



**DEVON &
SOMERSET**
FIRE & RESCUE SERVICE

Internal Audit Service Provision

Full Business Case

This document provides EB with a number of options for consideration to determine the future model for provision of Internal Audit Services within DSFRS.

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Project Path

- Internal review of Internal Audit
- Full Business Case with recommended option to EB
- Approval from Fire Authority to proceed

Contents

1. Executive Summary	3
2. Introduction	4
2.1 Background	4
2.2 Key objectives	6
2.3 Project scope	6
3 Strategic case	7
3.1 The strategic context	7
3.2 The case for change	7
4 Economic Case	11
4.1 Option One – Do nothing	11
4.2 Option Two - Internal Sourcing: Resources provided solely by the Service ...	12
4.3 Option Three – Outsourcing: Resources provided entirely by a third-party provider of internal audit services	13
4.4 Option Four – Membership of the DAP Partnership shared service arrangement as a “non-voting” partner	14
4.5 Option Five – Membership of the DAP Partnership shared service arrangement as a “voting” partner	16
5 Financial case	19
6. DAP Financial Position	21
7 Benefit realisation	21
8 Conclusion	22
9 Recommendation	22

Document history

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1. Executive Summary

Internal Audit provides an essential independent assurance function for the Service. The Head of Organisational Assurance commissioned an internal review of the Internal Audit function in 2021. The outcome of this review, invitation from Devon Audit Partnership (DAP) to join the Partnership and the resignation / transfer of both job share Corporate Assurance Managers has created an opportunity to review how the Service provides its corporate assurance and internal audit activity. This business case addresses the options for delivery of internal audit. A second options paper will be presented to EB to consider the future structure and role of the Assurance Team.

The Service has five models of internal audit service delivery to choose from:

- Co-sourcing / partial out-sourcing: A blend of resources from within the Service and a third-party provider of internal audit services. This is the model currently in operation.
- Internal Sourcing: Resources provided solely by the Service.
- Outsourcing: Resources provided entirely by a third-party provider of internal audit services.
- Membership of a Partnership shared service arrangement with Devon Audit Partnership as a “non-voting” partner.
- Membership of a Partnership shared service arrangement with Devon Audit Partnership as a “full partner”.

The Public Sector Internal Audit Standards (PSIAS) set basic principles for carrying out internal audit in the UK public sector and establish a framework for providing internal audit services. The PSIAS require that internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications. Internal auditors must also enhance their knowledge, skills and other competencies through continuing professional development. In addition, the PSIAS require that engagements must be properly supervised to ensure that objectives are achieved, quality is assured and staff are developed.

The Audit & Review Manager(s) and Corporate Assurance Manager(s) are not professionally qualified for their roles. Whilst the Head of Organisational Assurance is qualified, there is no capacity within that role to effectively manage the internal audit function and continued management oversight at this level in the management structure is not desirable; ideally internal audit would be professionally managed at the Corporate Assurance Manager level. In order to bridge the capacity and capability gap, professional supervision days are now procured from DAP but this

support has limitations and erodes the audit delivery days that the Service has budgeted to procure from DAP.

If the internal audit service was retained partially or wholly in house, in order to secure compliance with the PSIAS, the Service would need to develop and invest in a Quality Assurance Improvement Programme. This includes an internal improvement plan, self-assessment every 2-3 years against the PSIAS and then a formal external review commissioned in 5 years.

The internal audit team is very small, but effective delivery of their role requires expertise in a growing range of specialist skills such as IT audit, data analytics and in-depth knowledge of different regulatory regimes. It can be difficult and expensive to recruit, retain and invest in people with specialist skills. The impact of financial pressures in the short to medium term risks a reduction in professional training, continuing professional development or reduction in the DAP contract which would have a detrimental impact on the volume and/or quality of internal audit work that the Service is able to provide and therefore on the annual Head of Internal Audit opinion.

Each of the service delivery models has been considered within this business case with reference in particular to quality and cost of service.

Options 1 and 2 which facilitate the retention of an in house service in whole or in part are considered to be untenable because even if they had the benefit of investment of money and time they are unable to effectively deliver the requirements of a professional internal audit service because of the size of the team.

This business case recommends approval of option 5, membership of the DAP Partnership shared service arrangement as a “voting” partner. This option addresses the concerns identified with the current arrangements, will deliver enhanced quality of service and at reduced cost. This option also offers benefits in addition to those presented through outsourcing or membership of DAP as a “non-voting” partner.

2. Introduction

2.1 Background

The Institute of Internal Auditors (IIA) defines internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes”.

The IIA's three lines model, illustrated on page 5, explains how key organisational roles work together to facilitate strong governance and risk management.

