

PAPER NO. 10

REPORT TO THE EXECUTIVE MEETING OF 5 DECEMBER 2016

Meeting: Executive

Date: 5 December 2016

Subject: Delegation of Internal Audit Services

Report of: Simon Riley, Head of Finance and Corporate Services (S151 Officer)

Portfolio Holder: Cllr Michael Rickman

Status: Decision

Relevant Ward(s): All

1 Purpose of the Report

1.1 To consider the delegation of Internal Audit Services currently provided by the Welland Internal Audit Partnership to Local Government Shared Service (LGSS) from the 1st April 2017.

2 Recommendations:

2.1 That members:

(a) Delegate the function of the provision of Internal Audit Arrangements, currently provided through the Welland Audit Partnership, to LGSS from the 1st April 2017.

(b) Authorise the S151 Officer in consultation with the Head of Legal and Democratic Services to enter into such arrangements and take such steps as are necessary to implement the delegation.

3 Summary of Reasons for the Recommendations

3.1 To ensure the ongoing provision of Internal Audit Services to the Council from the 1st April 2017.

4 Key Facts

4.1 The primary role of the Internal Audit Service is to objectively examine, evaluate and report on the adequacy of the Council's internal control environment as a contribution to the proper, economic, efficient and effective

use of resources and the management of risk. Internal Audit also advises on, carries out and directly supports investigations into suspicions of fraud or financial irregularity.

- 4.2 In accordance with Section 6 of the Accounts and Audit Regulations 2011, the Chief Finance Officer and the Chief Executive shall be 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 shall comply with the current CIPFA Code of Practice for Internal Audit in Local Government, in undertaking its functions.
- 4.3 Since November 2009, this requirement has been achieved through a joint arrangement with the Welland Internal Audit Partnership. As well as Harborough, the partnership provides internal audit services to Rutland (who act as the host authority), Melton, East Northants and Corby.
- 4.4 Since the retirement of the Head of Internal Audit in March 2014, and two unsuccessful attempts to recruit to the post, the team has been managed by the Local Government Shared Service (LGSS) on an interim basis, with this arrangement due to end in March 2017. The S151 Officers of the constituent Councils acknowledges that whilst performance is good and costs are low, the existing model is not sustainable in the long term and has concluded that either alternative arrangements need to be made or the existing arrangements needs to be formalised to secure the long term provision of the service.
- 4.5 In terms of performance, the Council acknowledges that the existing service managed by LGSS is good and that the performance level is high (measured in terms of the % completion of the audit plan by the end of March and feedback from staff which has been very positive). The Audit and Governance Committee itself has also commented on the positive performance of the audit team and the quality of the work produced. This view was also supported by the Governance and Audit Committee when it met on the 27th July 2016.
- 4.6 There were five alternatives considered (detailed in more detail in the Governance and Audit Report on 27th July 2016)
 - Full Outsource/Re-tendering – whilst this would allow greater resilience and access to a wider supply of providers, the continuity of staff is not guaranteed and soft market testing suggests that there would be an increased cost.
 - Continue with Shared in House Team – ideally this would be the preferred option. However, it has not been possible to recruit to the vacant Head of Service post which has led to the current interim LGSS management arrangements.
 - Delegate the Service to LGSS – this is the preferred option of officers as it provides an opportunity to build on existing improvements through continuity of service and staffing. It also maintains the familiarity of the

team with the various clients across the partnerships and builds in resilience. This view is also supported by the Audit and Governance Committee.

- Provide the Service in House outside of a Shared Service – whilst this is an option, it would negate all reasons for operating in partnership in the first place, such as stability, resilience, economies of scale and shared expertise.
- Other partnership arrangements – as part of reviewing our audit arrangements, other external bodies and councils have also been considered and discussions have taken place with several of them. However, none offer the same strategic approach to financial audits, or the continuity of service with the current budget provision.

4.7 From a cost perspective, the main way in which cost is measured is on a per day basis. CIPFA produces various benchmarking reports on costs which indicate that average costs per day per authority are in the range of £310 to £320. The Council's day rate cost is around £250 and so is well below the average.

4.8 It is the collective view of the S151 Officers of the current constituent Councils that the preferred model is for the delegation of the service to LGSS and the transfer of existing staff to LGSS. This is because it builds on existing performance, allows familiarity and resilience and will be at no extra cost than the current amount paid to the Welland Internal Audit Partnership.

5 Legal Issues

5.1 Internal Audit is a statutory function that must be carried out by every local government organisation, as stated by Section 151 of the Local Government Act 1972. The report seeks to maintain the delivery of the Internal Audit function to give assurance to management and members that certain processes operate in an efficient and effective manner. The proposed transfer of staff (employed by Rutland) under this delegation agreement would be subject to TUPE, but has no direct legal implications to the Council as we are not the employer.

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6 Resource Issues

6.1 There are no direct financial implications as LGSS have agreed to maintain the service within this cost. However, if alternative forms of service provision were to be pursued then there is a potential for an increase in cost as current rates are very favourable to benchmarked costs.

7 Equality Analysis Implications/Outcomes

7.1 None.

8. Risk Management Implications

8.1 The transfer of the staff of the Welland Internal Audit Partnership to LGSS will maintain the existing good performance of the service and ensure the continuation of existing audit intelligence in respect of the Council.

9 Consultation

9.1 Consultation has been undertaken with the Governance and Audit Committee on 27th July 2016 who support the delegation of Internal Audit Services to LGSS, and with the other constituent Councils in the Welland Internal Audit Partnership.

9.2 Consultation has taken place with the portfolio holder.

10. Options

10.1 The options are detailed in paragraph 4.6 of the report.

11 Background Papers

11.1 None

Previous report(s): Governance and Audit Committee, 27th July 2016

Information Issued Under Sensitive Issue Procedure: n

Ward Members Notified: N