

## REPORT 2

### HARBOROUGH DISTRICT COUNCIL

### REPORT TO THE AUDIT & STANDARDS COMMITTEE OF 2 FEBRUARY 2022

**PUBLIC REPORT: Y**

**EXEMPT REPORT: N**

<b>Report Title</b>	<b>Internal Audit Provision: Delegation</b>					
<b>KEY DECISION</b>	No					
<b>Report Author</b>	Clive Mason – Director: Finance, ICT & Assets					
<b>Purpose of Report</b>	To seek the Committee’s endorsement to transfer the internal audit delegation agreement from hosts (Milton Keynes Council, Northamptonshire County Council and Cambridgeshire County Council) to North Northants Council and to extend for a further period of 5-years.					
<b>Reason for Decision</b>	To ensure the continuation of an effective internal audit service.					
<b>Portfolio (holder)</b>	Cllr James Hallam – Portfolio Holder for Resources					
<b>Corporate Priorities</b>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="background-color: #d9d9d9; text-align: center;">YOUR COUNCIL: creative, proactive, and efficient</td> </tr> <tr> <td style="background-color: #f4b084; text-align: center;">CO 08</td> <td style="background-color: #f4b084; text-align: center;">Deliver financial sustainability for the future</td> </tr> </table>		YOUR COUNCIL: creative, proactive, and efficient		CO 08	Deliver financial sustainability for the future
YOUR COUNCIL: creative, proactive, and efficient						
CO 08	Deliver financial sustainability for the future					
<b>Financial Implications</b>	The cost of internal audit is met from within current budgets.					
<b>Risk Management Implications</b>	<p>Internal Audit is an independent service that can effectively review and provide assurance:</p> <ul style="list-style-type: none"> <li>• to those charged with governance on the Councils internal control environment, and the</li> <li>• Chief Financial Officer in supporting his role in validating that the Councils is appropriately administering its financial affairs.</li> </ul>					
<b>Environmental Implications</b>	There are no direct environment implications arising from this report.					
<b>Legal Implications</b>	<p>In accordance with Section 6 of the Accounts and Audit Regulations 2011, the Chief Finance Officer and the Chief Executive are responsible for maintaining an adequate and effective internal audit of the Council's accounting records, control systems and financial transactions including any operations affecting the financial arrangements or the finances of the Council.</p> <p>The delegation of functions to another local authority is permissible under sections 101 and 102 of the Local</p>					

## REPORT 2

	Government Act 1972 and sections 19 and 20 of the Local Government Act 2000.
<b>Equality Implications</b>	There are no direct equality implications arising from this report.
<b>Data Protection Implications</b>	There are no direct data protection implications arising from this report.
<b>Consultation</b>	None
<b>Background Papers</b>	None
<b>Appendices</b>	None
<b>Recommendation</b>	<p>That Committee recommends that Council delegates:</p> <ol style="list-style-type: none"><li>1. its internal audit service to North Northamptonshire Council from 1<sup>st</sup> April 2022;</li><li>2. authority to the Director of Finance, ICT &amp; Assets,<ol style="list-style-type: none"><li>i. in consultation with the Legal &amp; Democratic Services Manager, to finalise the delegation agreement with North Northamptonshire Council for the provision of internal audit services,</li><li>ii. to agree an initial 5-year term for the delegation agreement; thereby ensuring best value.</li><li>iii. to agree a biennial extension of the delegation agreement up to a maximum of 6-years.</li><li>iv. make any in-year changes to the delegation agreement as required to reflect any legislative and/or organisational changes.</li></ol></li></ol>

### 1 Introduction

- 1.1 In accordance with Section 6 of the Accounts and Audit Regulations 2011, the Chief Finance Officer (s.151) and the Chief Executive are responsible for maintaining an adequate and effective internal audit of the Council's accounting records, control systems and financial transactions including any operations affecting the financial arrangements or the finances of the Council. The Internal Audit Section is required to comply with the current CIPFA Code of Practice for Internal Audit in Local Government, in undertaking its functions.
- 1.2 For an initial period of five years, from 1<sup>st</sup> April 2017, the Council entered into a delegation agreement with Cambridgeshire County Council, Northamptonshire County Council and Milton Keynes Council for the provision of internal audit services; this arrangement was part of the 3 Councils LGSS shared service arrangement. Extensions after the initial term are permitted by written agreement between the parties to the agreement.