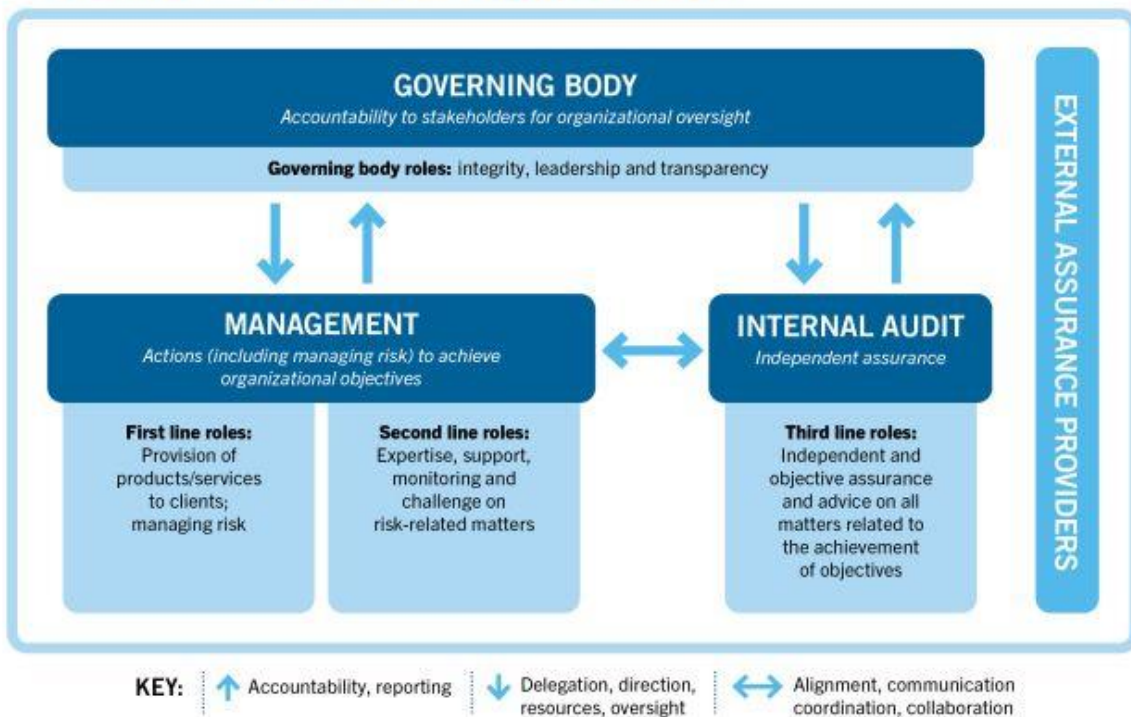
Management functions undertake action to achieve organisational objectives. The 'first line' (team / department) identifies risks and improvement actions, implements

controls, reports on progress and provides management assurance. The 'second line' (e.g. Health & Safety Team, Risk Management and Information Governance) provides expertise, support, monitoring and challenge to the first line.

Internal Audit is an independent 'third line' function reporting directly to the highest point of authority in the organisation (the governing body - audit committee), providing advice, insight, and continuous improvement, but at the same time supporting management in their role. Because of internal audit's independence from management, the assurance it provides carries the highest degree of objectivity and confidence beyond that which those with first and second line roles can provide to the governing body, irrespective of reporting lines. To enable the internal audit function to effectively fulfil this role, it needs to have the right skill sets, practices, tools and technology.

The governing body, typically, the board and its sub-committees is accountable to stakeholders for organisational oversight.

The IIA's Three Lines Model (2020)



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The Head of Organisational Assurance commissioned an internal review of the Internal Audit function in 2021. The outcome of this review, invitation from Devon Audit Partnership to join the Partnership and the resignation / transfer of both job share Corporate Assurance Managers has created an opportunity to review how the Service provides its Corporate Assurance and Internal Audit activity.

The Service has five models of internal audit service delivery to choose from:

1. Co-sourcing / partial out-sourcing: A blend of resources from within the Service and a third-party provider of internal audit services.
2. Internal Sourcing: Resources provided solely by the Service.
3. Outsourcing: Resources provided entirely by a third-party provider of internal audit services.
4. Membership of a Partnership shared service arrangement with Devon Audit Partnership as a “non-voting” partner.
5. Membership of a Partnership shared service arrangement with Devon Audit Partnership as a “full partner”.

Please note, in all the options outlined above the word “resources” includes the people, processes, methodologies, technologies and tools required to carry out the internal audit service.

Irrespective of the model chosen, management must retain responsibility for the systems of internal control and the Audit & Governance Committee must retain oversight of the Internal Audit function. This includes approval of the internal audit objectives and/or strategy and any performance measures.

