

## Future Provision of Internal Audit Service

Head of Service/Contact:	Gillian McTaggart, Head of Corporate Governance
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	N/A
Annexes/Appendices (attached):	<b>Annex 1</b> - Evaluation of options and costs ( <b>exempt from publication on grounds of commercial sensitivity</b> ) <b>Annex 2</b> - Organisational structure of Southern Internal Audit Partnership
Other available papers (not attached):	None

### Report summary

The purpose of this report is to seek approval to procure internal audit services from Southern Internal Audit Partnership for a period of 4 years from 1 April 2019 based on the evaluation of options by the East Surrey Internal Audit Consortium.

### Recommendation (s)

- (1) To approve the Council entering into a partnership arrangement with Southern Internal Audit Partnership;
- (2) To give delegated authority to the Head of Corporate Governance in conjunction with the Chief Finance Officer to finalise the arrangements.

## 1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

- 1.1 Successful achievement of the Council's objectives is associated with effective risk management, control and governance processes.

## 2 Background

- 2.1 Internal audit provides an independent means by which the Council can review and evaluate its risk management, control and governance arrangements.

# Strategy and Resources Committee

## 25 September 2018

- 2.2 Internal Audit provides the Council with assurances that its systems are operating effectively. An annual assessment is made of the overall effectiveness of the Council's internal control system, the findings of which are set out in the Annual Report of the Head of Internal Audit. This function is currently provided by RSM.
- 2.3 The Audit, Crime & Disorder and Scrutiny Committee, has responsibility for setting an annual plan, monitoring and implementing audit recommendations. However this Committee has responsibility for the Corporate Governance Framework (jointly with the Chairmen of the Standards Committee and the Audit, Crime & Disorder and Scrutiny Committee), data quality and risk management. Budget responsibility for audit services sits with the Strategy & Resources Committee.

### 3 Current Arrangements

- 3.1 The Council's current provider for internal audit services is RSM. The current contract with RSM was approved by the Strategy & Resources Committee in March 2011. RSM are contracted to provide services through the East Surrey Internal Audit Consortium which currently comprises Epsom & Ewell Borough Council (as lead Council), Mole Valley District Council, Reigate & Banstead Borough Council, Tandridge District Council, Waverley Borough Council and the Surrey Police and Crime Commissioners Office. The 5 year contract which was extended for a further 2 years, will expire on the 31 March 2019.
- 3.2 RSM (with several changes in name) has now provided internal audit services to the Council as part of a Consortium, since April 2005. They were re-appointed as internal auditors in 2012 by the then Consortium following a re-tender exercise.

### 4 Future Arrangements

- 4.1 The East Surrey Internal Audit Consortium has met a number of times to discuss the potential options for securing future internal audit arrangements. Three options were identified:
  - 4.1.1 Procurement through a full 'Official Journal of the European Union' (OJEU) process
  - 4.1.2 Use of established frameworks – these offer-procured services. There were two suitable frameworks, one offered by Crown Commercial Services and other is through the Audit and Anti-Fraud Framework (APEX) available from Croydon Council.
  - 4.1.3 Join an existing Shared Service with capacity to carry out the additional work. Three such services were reviewed; Surrey County Council/Orbis; South West London Audit Partnership (SWLAP) and Southern Internal Audit Partnership (SIAP).

# Strategy and Resources Committee

## 25 September 2018

- 4.2 A full analysis of each option is set out in Annexe 1 (confidential) however a summary of the options reviewed is listed below.

### **Full procurement**

- 4.3 Procurement advice was sought to evaluate the market opportunities. Although value for money is a key driver in all aspects of procurement it is also essential that in selecting an internal audit provider its service can meet quality assurance against Public Sector Internal Audit Standards and provide assurance of the systems of control in place.
- 4.4 The market opportunities were limited due to the budgets available as the day rates currently in place are at the lower end of those charged by professional firms. Also a number of accountancy firms cannot tender due to a conflict of interest where they already provide external audit services or consultancy to members of the Consortium.
- 4.5 In conclusion, a full procurement exercise would be both costly and lengthy with a limited number of tenderers operating within the current budget levels.

