

---

**REPORT TO THE GOVERNANCE & AUDIT COMMITTEE**  
**MEETING ON: 27<sup>th</sup> JULY 2016**

---

**Status:** Consultation  
**Title:** Future Provision of Internal Audit Services  
**Originator:** Head of Finance and Corporate Services (S.151 Officer)  
**Where from:** N/A  
**Where to next:** Executive

---

1 Outcome Sought from Committee

1.1 To consider options for the future provision of Internal Audit Services from 1<sup>st</sup> April 2017 and to make comments/recommendations to Executive on the provision of Internal Audit Services.

2 Recommendations

2.1 To make recommendations to the Executive on the future provision of Internal Audit Services as appropriate.

3 Background

**The Internal Audit Service**

3.1 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.

3.2 In accordance with Section 6 of the Accounts and Audit Regulations 2011, the Chief Finance Officer (s151 Officer) and the Chief Executive (Corporate Directors at Harborough) 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.

3.3 This requirement is achieved presently through the Council being part of a joint service through the Welland Partnership and managed by Rutland

County Council. The internal audit team provide internal audit services to Rutland, Melton and East Northants, Corby and Harborough. The work of the team is underpinned by a legal agreement between the partners and there is a Welland Internal Board (comprising the Section 151 Officers of each Council) which oversees its work and reports through to the Welland Joint Committee. Management of the team is currently through LGSS (the joint service provider managed by Northamptonshire and Cambridgeshire). The 'seconded' head of Internal Audit from LGSS is Rachel Ashley Caunt. The total cost of the Internal Audit Service is c£315K of which Harborough's share is £58K, this equates to 235 days of audit time.

- 3.4 In terms of performance, the existing service managed by LGSS is good and that the performance level is high (measured in terms of the percentage completion of the audit plan by the end of March and feedback from staff which has been very positive). Confidence in the team is high compared to a few years ago when the audit team (managed by Rutland) struggled with recruitment was fully staffed in house. In that period, the audit plan was not delivered in fully in a timely fashion and an external assessment of the service concluded that improvements were needed.
- 3.5 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 costs per day per unitary authority are the range of £260 - £375 with the average around £320. The Council's day rate cost is c£265 so at the lower end.

#### 4 Points for Consideration

##### 4.1 **Consideration of alternative delivery options**

The current arrangement with LGSS is in place until 31 March 2017. The Welland Board acknowledges that whilst performance is good and costs are low, the existing model is not sustainable in the long term and has concluded that alternative arrangements need to be made to secure provision. The reasons for this are as follows:

- *Recruitment difficulties* – Rutland has found it difficult to recruit when vacancies have arisen. The existing arrangement with LGSS was put in place following two unsuccessful recruitment exercises after the retirement of the Head of Audit. The total number of candidates applying for the post was less than 5 even with an additional £5k market supplement.
- *Resilience* – during periods of sickness or when there are vacancies, there have been difficulties for the team in delivering the internal audit plan. The limited size of the team gives a lack of resilience. This has changed during the last year as the arrangement with LGSS has allowed Rutland as the lead authority to draw down additional resource as required albeit at an additional cost.

- *Quality* – whilst the quality of service is good, the Council recognises that a small team does not have access to the specialist expertise that larger teams enjoy. For example, the team has no specialist IT auditor.
- *Uncertainty and development of service* – the existing arrangement is short term and is not secure with LGSS able to give 3 months' notice. Furthermore, the insecurity of tenure has restricted investment in the service. A longer term arrangement needs to be put in place which will allow management to invest in both staff and service.
- *Limited capacity for growth* – the team has limited capacity to grow and bring in new partners with the lack of a Head of Audit a key barrier. An inability to grow reduces the potential for resilience.
- *Management involvement* – the Section 151 Officers and Welland Board have invested significant time into resolving management issues and this level of investment cannot continue.