2.2 Key objectives

The key objective of this business case is to set out the risks and benefits for each of the models available for the delivery of an internal audit service and to make a recommendation on the preferred option.

2.3 Project scope

The current Internal Audit arrangements are as follows:

- One Full Time Equivalent (FTE) Audit & Review Manager, Grade 7 on a 2 year Fixed Term appointment covering the secondment of one permanent FTE to Her Majesty’s Inspectorate of Constabulary and Fire until 28 February 2023.
- One FTE Internal Auditor Grade 5 on a 2 year Fixed Term appointment to 15 November 2023.
- Outsourced Internal Audit provision with Devon Audit Partnership: 67 days provided annually with the flexibility to increase/decrease internal audit days as required (existing contract due to expire March 2023). Note that increasing day rate costs have reduced this provision to 63 days for 2022/23.

The post in scope for consideration for TUPE (transfer of undertakings) transfer is the substantive Audit & Review Manager. The revenue budget associated with this post and provision of the DAP contract is within scope for this proposal.

The FTE Internal Auditor Grade 5 on a 2-year Fixed Term appointment is considered out of scope. This post is funded through the Earmarked Reserves to enhance our assurance capability so will be retained to support the internal assurance team.

3 Strategic case

3.1 The strategic context

The Corporate Assurance and Internal Audit team provide an essential assurance function for the Service.

Assurance is an objective review of evidence for the purpose of providing an independent assessment on governance, risk management and control processes. It is a positive declaration intended to give confidence. In other words, assurance is having the insight to know:

- how you are doing in terms of what you should be doing (compliance); and
- how you are doing in terms of what you want to be doing (objectives).

3.2 The case for change

An internal review of the Internal Audit in house team has been undertaken over the past year to:

- ensure that the team is appropriately qualified;
- establish whether the existing size of the internal audit service is sufficient to meet the Service's needs;
- review compliance with professional standards;
- appraise different models of service delivery; and
- consider the use of audit management software.

The outcome of this review has established that:

- The team is not appropriately qualified. The team will need significant investment in training and development to address this.
- The Service would need to develop and implement a training and development plan and Quality Assurance and Improvement Programme to work towards compliance with the relevant professional standards.
- There are five different models of service delivery that have been considered which are assessed within this paper.
- The use of technology would undoubtedly support delivery of a more efficient and effective service. Outsourcing or Partnering would immediately address this since internal audit providers tend to already be using audit management software.

It is not possible at this stage to determine whether the existing size of the assurance and internal audit teams is sufficient to meet the Service's assurance needs; this is considered within the options to be reviewed for the future of the Assurance Team which will be the subject of a separate paper to EB.

The Public Sector Internal Audit Standards (PSIAS) set basic principles for carrying out internal audit in the UK public sector and establish a framework for providing internal audit services. The PSIAS require that internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications. Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development. The PSIAS also require that engagements must be properly supervised to ensure that objectives are achieved, quality is assured and staff are developed.

The Audit & Review Manager(s) and Corporate Assurance Manager(s) are not professionally qualified for their roles. Whilst the Head of Organisational Assurance is qualified, there is no capacity within that role to effectively manage the internal audit function and continued management oversight at this level in the management structure is not desirable; ideally internal audit would be professionally managed at the Corporate Assurance Manager level. In order to bridge the capacity and capability gap, professional supervision days are now procured from DAP but this support has limitations and erodes the audit delivery days that the Service has budgeted to procure from DAP.

If the internal audit service was retained partially or wholly in house, in order to secure compliance with the PSIAS, the Service would need to develop and invest in a Quality Assurance Improvement Programme. This includes an internal improvement plan, self-assessment every 2-3 years against the PSIAS and then a formal external review commissioned in 5 years.

The internal audit team is very small, but effective delivery of their role requires expertise in a growing range of specialist skills such as IT audit, data analytics and in-depth knowledge of different regulatory regimes. It can be difficult and expensive to recruit, retain and invest in people with specialist skills. The impact of financial pressures in the short to medium term risks a reduction in professional training, continuing professional development or reduction in the DAP contract which would have a detrimental impact on the volume and/or quality of internal audit work that the Service is able to provide and therefore on the annual Head of Internal Audit opinion.

3.3 Devon Audit Partnership

Devon Audit Partnership (DAP) provides Internal Audit, Risk Management and Counter Fraud services. DAP is a non-profit shared service arrangement, founded in April 2009, that was set up by Devon, Torbay and Plymouth Local Authorities constituted under section 20 of the Local Government Act 2000.

Torrige District Council joined as a non-voting member, and as a full member from April 2017. Mid Devon District Council joined as a non-voting member during 2017/18 and became a full member from April 2018. South Hams and West Devon Councils joined as non-voting members in September 2019. North Devon joined as a full member in April 2020.