### **Framework Opportunities**

- 4.6 A framework can deliver many benefits. Frameworks offer flexibility and allow the authority to select from a number of suppliers helping to ensure that procurement represents good value.
- 4.7 They provide a short cut but ensure that rules and regulations are complied with, saving time and money. Normally a small charge is made for using the framework
- 4.8 Two suitable frameworks, were identified Crown Commercial Services (CCS) – framework; RM3745 and the Croydon Framework .The Consortium can access these frameworks using a process entitled “calling off”. As the suppliers on the framework have already been through a procurement process. The Consortium can then ask those selected suppliers on the framework to supply a price. The CCS framework covers both consultancy and audit plus it provides services for all aspects of the public sector not just local government. As a result the day rates on this framework were considerably higher than the rates currently paid.
- 4.9 The Croydon Framework was retendered in April 2018 for a period of 6 years and is open to all local authorities. This framework provides a discount for the volumes of work purchased. Mazars provide the services which can be bought as required or by means of a full service. The day rate for the service is higher than that currently paid by the East Surrey Consortium as shown in **Annex 1**

# Strategy and Resources Committee

## 25 September 2018

### **Shared Services**

- 4.10 The Consortium looked at shared services as an alternative option. Joining an existing shared service offers a number of advantages as they have local government knowledge and are not for profit. A good fit is essential but they can provide flexibility, resilience and independence whilst also offering value added and sharing of best practice.
- 4.11 Three shared services were considered. These were Surrey County Council, South West Audit Partnership (SWAP) and Southern Internal Audit Partnership. The details are provided in Annexe 1
- 4.12 Surrey County Council have just gone live with Orbis Internal Audit and are not in a position to provide a service until next year.
- 4.13 South West Audit Partnership (SWAP) provided a detailed proposal but this was subject to their Board's approval. They currently provide a shared services to five London boroughs and are at an early stage of expanding this services.
- 4.14 Southern Internal Audit Partnership (SIAP) was able to provide a strong proposal. They currently provide services to a range of other organisations including police. They offer two models for joining either as a partner with a position on the Board or as an external client. Their proposed day rates are competitive against the rates currently charged by the Consortium based on the 2018/19 rates.

### **5 Proposals**

- 5.1 Having considered all the options the Consortium unanimously agreed that the proposal from Southern Internal Audit Partnership provided the best option for the provision of internal audit services from 1<sup>st</sup> April 2019.
- 5.2 This is a change in direction for the Council with the Consortium obtaining provision of internal audit services from another authority.

### **Southern Internal Audit Services**

- 5.3 The Southern Internal Audit Partnership (SIAP) is hosted by Hampshire County Council. It was established in 2012 and has a diverse portfolio of 21 public sector clients and 7,500 audit days.
- 5.4 They are not focused on profits, their emphasis is on quality, professional and value adding services. They have a range of in-house specialists covering IT, trained fraud supervisors and experienced, qualified procurement and contract auditors.
- 5.5 SIAP have been externally assessed as compliant with the Public Sector Internal Audit Standards.

# Strategy and Resources Committee

## 25 September 2018

- 5.6 SIAP will be heavily involved in the transition arrangements. It is expected that it will take 3 months from formal notification, but they have been meeting with the Consortium to discuss arrangements and undertake due diligence.
- 5.7 RSM have been informed that the Consortium does not wish to re-procure their audit services. They have indicated that they will aim to complete all the work in accordance with the 2018/19 audit plan by the end of the financial year.
- 5.8 It is proposed that the Council join as a partner as this will provide a number of advantages rather than joining as a client where days can be requested annually.
- 5.9 As a partner we will become a member of the key stakeholder board which will result in the Council having a say in the future direction of the partnership, business planning, performance reporting, resourcing and updates.
- 5.10 In addition each partner can flex the audit days purchased to meet business needs, so can use additional days when required as long as parity is restored over a three year period.
- 5.11 We will be required to enter into a partnership agreement which sets out the composite day rate. These rates will be reviewed annually on the basis of pay costs based on national pay awards.
- 5.12 The partnership agreement was refreshed in February 2018 and required initial buy-in for a five year term to 31<sup>st</sup> March 2023, after which the agreement runs in perpetuity with 12 months written notice to withdraw. In order to align with this agreement the Consortium members are being asked to agree for only four years
- 5.13 The Consortium have received a number of positive references as part of assessing the due diligence of SIAP.
- 5.14 SIAP have confirmed their composite day rate but this is subject to the on-going due diligence based on audit needs assessment, each organisation's requirements and any potential TUPE requirements.