#### 4.2 **Other options**

The five S151 Officers have considered different delivery models, including:

- Full outsource – the procurement of an internal audit service from an external provider;
- Co-source – combination of an in-house team and one or more external providers;
- Fully staffed model (the original Welland model as designed) – internal audit delivered by an internal team, employed by one of the member organisations, and who work across member organisations; and
- Collaboration/delegation (current model in place) – internal audit delivered by another local authority under delegation/collaboration agreement.

Indicative costs and advantages/disadvantages for each model were discussed by the S151 Officers. The results are shown below with observations:

Option	Costs	Advantages/Disadvantages
Full outsource (1)	£534k - £668k	<p><u>Advantages</u>            Greater resilience            Access to wider/specialist resources            No recruitment costs            Potentially better quality but experience of Welland partners has been mixed in the past</p> <p><u>Disadvantages</u>            Contract management required            Continuity of staffing not guaranteed            Increased cost even if external providers argue 10-20% productivity gains            Takes time and cost as OJEU process is required (or use of framework if possible)            Change of scope may require changes in contract</p>
Co-source (2)	£480k - £520k	Combination of models 1 and 3
Fully staffed model (3)	£300- £320k	<p><u>Advantages</u>            Continuity of staffing            Greater familiarity with clients            Scope of service easily modified</p> <p><u>Disadvantages</u>            Lack of resilience            Access to specialist advice is limited            Some difficulties in recruitment as pay rates not always competitive in this market</p>
Collaboration/ Delegated model (4) e.g. Another Council take over Audit service	£320k	<p><u>Advantages</u>            Greater resilience            Access to wider/specialist resources            No recruitment costs or sickness problems            Continuity of staff with TUPE transfer            Avoids any redundancy costs as staff TUPE            No OJEU required but negotiation needed over TUPE etc</p> <p><u>Disadvantages</u>            Management of agreement required            Continuity of staffing not guaranteed            Lack of resilience if not collaborating with a partner of sufficient size            Potential for cost increases</p>
The costs are based on 1,335 days of audit input over the 5 local authorities and based on estimated day rates for each option following informal discussions with suppliers and knowledge of rates charged elsewhere.		

4.3 The conclusion from the analysis was that the current model (option 4) is favourable. The challenge for the Board therefore was to find a way of converting the existing temporary arrangement into a permanent model with LGSS or another local authority – this could be through a delegation agreement.

4.4 The S151 Officer at Rutland (the lead Council) discussed collaborative models with a number of local authorities and has recommended that the 5 Councils consider the delegation of the service to LGSS at the same fee. He concluded:

- LGSS are currently working with the Councils and have demonstrated that they can deliver what is needed;
- Current performance levels are very good;
- There would be minimal disruption as LGSS are already managing the service;
- LGSS know the audit staff (who would TUPE transfer from Rutland under this proposal) and our staff know LGSS and how they work;
- LGSS have confirmed that they can deliver within our existing budget;
- LGSS have developed good relationships with senior management and have existing relationships with Audit Committee;
- The Council would gain access to a bigger team with wider skills.

4.5 Harborough Council is also a named party on the procurement of Internal Audit Services undertaken by Hinckley and Bosworth Council last year. This contract was awarded to PWC. The day rate for Internal Audit Services through this agreement is £500 day. This is significantly above the current average day rate of the current arrangement of £265 day.

4.6 Each of the 5 Councils are presenting the options to their audit committee. Based on meetings already taken place and the views of their S151 Officers it appears that the other 4 Councils are in support of delegating the provision of Internal Audit Services to LGSS.

## 5 Equality Impact Assessment

5.1 None arising directly from this report.

## 6 Conclusions

- 6.1 The provision of high quality internal audit services is an essential part of the Council's assurance system. It is important that the Council maintains a depth and breadth of service, alongside resilience of the service to provide this assurance. Based on the analysis taken by the lead Council, Rutland the delegation of service to LGSS from April 2017 appears to be the most cost effective option. The decision of the future provider of the internal audit service will be made by the Executive in the autumn.
- 

**Previous report(s):**

**Information Issued Under Sensitive Issue Procedure: *N***

**Ward Members Notified:**