Devon County Council acts as host to the Partnership, and provides services such as payroll, insurance, HR and legal services

The governance arrangements consist of a Partnership Committee and a Partnership Board. The Partnership Committee consists of two members from each partner council (i.e. Plymouth, Torbay, Devon, Torridge and Mid Devon) with two invited members from South Hams and West Devon. The two members are generally the Chair and Vice Chair of the partner Audit Committee. The Terms of Reference for the Partnership Committee are to:

- Receive and consider reports from the Management Board, the Head of Internal Audit Partnership, External Audit and the Host Council.
- Approve the annual accounts of the Partnership.
- Approve the budget in respect of the Audit Partnership functions.
- Approve the future appointment and dismissal or removal of the Head of Internal Audit Partnership.
- Approve changes to the Partnership Client base, trading agreements, charging policies and other necessary matters pertaining to the future operations of the Partnership.
- Resolve any disputes that are still unresolved after reference to the Management Board.

The Chair of the Partnership rotates annually, with each partner taking its turn to be Vice Chair and then Chair.

The Partnership Board consists of the Section 151 Officer from each partner (i.e. Plymouth, Torbay, Torridge, Devon, Mid Devon, North Devon, South Hams, West Devon) plus the Head of Partnership. The Terms of Reference for the Partnership Board are to:

- Recommend the budget subject to Partnership approval
- Approving all changes to budgets subject to the approval of the Partnership where appropriate.
- Receiving and approving performance reports from the Head of Internal Audit Partnership.
- The carrying out of any Performance Reviews.
- Setting and reviewing the performance of the Partnership.
- Resolving Disputes.
- Accommodation responsibility

The Head of DAP delivers the objectives and targets set by the Board and Committee and manages the operation of the Partnership.

The Partnership is supported by a formal agreement between the partner councils. This provides for Devon Audit Partnership to undertake internal audit for each of the partners over a seven-year period, with a review of arrangements taking place after five years (next due 2022). Where relevant, agreements are in place for the provision of counter fraud and risk management services. The partnership agreement has a “rolling” element i.e. the 7-year life is renewed at the start of each financial year; this is important, as it enables the partnership to tender for work on a continual basis.

Since creation, the Partnership has:

- Brought together three teams into one; introduced an electronic, partnership wide, audit management system; restructured and reduced managerial posts.
- Substantially and successfully reduced costs - £2.3m saving between 2009 and 2016.
- Maintained input (days), improved quality (accreditation to the Customer Service Excellence standard) and maintained and developed professional standards (IIA accredited).
- Built on their client base, and now serve 19 organisations.
- Had a healthy turnover of staff but has been able to retain and recruit quality staff.

The Partnership works to professional guidelines which govern the scope, standards and conduct of Internal Audit and Risk Management; for example as set down in the Public Sector Internal Audit Standards (the PSIAS). The Partnership was externally assessed as “conforming” to these standards and the Code of Ethics in December 2021. A rolling development plan of improvements to the service and customers is maintained.

The Counter Fraud Team adheres to all professional and legally required standards such as the Criminal Procedure & Investigations Act 1996 (CPIA) and the Police and Criminal Evidence Act 1984 (PACE) and all team members are professionally accredited counter fraud specialists or technicians.

The Partnership agreement allows for other organisations to join the Partnership in a relatively simple manner. There is no requirement to tender because the Partnership is a Teckal compliant organisation. In order to ensure that the Partnership can plan effectively in the way that it delivers services, the agreement requires Partners to provide 12 months’ notice if they wish to leave the Partnership.

The charging model is a composite day rate (expected to be £REDACTED in 2022/23).

4 Economic Case

4.1 Option One – Do nothing

This option would mean that the Service would retain the current co-sourcing / partial out-sourcing arrangement: a blend of resources from within the Service and a third-party provider of internal audit services, currently DAP.

Whilst this option would mean no additional cost to the Service and no disruption to the Service or the internal audit team, there will be a significant elapsed time before improvements to the quality of the service can be realised and there is limited opportunity to mitigate the key risks outlined below.

