership are set out as an appendix to the Partnership Agreement. Each Partner has a representative on the Partnership Board who is either the Cabinet Member with responsibility for governance/audit or a representative from their Audit Committee; each Partner organisation has equal voting rights. The Partnership Board sets CMAP's strategy and makes key decisions regarding the governance structure, budgets and assets. It meets once a year for the Annual General Meeting (January/February) which is timed to enable the Board to set the CMAP vision, CMAP objectives and the budget for the financial year, and at other times as needed. There is also an Operational Group which consists of a Senior Officer from each Partner organisation and meets at least twice a year (although in practice usually quarterly). The Executive Director of Governance (Monitoring Officer) represents the Council on the Operational Group and is currently the Chair. The members of the Operational Group also attend the Board meetings.

CMAP operates in accordance with standards of best practice applicable to Internal Audit (in particular, the Public Sector Internal Audit Standards (PSIAS) which took effect from 1 April 2013 and revised in 2017). CMAP also adheres to its Internal Audit Charter. The Charter is taken to each Partner's Audit Committee (or equivalent) with the annual internal audit plan for approval.

Derby City Council (as Host Authority) provides all support services to the Partnership. CMAP cannot enter into contractual arrangements with any third parties in its own right; all such arrangements must be through the Host Authority.

CMAP Vision, Objectives and Performance

CMAP Vision (subject to any changes at the next Partnership Board) is:

To bring about improvements in the control, governance and risk management arrangements of our Partners by providing cost effective, high quality internal audit services.

CMAP's Objectives (subject to any changes at the next Partnership Board) are to:

- To be a modern and innovative internal audit partnership providing an efficient, cost effective and value adding service to our partners.
- To be an organisation that demonstrates continuous improvement in our audit processes whilst remaining conformant with internal auditing standards.

- To provide a high standard of service that remains responsive to the needs of our partners. We measure our quality through customer satisfaction and our aim is to provide an internal audit service that always meets or exceeds those expectations.
- To maintain a team that is properly trained, qualified and experienced to deliver a high-quality internal audit service to our partners.
- To provide a first-class working environment that enables us to recruit and retain high quality staff.
- To be an organisation that uses modern technological solutions to meet the ever-changing demands on our service delivery and be fit for auditing in the evolving “Digital Age”.
- To be an organisation that is ESG (Environmental, Social & Governance) aware.

CMAF monitors the performance and effectiveness of the service it provides via several performance indicators:

- **Cost per Audit Day** - The cost per audit day is calculated by taking the cost of the Partnership divided by the number of productive days. This cost can also be compared with competitive day rates from the external market.
- **Service Delivery - Plan Completion** - This is calculated by determining how complete each audit assignment is, in the revised plan. Each audit assignment is weighted in accordance with the number of days allocated. The target plan completion at the year-end is 90%.
- **Productive Percentage** - The number of productive days expressed as a percentage of the overall days available. This measure compares the number of days spent on audit assignments, advice etc. compared with the number of days spent on administrative and managerial tasks.
- **Customer Satisfaction** - CMAF issue customer satisfaction questionnaires at the end of the vast majority of their audit assignments. These surveys elicit the auditee’s opinion on the service provided and provide an opportunity for them to pass comment. CMAF aims to achieve an average score of at least 44 out of 55 on all the Customer Satisfaction Surveys returned in the last 12 months.

CMAF’s Audit Charter

CMAF has produced an Audit Charter which formally defines the purpose, authority and responsibilities of the Partnership. It has been developed in accordance with Public Sector Internal Audit Standards (PSIAS) and demonstrates that the Partnership is consistent with this Code. The PSIAS came into force to create consistent standards for the practice of internal audit across the public sector and establish the basis for its quality assurance. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. The International Professional Practices Framework (IPPF) has undergone a comprehensive restructure, resulting in new Global Internal Audit Standards. The new standards will be effective from April 2025.

The standards are periodically self-assessed. The results of these self-assessments are reported to the Partnership Board and each organisation’s Audit Committee. An external assessment is required at least every 5 years. The Partnership Board determines when and how such an external assessment is undertaken. In September 2022, CMAF received its second External Quality Assessment against the Standards. The Audit Committee received a report outlining the outcome of the assessment at its meeting on 28 November 2022. The overall assessment was that CMAF “Generally Conforms with the Public Sector Internal Audit Standards”. The report also stated that CMAF compare favourably with peer groups in both local government and the private sector. CMAF came out as “best in class” position in terms of all the EQA reviews that BRS has done within local government.