## **6 Financial and Manpower Implications**

- 6.1 The current budget for the provision of internal audit services is £66,072. The arrangement with SIAP should be within this budget but this will be subject to an audit needs assessment undertaken as part of due diligence. This may require some additional audit days in the plan but will not increase the day rate to be charged .
- 6.2 There is no cost to join the partnership.

# Strategy and Resources Committee

## 25 September 2018

- 6.3 It is not expected that the partnership will need any office accommodation but free desk space will be required as with the current contract.
- 6.4 The Head of Corporate Governance will continue to have responsibility for this contract. The position of the Head of Internal Audit for the year end opinion will be provided by the Head of the Partnership
- 6.5 **Chief Finance Officer's comments:** *The role of internal audit is critical to ensuring the Council has an effective and robust set of internal controls in place.*
- 6.6 *The proposal for the service to be provided by the Southern Internal Audit Partnership would be within the Council's existing budget.*

### 7 Legal Implications (including implications for matters relating to equality)

- 7.1 The Council must maintain adequate and effective accounting records and internal controls and must use internal audit to test this.
- 7.2 Under section 101(5) of the Local Government Act 1972, two or more local authorities may discharge their functions jointly by another local authority.
- 7.3 The Council will need to enter into a partnership agreement with SIAP. It is anticipated that each member should join for an initial four years which aligns with the existing partnership agreement for current partners after the initial 4 year period, this can run in perpetuity if required... We would be required to give 12 months' notice to leave the partnership for service planning
- 7.4 RSM are currently reviewing if there are any TUPE implications and these will be passed to SIAP.
- 7.5 **Monitoring Officer's comments:** *there are no comments arising from the contents of this report*

### 8 Sustainability Policy and Community Safety Implications

- 8.1 There are no implications for the purposes of this report.

### 9 Partnerships

- 9.1 The East Surrey Internal Audit Consortium consists of Epsom and Ewell Borough Council (as the lead), Mole Valley District Council, Reigate & Banstead Borough Council, Tandridge District Council, Waverley Borough Council and the Surrey Police and Crime Commissioners Office. At the beginning of the year Sussex Police and Crime Commissioners Office also indicated that they wished to join the Consortium due to the number of shared services with the Surrey PCCO.

# Strategy and Resources Committee

## 25 September 2018

- 9.2 If the arrangements to join SIAP are agreed the Consortium will be disbanded and each organisation will have their own partnership agreement or individual contract with SIAP

### 10 Risk Assessment

- 10.1 There are a number of risks in transitioning the service that will be managed through the normal contract management arrangements. The audit plan for 2018/19 will need to be completed in a timely manner and therefore managers will not be able to defer commencement dates. A clear handover timetable will be agreed.
- 10.2 The proposal from SIAP needs to be confirmed through additional due diligence and there is a risk that there could be some amendments although the Head of SIAP is confident with the composite rates initially indicated will be confirmed.
- 10.3 There is a risk of delay should each member of the Consortium fail to obtain the necessary approvals however this should not affect the ability to sign up as each Council will be joining through their own partnership agreement or contract.

### 11 Conclusion and Recommendations

- 11.1 In conclusion, having reviewed the market and assessed the options, joining SIAP as a partner offers both good value for money and good service provision through their strong background of delivering local government internal audit services.
- 11.2 This is a fresh approach with the service provided by a fully trained, qualified workforce with public sector knowledge from an existing shared service. There is a good synergy with the existing partners and this will give us greater ability to network with peers and learn from others.
- 11.3 There is additional work on the due diligence to confirm the final proposal and it is recommended that the Head of Corporate Governance in conjunction with the Chief Finance Officer as S151 Officer be given delegated authority to finalise the arrangements.

**Ward(s) affected:** (All Wards);