Risks	Impact
Non-compliance with the Public Sector Internal Audit Standards for the in-house service provision.	Reduced quality of work provided. Procurement of professional supervision days from DAP erodes the audit delivery days that the Service has budgeted to procure from DAP.
Limited access to the broad range of specialist skills required to deliver an effective audit service because these cannot be provided by a small internal team and there is limited budget to procure these days from DAP.	Reduced breadth and quality of work provided limiting the coverage of all of the Service's most significant risks. Detrimental impact on the annual Head of Internal Audit opinion.
The impact of financial pressures in the short to medium term risks a reduction in professional training, continuing professional development or reduction in the days contracted from DAP.	Detrimental impact on the volume and/or quality of internal audit work that the Service is able to provide and therefore on the annual Head of Internal Audit opinion.
An analysis of cost in section 5 indicates that the in house audit provision is not as efficient as the service provided by DAP.	The Service is not achieving value for money in its internal audit provision.
The majority of the audit service is delivered by one post holder. There are no cover arrangements for this individual in the event of absence.	Significantly reduced audit coverage impacting on the Head of Internal Audit opinion and the assurance provided to the Service. Budgetary pressure if days are procured from DAP to cover the shortfall.
Familiarity can be a threat. Long term employment of the in house provision risks that they become overly familiar with audit areas and the audit scope and opinion may be influenced by	Impairment to independence or objectivity in the work performed by the in house provision diminishing the quality of the assurance provided and therefore

Risks	Impact
personal relationships or by the influence of management. Over time it is more challenging for that individual to bring a fresh perspective and identify key issues.	impacting the quality of the annual Head of Internal Audit opinion.

Benefits	Impact
No disruption to the internal audit team.	Staff remain with the organisation.
Knowledge and experience is kept within the Service	This in itself can present a risk as detailed above.

4.2 Option Two - Internal Sourcing: Resources provided solely by the Service

This option would mean that the Service would not seek to tender for an externally provided internal audit service when the current contract with DAP expires in March 2023. Delivery of the audit plan would rest with the internal team. In order to achieve this, the Service would need to recruit another individual to cover the balance of days or accept a reduction in audit provision which would impact the quality of the Head of Internal Audit opinion.

Risks	Impact
Non-compliance with the Public Sector Internal Audit Standards for the in-house service provision.	Reduced quality of work provided. Procurement of professional supervision days would need to be included within the budget. Investment of resource (time and money) required to develop and deliver a Quality Assurance Improvement Programme.
No access to the broad range of specialist skills required to deliver an effective audit service because these cannot be provided by a small internal team.	Reduced breadth and quality of work provided limiting the coverage of all of the Service's most significant risks and detrimental impact on the annual Head of Internal Audit opinion.
The impact of financial pressures in the short to medium term risks a reduction in professional training and continuing professional development.	Detrimental impact on the volume and/or quality of internal audit work that the Service is able to provide and therefore on the annual Head of Internal Audit opinion.
An analysis of cost in section 5 indicates that the in house audit provision is not as efficient as the service provided by DAP.	The Service is not achieving value for money in its internal audit provision.

Risks	Impact
The majority of the audit service is delivered by one post holder. There are no cover arrangements for this individual in the event of absence.	Significantly reduced audit coverage impacting on the Head of Internal Audit opinion and the assurance provided to the Service. Budgetary pressure if days are procured from DAP to cover the shortfall.
Familiarity can be a threat. Long term employment of the in house provision risks that they become overly familiar with audit areas and the audit scope and opinion may be influenced by personal relationships or by the influence of management. Over time it is more challenging for that individual to bring a fresh perspective and identify key issues.	Impairment to independence or objectivity in the work performed by the in house provision diminishing the quality of the assurance provided and therefore impacting the quality of the annual Head of Internal Audit opinion.
No service provision available to mitigate any known conflicts of interest or impairment to objectivity.	Lack of effective audit coverage impacting the level of assurance that the Service is able to rely upon.
Prolonged delivery of a sub optimal internal audit service.	Reduced quality of service and non-compliance with the Public Sector Internal Audit Standards.

Benefit	Impact
No disruption to the internal audit team.	Staff remain with the organisation.
Knowledge and experience is kept within the Service	This in itself can present a risk as detailed above.

4.3 Option Three – Outsourcing: Resources provided entirely by a third-party provider of internal audit services

This option would mean that the Service would seek to tender for an externally provided internal audit service when the current contract with DAP expires in March 2023.

Risks	Impacts
Tender process takes time and resource to deliver.	Internal resource is already stretched delivering other key priorities.
Prolonged delivery of a sub optimal internal audit service until the new contract is awarded.	Reduced quality of service and non-compliance with the Public Sector Internal Audit Standards.
The Service may not receive the quality of internal audit service expected.	Reduced quality of service and non-compliance with the Public Sector Internal Audit Standards.

Risks	Impacts
The successful provider may not be willing to provide employment for the Audit & Review Manager.	Termination of employment for the Audit & Review Manager.

Benefits	Impacts
Compliance with the Public Sector Internal Audit Standards (PSIAS).	Improved quality of service.
Appropriate skill mix to deliver a professional service.	Improved quality of service.
Ability to deliver audits where there is a conflict of interest or real or perceived threat to independence or objectivity.	Improved scope of service.
A larger internal audit service provider has the ability to more easily flex resource, cover skills gaps, rotate staff to maintain independence, provide effective day to day professional supervision and to provide education, training and continuing professional development.	Improved quality of service.