Partner Contributions & Reserves

The Partnership is responsible for its own budget and reports to the Partnership Board. All Partners make a contribution to the budget of the Partnership which is based on the number of annual audit plan days each Partner requires. Ashfield's contribution in 2024/2025 is £119,999; the 2025/2026 contributions will be agreed at the Partnership Board on 5 March 2025.

The Partnership maintains and manages a revenue reserve that is used to hold annual surpluses and meet any deficits. The reserve policy is to use a risk-based approach to ensure that the Partnership builds up sufficient reserves to meet any unforeseen costs and contingencies, without requiring additional funding from each Partner. If a circumstance arises where additional funding is required by the Partnership and there are insufficient reserves to cover it, the additional cost will be shared as per the proportion of the overall contribution made. The agreed minimum reserve is £100k. The forecast reserve as at 31 March is £133,421.

Partnership Extension

The operational working relationship with CMAP's officers is excellent, functioning with a true partnership approach. The Audit Manager and Group Auditor meet formally at least monthly with the Executive Director of Governance to monitor delivery of the Audit Plan and discuss audit work outcomes and recommendations. CMAP Officers are present in the Council Offices on a regular basis. CMAP Officers meet regularly with other Council Officers, Strategic Leadership Team and the Audit Committee. CMAP provides training to Officers and Members as part of the Partnership offer.

The Partnership arrangement has proven to be a successful, resilient, sustainable and cost effective internal audit provision and it is recommended that the Partnership arrangement is extended for a further 5 years. Amendments are required to the Partnership Agreement to ensure it is up to date, together with the Information Management Agreement and Data Sharing Agreement; it is recommended that finalisation of these formal documents is delegated to the Executive Director of Governance in consultation with the Executive Lead Member for Governance.

Implications

Corporate Plan:

Corporate governance is part of the overall control framework and contributes to the Council's robust governance arrangements.

Good corporate governance ensures organisations are doing the right things in the correct manner in an open, honest, inclusive and accountable way. Good governance leads to good management, performance and outcomes. It ensures the Council delivers the visions and priorities set out in its Corporate Plan.

The role of internal audit (in this case via CMAP) is to provide independent assurance that the organisation's risk management, governance and internal control processes are operating effectively.

Legal:

Section 151 of the Local Government Act 1972 requires each authority (through its Responsible Financial Officer) to ensure the proper administration of the organisation's financial affairs. The work of the internal audit function supports the appointed S151 officer in this.

The Accounts and Audit Regulations 2015 set out the requirements for local authorities for internal audit: *A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*

The Partnership is set up as a Public/Public "service delivery vehicle." It relies upon the "Teckal" European Court of Justice Case which established the principle that contracts between public bodies can in certain circumstances be regarded exempt from application of the EU procurement regime as set out above.

The Partnership is established in exercise of local authority powers under Sections 101, 102, 103, 111 and 113 of the Local Government Act 1972 and Section 20 of the Local Government Act 2000. CMAP is formally established through a Partnership Agreement which contractually binds the Partners. The governance arrangements for the Partnership are set out as an appendix to the Partnership Agreement. As part of the extension of the Partnership arrangement, the Agreement will be refreshed to ensure it is up to date. [RLD 29/11/2024]

Finance: Costs of this service are budgeted for annually [AP 10.12.24]

Budget Area	Implication
General Fund – Revenue Budget	No additional cost implication. Cost of the Internal Audit service provision via CMAP is budgeted annually
General Fund – Capital Programme	N/A
Housing Revenue Account – Revenue Budget	No additional cost implication. Cost of the Internal Audit service provision via CMAP is budgeted annually
Housing Revenue Account – Capital Programme	N/A

Risk:

Risk	Mitigation
Failure to extend the Partnership Agreement. The Council would be unable to meet its legal and financial obligations without putting in place alternative internal audit arrangements. As set out in the report, alternative arrangements are not viable or cost effective.	To extend the Partnership arrangement.

Failure to update the formal Partnership Agreement or enter into an Information Management Agreement / Data Sharing Agreement would put the Council at risk of out of date provisions or failing to comply with new legislation.	To authorise the Director of Legal and Governance to finalise and approve a revised Partnership Agreement and Information Management Agreement.
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Human Resources:

CMAP Officers are employed by Derby City Council and are subject to that Council's HR policies and procedures. Any exit implications will be detailed within the partnership agreement. [KB 28/11/24]

Environmental/Sustainability:

There are no equalities implications associated with the recommendation in this report.

Equalities:

There are no Environmental/Sustainability implications associated with the recommendation in this report.

Other Implications:

None.

Report Author and Contact Officer

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