### 2 Future Considerations

#### Consequence of Local Government Review

- 2.1 Since the delegation agreement was signed there have been some changes following local government reorganisation. East Northants and Corby Councils (originally District Councils in Northamptonshire) were part of the original Welland partnership, along with Rutland County Council, Melton BC, and Harborough DC - all of whom delegated internal audit to LGSS. The creation of two Unitary Councils in Northamptonshire changes this picture. As it stands:
- The host authorities (Milton Keynes, Cambridgeshire, West Northants and North Northants) have effectively re-patriated their internal audit teams from the shared service (LGSS) (i.e. back in-house);
  - For the Welland partnership, who delivers services entirely for other councils, has been taken on by North Northants Council;
  - The s151 Officer for NNC has assured staff, in early consultation meetings, that she is keen to take these delegated services on and honour these arrangements going forward, TUPE'ing staff who work on them, and she can see that the staff are a high quality, performing team;
  - As such, the service would remain the same (same HoIA, same auditors and same approach) but our delegation (should we choose to extend it) would be solely to NNC, rather than the current arrangement of delegating to the existing hosts.

### Effectiveness of Current Internal Audit Provision

- 2.2 Since the Council has entered into the delegation arrangement with LGSS, it has been considered that the arrangement has worked well. Specifically,
- i. **Performance** levels are good; the audit plan is delivered in full, reports are of good quality and the relationships with officers and the members of the Audit & Standards Committee is strong. Further, the team are flexible in their approach, widely experienced and adaptable to changing circumstances and the nuances of the operational arrangement at the Council.
  - ii. **Costs** are deemed to be low; the 2021/22 cost of the Internal Audit contract is £63k, based on 235 days per annum – which equates to £268 per day, this of course covers both tactical and strategic/management audit resource. Compared to day rates for an technical accountant/auditor, these can range from £250 per day (for a newly qualified) to well in excess of £400 per day for a skilled/experienced candidate.
- 2.3 There are alternative options to the delivery of Internal Audit, these include Fully Staffed Model, Full Outsource and Co-Source; each of which is discussed below. However, it should be noted that on a purely financial basis, the cost of the delegation agreement is cheaper than the following three options and the flexibility, objectivity and independence of the service is considered by the Chief Finance Officer to surpass all options.
- i. **Fully “Internal” Staff Model**; such provision would bring with it the following:
    - **Advantages**; complete flexibility in use of the resource and the scope of audit work undertaken.
    - **Disadvantages**;
      - Lack of service resilience.
      - No direct access to specialist advice.
      - Recruitment risk
      - Direct management
      - Cost, this option would require the recruitment of a Chief Internal Auditor along with at least one supporting Internal Auditor; circa £130k.
  - ii. **Full Outsource**; this is similar in provision to the current arrangement but differs in one significant way in that the contract will have been actively procured. Such provision would bring with it the following:

- **Advantages;**
  - professionally and managerially independent of the Council.
  - greater resilience compared to the internal staff model.
  - access to a diverse/specialist pool of resources.
  
- **Disadvantages;**
  - extensive procurement process; costing circa £10k (this will involve specification production, circa £5k; evaluation, circa £5k).
  - loss of contract flexibility; a formal “internal” client management arrangement will be required and variations to contract provision will likely require a specific contract variation arrangement.
  - if a private sector contractor, this will include an element of profit and is expected to exceed the current cost of the delegation arrangement.

It has been confirmed that any future delegation agreement will mirror the current “delegation agreement”, in that it would be based on the current year’s fees, increased only by the amount of the national salary increase + 0.5% for associated costs.

- iii. **Co-Source;** this is a combination of (i) and (ii) above. It brings the advantages and disadvantages of both, but the cost is usually more than outsourced because of the in-house staff element.

### 3 **Extension of Delegation Agreement**

- 3.1 As noted in 1.2, the initial term was 5-years which expires in March 2022 – with extensions thereafter permitted between each part. The other partners of the former Welland Partnership have recently agreed their continuation of their internal audit provision with North Northants Councils, and for an unspecified timescale.
  
- 3.2 The Director of Finance, ICT & Assets has discussed the situation with the s151 Officer of North Northants Council, Ms Janice Gotts and she has confirmed that both she and the Cabinet at NNC wish to take on the delegation agreement on the same basis and fee model.

### 4 **Recommendation**

4.1 Considering the above financial and non-financial considerations; it is recommended that Committee recommends to Council to agree to:

- the reassignment of the delegation agreement for Internal Audit with North Northants Council.
- a further 5-year initial term; thereafter with biennial agreement of an extension for up to a further 6 years.