4.4 Option Four – Membership of the DAP Partnership shared service arrangement as a “non-voting” partner.

This option would mean that DAP would provide professional management of the internal audit team and internal audit service but employment of the staff would remain with the Service. The Service would have no voting rights in the Partnership. The Head of DAP has indicated that the Service would not be penalised for seeking to terminate our current contract early.

Risks	Impacts
The Service will not have any influence on the design and delivery of the Partnership service.	The internal audit service provided may not meet the Service’s needs.
Retain staffing risk in terms of recruitment and retention challenges and lack of cover in the event of absence.	Reduced audit coverage. Budgetary pressure if days are procured from DAP to cover the shortfall.
The Service could be missing out on more competitive service provision from other suppliers.	Opportunity for greater budget savings.
Share the burden of any financial losses incurred by the Partnership.	Budgetary pressure. The Partners contribute approximately £1.8m so the Service share of any loss would represent approximately REDACTED% of the liability. Since 2009 the Partnership has not made a loss.

Benefits	Impacts
Provision of a cradle to grave audit management system. This would include developing and delivering the audit plan, production of the year-end report and management of the relationship with Audit & Governance Committee.	Delivery of a consistent and professional audit service.
DAP is currently able to demonstrate accredited PSIAS compliance.	Improved quality of service.
Appropriate skill mix to deliver a professional service. The charging model of a composite rate also allows for access to specialist expertise. On occasion one Partner's audit plan may be richer in skill mix than others but this balances out across the Partnership over time.	Improved quality of service.
Ability to deliver audits where there is an internal conflict of interest or real or perceived threat to independence or objectivity.	Maintenance of effective audit coverage enhancing the level of assurance that the Service is able to rely on.
A larger internal audit service provider has the ability to more easily flex resource, cover skills gaps, provide effective day to day professional supervision and to provide education, training and continuing professional development.	Improved quality of service and more effective business continuity arrangements.
Ability to more easily maintain independence from Service management.	Enhances the quality of assurance that can be provided.
An analysis of investment in resource (see section 5) indicates that Partnering is more advantageous in that it can deliver more efficient service delivery reducing the budget required to maintain the same number of audit days.	Budget saving that can be re-invested into the Service.
There is scope to reduce funding by 10% per year if financial pressures warranted this.	Supports the need to deliver efficiency savings in the short to medium term. Caution should be applied here however because erosion of audit days will weaken the level of assurance that can be given and, as a result, will increase the risk of losses resulting from weak or inadequate controls.

Benefits	Impacts
A larger internal audit service provider has the ability to more easily flex resource, cover skills gaps, rotate staff to maintain independence, provide effective day to day professional supervision and to provide education, training and continuing professional development.	Improved quality of service.
Ability to deliver audits where there is a conflict of interest or real or perceived threat to independence or objectivity.	Improved scope of service.
12 months' notice to leave the Partnership as opposed to full contract term.	If the quality of service provision falls below that expected the Service can seek an alternative service provision quicker than for option 3.
The Audit & Review Manager would have continued employment.	Protection of employment and terms and conditions.
The Service already has a good working relationship with DAP and DAP understands the Service.	Enhanced quality of service compared to an alternative service provider if option 3 was the preferred option.
The Partnership facilitates wider sharing of knowledge between partners and access to wider knowledge sharing networks.	Opportunity to learn from best practice in other sectors. This also supports delivery of a more effective audit service where the same audit is conducted across a number of Partners.
Benefits for Partnership Committee members in coming together.	Opportunity to learn from best practice in other organisations.
A tender process takes time. As DAP is a Teckal organisation the Service would avoid having to go through a procurement process.	This could be seen as a benefit in terms of time saved.

4.5 Option Five – Membership of the DAP Partnership shared service arrangement as a “voting” partner.

This option would mean that the internal audit budget and staff would transfer to DAP and they would provide the internal audit service in its entirety. The Service would have representation on Partnership Committee and Partnership Board. The Head of DAP has indicated that the Service would not be penalised for seeking to terminate our current contract early.

Risks	Impacts
The Service could be missing out on more competitive service provision from other suppliers.	Opportunity for greater budget savings.

Risks	Impacts
Share the burden of any financial losses incurred by the Partnership.	Budgetary pressure. The Partners contribute approximately £1.8m so the Service share of any loss would represent approximately REDACTED% of the liability. Since 2009 the Partnership has not made a loss.

Benefits	Impacts
Provision of a cradle to grave audit management system. This would include developing and delivering the audit plan, production of the year-end report and management of the relationship with Audit & Governance Committee.	Delivery of a consistent and professional audit service.
DAP is currently able to demonstrate accredited PSIAS compliance.	Improved quality of service.
Appropriate skill mix to deliver a professional service. The charging model of a composite rate also allows for access to specialist expertise. Sometimes one Partner's audit plan may be richer in skill mix than others but this balances out across the Partnership over time.	Improved quality of service.
Ability to deliver audits where there is an internal conflict of interest or real or perceived threat to independence or objectivity.	Maintenance of effective audit coverage enhancing the level of assurance that the Service is able to rely on.
A larger internal audit service provider has the ability to more easily flex resource, cover skills gaps, provide effective day to day professional supervision and to provide education, training and continuing professional development.	Improved quality of service and more effective business continuity arrangements.
Ability to more easily maintain independence from Service management.	Enhances the quality of assurance that can be provided.
An analysis of investment in resource (see section 5) indicates that Partnering is more advantageous in that it can deliver more efficient service delivery reducing the budget required to maintain the same number of audit days.	Budget saving that can be re-invested into the Service.

Benefits	Impacts
There is scope to reduce funding by 10% per year if financial pressures warranted this.	Supports the need to deliver efficiency savings in the short to medium term. Caution should be applied here however because erosion of audit days will weaken the level of assurance that can be given and, as a result, will increase the risk of losses resulting from weak or inadequate controls.
A larger internal audit service provider has the ability to more easily flex resource, cover skills gaps, rotate staff to maintain independence, provide effective day to day professional supervision and to provide education, training and continuing professional development.	Improved quality of service.
Ability to deliver audits where there is a conflict of interest or real or perceived threat to independence or objectivity.	Improved scope of service.
12 months' notice to leave the Partnership as opposed to full contract term.	If the quality of service provision falls below that expected the Service can seek an alternative service provision quicker than for option 3.
The Audit & Review Manager could have continued employment and would TUPE across to DAP on their current terms and conditions.	Protection of employment.
The Service already has a good working relationship with DAP and DAP understands the Service.	Enhanced quality of service compared to an alternative service provider if option 3 was the preferred option.
The Service can choose to leave the Partnership provided that 12 months' notice is given.	Benefit over an outsourced a contract option which would tie the Service for the contract period.
The Partnership facilitates wider sharing of knowledge between partners and access to wider knowledge sharing networks.	Opportunity to learn from best practice in other sectors. This also supports delivery of a more effective audit service where the same audit is conducted across a number of Partners.
Benefits for Partnership Committee members in coming together.	Opportunity to learn from best practice in other organisations.
A tender process takes time. As DAP are classed as a Teckal organisation the Service would avoid having to go through a procurement process.	This could be seen as a benefit in terms of time saved.
Partnership provides a seat on DAP's Board.	Provides the ability to influence and steer the Partnership.

Benefits	Impacts
Remove staffing risk in terms of recruitment and retention challenges and lack of cover in the event of absence.	Maintenance of ability to deliver the audit plan and Head of Internal Audit opinion.
Consistency in service provided.	Improved quality of service.

5 Financial case

An analysis of the current arrangement versus what could be procured from DAP for the same investment or the cost for maintaining the same number of deliverable audit days as at present is detailed below. This demonstrates that the Partnership option is more cost efficient for the same number of audit days.

Option	DAP	Audit & Review Manager	Total Days Available
Current arrangement £REDACTED	£REDACTED contract per annum which gives: <ul style="list-style-type: none"> 51 days audit at a day rate of £REDACTED (63 days if Quality Assurance (QA) not required). 12 days QA, at a day rate of £REDACTED. Additional / specialist work is contracted at a day rate of £REDACTED.	£51,071 inc. on costs 115 productive audit days per annum	178 audit days if QA days not required (approx. 9 audits) Including QA days, 166 audit days, approx. 8 audits)
Partnering Option 1 £REDACTED	£REDACTED Deduction made for Annual Statement of Assurance which shouldn't be completed by Internal Audit as it is now. Day rate £REDACTED.	N/A	210 audit days (approx. 10 audits)
Partnering Option 2 £REDACTED	£REDACTED Day rate £REDACTED.	N/A	178 audit days (approx. 9 audits)

A comparison of the costs for each option is as follows:

5.2.1 Option one costs – Do Nothing

Cost item	Year one	Year two	Year three	Year four	Year five	Total
Audit & Review Manager	£51,071	£52,092	£53,134	£54,197	£55,281	£265,775
DAP	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Total						£REDACTED

5.2.2 Option two costs – Internal sourcing

Cost item	Year one	Year two	Year three	Year four	Year five	Total
Audit & Review Manager	£51,071	£52,092	£53,134	£54,197	£55,281	£265,775
Additional Grade 5 resource 63 days 0.4 FTE	Funded by earmarked reserves (EMR)	EMR 7 months £6,213	£15,209	£15,513	£15,823	£52,758
Professional training	Fund via apprenticeship but need to provide 20% off the job learning which will impact deliverable audit days.					
Professional supervision 12 days PA	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Specialist expertise	Would need to be procured as required.					
Total						£REDACTED

5.2.3 Option three costs – Outsourcing

Cost item	Year one	Year two	Year three	Year four	Year five	Total
External Provider	Not possible to cost without undertaking a tendering exercise.					

5.2.4 Option four and five costs – Partnership

Cost item	Year one	Year two	Year three	Year four	Year five	Total
DAP	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	£REDACTED

The financial comparison has assumed:

- 3% increase in DAP day rate for the Partnering option per annum based on the increase for 2022/23;
- 2% increase in internal staff costs due to the annual pay award; and
- 2.9% increase in the cost of the current DAP contract. This doesn't consider the impact of new contract terms from 2023.

The existing revenue budget (£REDACTED) for the current Internal Audit team and DAP contract will cover the cost of the services to be provided by DAP if we entered a partnership arrangement. Assuming a partnership start date of 1 September 2022, this would release a budget saving of £REDACTED in 2022/23 and £REDACTED in 2023/24. The re-allocation of this budget saving is the subject of the second options paper to be presented to EB to consider the future structure and role of the Assurance Team.

6. DAP Financial Position

DAP's reported position is detailed below:

Year	Revenue Outturn	Reserves
2018/19	Operating surplus £26,446	£212k
2019/20	Operating surplus £8,781	£221k
2020/21	Zero - no surplus to allocate to Partners but also no requirement to draw from the DAP reserves for any potential loss. Reduced activity due to the Covid pandemic, especially in relation to work with maintained schools which had been closed for a considerable period.	£221k
2021/22 projected	Operating surplus £2,500	
2022/23 projected	Operating surplus £1,500	
2023/24 projected	Operating surplus £3,500	
2024/25 projected	Operating surplus £1,500	
2025/26 projected	Operating surplus £500	

<https://democracy.devon.gov.uk/documents/s38782/DAP%20BUSINESS%20PLAN%202021%20to%202026%20V1.2.pdf>

7 Benefit realisation

It is anticipated that a Partnership or outsourced function could deliver immediate benefits in terms of:

- compliance with the relevant professional standards;
- access to a broader skill set and expertise which would provide a more robust level of assurance for the Service;
- cost saving.

8 Conclusion

It is not considered to be a viable option to maintain the status quo. Internal Audit is a professional service that provides a key source of independent assurance to the Service and the Fire Authority. In order to do this effectively the audit team should be appropriately skilled and qualified, subject to professional supervision and working in compliance with professional standards for service delivery. The size of the Service and its current internal audit team does not make this a practical option to maintain a purely internal or co-sourced function.

Some benefits could be realised by outsourcing the service in its entirety. However this is not considered to be a favourable option because this would not be realised until April 2023 and this option puts the employment of the Audit & Review Manager at risk.

Partnership provides numerous benefits to the Service as set out in this paper including benefits that set this apart from a purely outsourced arrangement.

9 Recommendation

This business case recommends approval of option 5 Membership of the DAP Partnership shared service arrangement as a “voting” partner for the following reasons:

- Improved quality of service.
- Reduction in cost.
- Reduction in the risk associated with employment of staff.

The Democratic Services Manager has confirmed that the Authority has all the vires to enter into the Partnership with DAP. It is recommended that the Draft Variation to the Partnership Agreement supporting this arrangement be subject to legal advice before final approval.

The Corporate Assurance Manager / Head of Organisational Assurance will retain a relationship management role with regard to internal audit rather than a staff management role.

Subject to approval from EB, the indicative timetable to take this option forwards is set out in the table below.

Date	Meeting	Purpose
April / May	Not applicable	Soft consultation with the internal audit team. HR has recommended that this does not commence until EB has made a decision on the preferred option.

Date	Meeting	Purpose
10 May 2022	Audit and Governance Committee	Presentation of a Part 2 paper for an In Principle decision to recommend that the Authority joins DAP as a voting Partner subject to staff consultation. The Head and / or Deputy Head of DAP will attend the meeting to support this discussion.
23 May 2022	DAP Partnership Board	To make a recommendation to Partnership Committee that supports the application based on the In Principle decision from Audit and Governance Committee.
10 June 2022	Fire Authority	Presentation of business case seeking approval for the Authority to join DAP as a voting partner.

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